

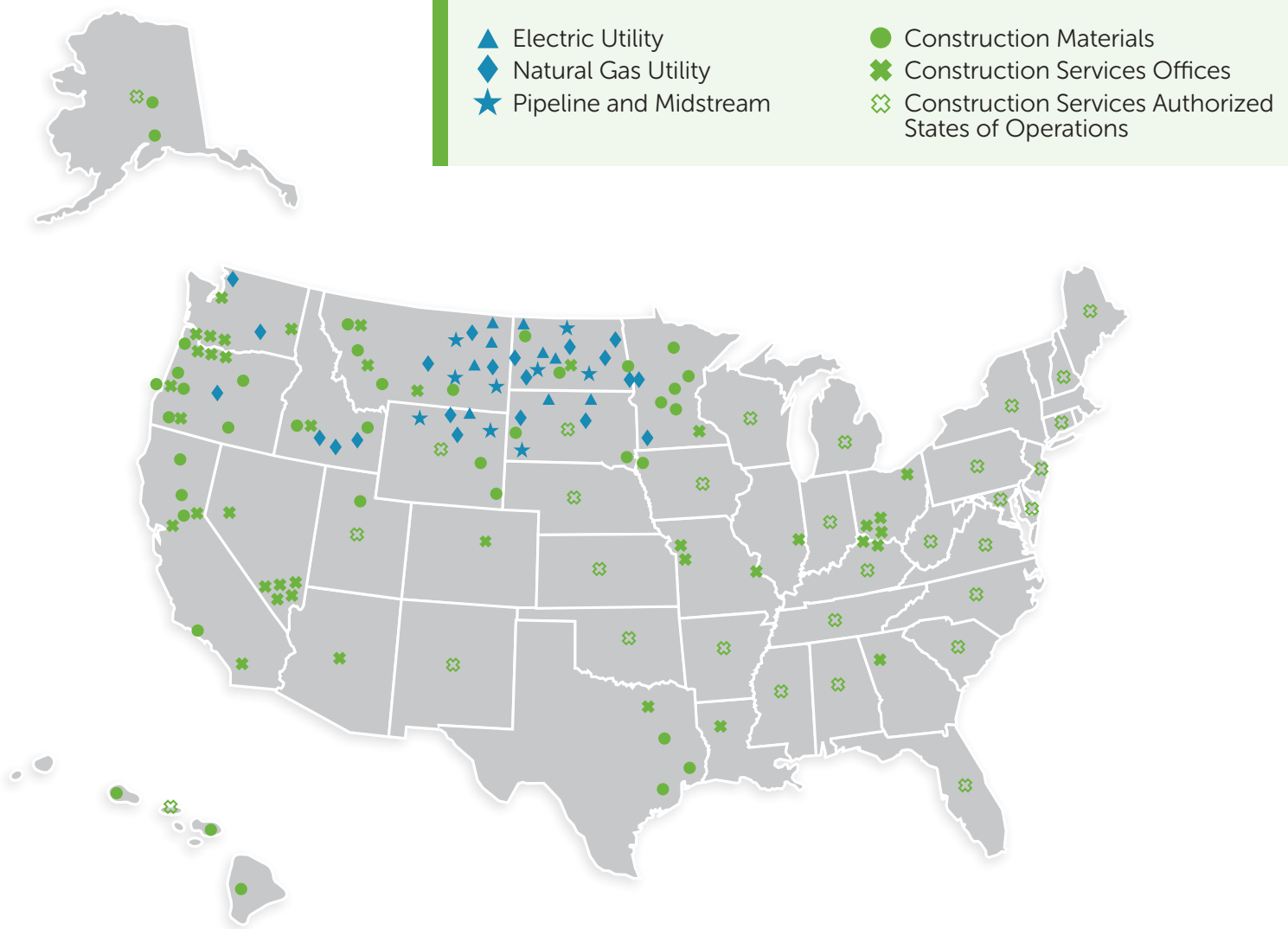
MDU Resources Group, Inc.

Building a Strong America®



Annual Report / Form 10-K / Proxy Statement

MDU Resources Group, Inc.



Building a Strong America[®]

MDU Resources Group, Inc. is a member of the S&P MidCap 400 index and the S&P High-Yield Dividend Aristocrats index. We are Building a Strong America[®] by providing essential products and services through our regulated energy delivery and construction materials and services businesses.

MDU
LISTED
NYSE

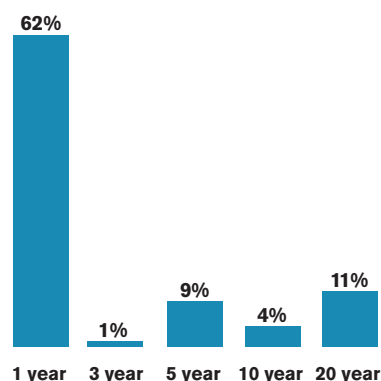
Years ended December 31,	2016	2015
	(In millions, where applicable)	
Operating revenues	\$4,128.8	\$4,014.0
Operating income	\$ 409.1	\$ 319.8
Earnings on common stock from continuing operations	\$ 232.4	\$ 175.7
Earnings (loss) on common stock, including discontinued operations	\$ 63.7	\$ (623.1)
Earnings per common share from continuing operations	\$ 1.19	\$.90
Earnings (loss) per common share, including discontinued operations	\$.33	\$ (3.20)
Dividends declared per common share	\$.7550	\$.7350
Weighted average common shares outstanding — diluted	195.6	195.0
Total assets	\$ 6,284	\$ 6,565
Total equity	\$ 2,316	\$ 2,521
Total debt	\$ 1,790	\$ 1,796
Capitalization ratios:		
Total equity	56.4%	58.4%*
Total debt	43.6	41.6*
	100%	100%
Price/earnings from continuing operations ratio (12 months ended)	24.2x	20.4x
Book value per common share	\$ 11.78	\$ 12.83
Market value as a percent of book value	244.2%	142.8%
Employees	9,598	8,689

*Includes noncontrolling interest.

Forward-looking statements: This Annual Report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in Part I, Forward-Looking Statements and Item 1A — Risk Factors of the company's 2016 Form 10-K. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words anticipates, estimates, expects, intends, plans, predicts and similar expressions.

Total Shareholder Returns

(as of December 31, 2016)



Dividends

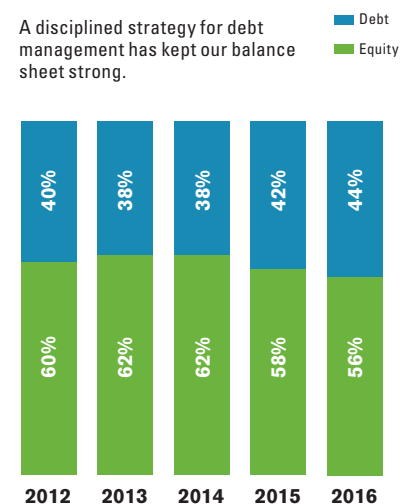
(per common share)

We have paid dividends uninterrupted for 79 years.



Capitalization Ratios

A disciplined strategy for debt management has kept our balance sheet strong.



Our Businesses

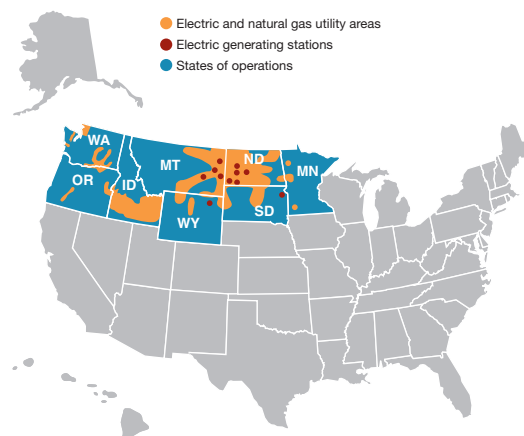
Regulated Energy Delivery

Electric and Natural Gas Utilities

MDU Resources Group's utility companies serve approximately 1.07 million customers. Cascade Natural Gas Corporation distributes natural gas in Oregon and Washington. Great Plains Natural Gas Co. distributes natural gas in western Minnesota and southeastern North Dakota. Intermountain Gas Company distributes natural gas in southern Idaho. Montana-Dakota Utilities Co. generates, transmits and distributes electricity and distributes natural gas in Montana, North Dakota, South Dakota and Wyoming. These operations also provide related value-added services.

2016 Key Statistics

Revenues (millions)	
Electric	\$322.3
Natural gas	\$766.1
Earnings (millions)	
Electric	\$42.2
Natural gas	\$27.1
Electric retail sales (million kWh)	3,258.5
Natural gas distribution (MMdk)	
Sales	99.3
Transportation	147.6

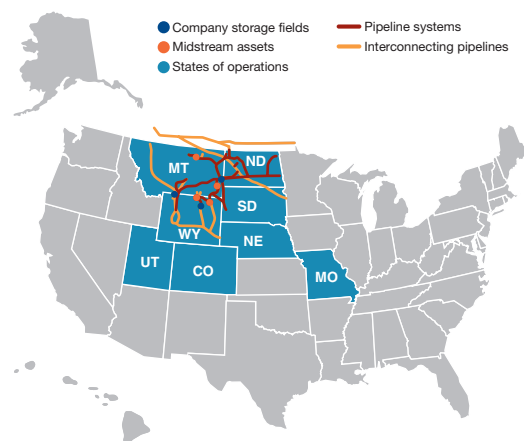


Pipeline and Midstream

WBI Energy provides natural gas transportation, underground storage and gathering services through regulated and nonregulated pipeline systems primarily in the Rocky Mountain and northern Great Plains regions of the United States. This segment also provides cathodic protection and other energy-related services.

2016 Key Statistics

Revenues (millions)	\$141.6
Earnings (millions)	\$23.4
Pipeline (MMdk)	
Transportation	285.3
Gathering	20.0



Construction Materials and Services

Construction Materials and Contracting

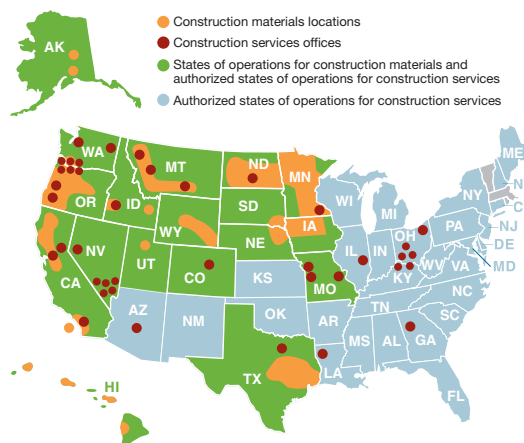
Knife River Corporation mines aggregates and markets crushed stone, sand, gravel and related construction materials, including ready-mix concrete, cement, asphalt, liquid asphalt and other value-added products. It also performs integrated contracting services.

Construction Services

MDU Construction Services Group specializes in constructing and maintaining electric and communication lines, gas pipelines, fire suppression systems, and external lighting and traffic signalization. It also provides utility excavation and inside electrical and mechanical services, and manufactures and distributes transmission line construction equipment and supplies.

2016 Key Statistics

Revenues (millions)	
Construction materials	\$1,874.3
Construction services	\$1,073.3
Earnings (millions)	
Construction materials	\$102.7
Construction services	\$33.9
Construction materials sales (thousands)	
Aggregates (tons)	27,580
Asphalt (tons)	7,203
Ready-mix concrete (cubic yards)	3,655
Construction materials aggregate reserves (billion tons)	1.0



Note: The revenues and earnings noted on this page exclude discontinued operations, the other category and intercompany eliminations.

In 2016, we made great strides as we transitioned to a more streamlined company with two lines of business: construction materials and services and regulated energy delivery. We reduced MDU Resources Group's exposure to commodity price volatility by successfully selling our remaining oil and natural gas exploration and production assets, our interests in a diesel refinery in North Dakota and our interests in a natural gas processing plant in North Dakota. Our financial results for 2016 reflect that these changes have provided strong momentum, and we are excited about the opportunities that exist for our continuing operations.

2016 earnings from continuing operations increased 32 percent to \$232.4 million, or \$1.19 per share, compared to 2015 earnings from continuing operations of \$175.7 million, or 90 cents per share. Including discontinued operations, primarily the exploration and production and refining businesses that we sold, MDU Resources reported 2016 earnings of \$63.7 million, or 33 cents per share, compared to a loss of \$623.1 million, or \$3.20 per share, in 2015.

Our company provided shareholders with a 62 percent total return in 2016, and in November we increased our dividend for the 26th consecutive year. Fewer than 100 of the more than 2,400 other U.S.-listed, dividend-paying companies have increased their dividend as many consecutive years as MDU Resources.

Standard & Poor's in the fourth quarter of 2016 improved our company's credit rating outlook from negative to stable, a reflection of our reduced exposure to commodity price risk. MDU Resources now has a BBB+ credit rating with stable outlook from both S&P and Fitch Ratings.

Construction materials has record year

Our construction materials business, Knife River Corporation, finished 2016 with record results for the second consecutive year. Although revenues were down slightly,

earnings were up 15 percent to \$102.7 million with an increase in aggregate and asphalt volumes and margins. All of Knife River's regions continue to perform well. We saw higher construction demand and margins in all but the North Central region, where we have seen a slowdown in North Dakota.

While Knife River has experienced two consecutive years of record earnings, it has capacity with existing resources to take on additional work. For example, we sold 27.6 million tons of aggregate in 2016, but in 2006 we sold 45.6 million tons of aggregate. This indicates that while we have achieved record earnings, we are at only about 60 percent of our prior peak volumes. We believe the \$305 billion, five-year Fixing America's Surface Transportation (FAST) Act, which was passed in late 2015, will provide opportunities to utilize some of Knife River's additional capacity. The impacts we saw from the FAST Act were minimal in 2016, as states and municipalities worked to identify projects on which to invest the federal funds. We expect to see more substantial impacts this year and going forward as projects are released for bids.

Knife River is the fifth largest sand and gravel producer in the U.S. and has more than a 30-year supply of aggregates with its 1 billion tons of reserves. We finished 2016 with record year-end backlog of \$538 million, which is 10 percent higher than the 2015 record year-end backlog, and we are well-positioned to serve our markets.

Construction services building momentum

Earnings from our construction services business in 2016 were up 43 percent, to \$33.9 million, on just 16 percent revenue growth. The increase was mainly from higher construction workloads and margins in the Western Region.

MDU Construction Services Group closed on the sale in the fourth quarter of one of the largest community solar projects in the



Harry J. Pearce
Chairman of the Board



David L. Goodin
President and Chief Executive Officer

U.S., on which it provided turnkey engineering, procurement and construction. The project was part of the approximately 300 megawatts of solar construction this business provided in 2016. Also in the fourth quarter, MDU Construction Services Group successfully completed a 135-mile, 345-kilovolt transmission line project for Transource Missouri. The project, awarded in 2015, involved constructing 843 transmission line structures and was the largest transmission construction project ever completed by MDU Construction Services Group.

Our construction services business is the 13th largest specialty contractor in the U.S., as ranked on Engineering News-Record's 2016 Top 600 Specialty Contractors list. Backlog was down slightly to \$475 million at the end of 2016, but this business is well-positioned with our strong

performance history and safety record to respond to the bidding opportunities that we anticipate will escalate in 2017. We are focused on growing our inside construction services work, particularly in the high-tech, mission-critical arena, health care facilities and the gaming and hospitality industry, where activity is picking up. Our services are in demand in the industrial and manufacturing sector, where we often work with auto and petrochemical manufacturers, and in the electrical transmission and distribution industry. Our transmission and distribution equipment sales and rentals business is strategically located with two manufacturing facilities to meet demand as the country's infrastructure development continues.

Utility continues focus on rate recovery

Our electric and natural gas utility businesses also had higher earnings in 2016, up 16 percent to \$69.3 million. The increase was mainly related to cost recovery through regulatory relief. Natural gas retail sales volumes were up 4 percent for the year as well, a result of customer growth and colder weather in certain areas.

The utility continues to seek regulatory recovery for investments associated with upgrading and expanding facilities to provide safe, reliable service to our customers at economic prices. Regulatory activity in 2016 and to date has resulted in an additional \$32.7 million in final rates. That brings our total finalized rate increases for the past two years to \$56.8 million. We also have \$55.4 million in rate increases awaiting regulatory agency approval, with \$43.6 million implemented in interim rates. We have grown our rate base at a record 12 percent, compounded annually, over the past five years, and we expect our rate base to continue to grow by approximately 4 percent annually.

In 2016, our utility customer base grew 1.6 percent to approximately 1.07 million. We expect our customer base across our eight-state service territory to continue to grow at a rate of 1 to 2 percent annually. Our electric utility will issue its Integrated Resource Plan this year, which we expect will identify a future large-scale generation

option to meet customer growth. Also to meet customer needs, we announced at the beginning of this year an agreement to buy power from an expansion of the Thunder Spirit Wind farm in southwestern North Dakota, which is expected to be on line in late 2018. We already own the original 107.5-MW Thunder Spirit Wind farm, and our agreement gives us the option to buy the expansion when completed. The additional wind generation will increase our renewable portfolio to approximately 27 percent of our generation capacity.

Pipeline business pursuing growth projects

Earnings at our pipeline and midstream business were \$23.4 million in 2016. This is slightly higher than 2015 when considering that this business recorded impairments associated with asset sales of \$1.4 million, after tax, in 2016 and \$10.6 million, after tax, in 2015. Customer utilization of our natural gas storage services was 59 percent higher in 2016.

We closed January 1, 2017, on the sale of our 50 percent non-operating ownership interest in the Pronghorn natural gas processing plant in North Dakota. This further reduces our company's risks associated with oil and natural gas commodity prices, and the company received proceeds of approximately \$100 million from the sale.

We are focused on pipeline system growth. In 2016, we completed two expansion projects in northwestern North Dakota that add capacity and reliability. We have another project in the Bakken region that will be completed in the second quarter this year to add volume. We also secured the commitments necessary from customers in 2016 to proceed with our Valley Expansion project. This 38-mile pipeline will connect our existing system in eastern North Dakota with another company's pipeline in far western Minnesota. We will have an opportunity to provide natural gas to towns and customers along the route that have not been served or have been underserved in the past. The pipeline initially will be built to transport 40 million cubic feet of natural gas per day, and it can be enhanced to transport significantly more as demand grows. We have approval from the Federal Energy

Regulatory Commission on our pre-filing and have nearly completed survey work. We expect to start construction in early 2018 and complete the project late that year.

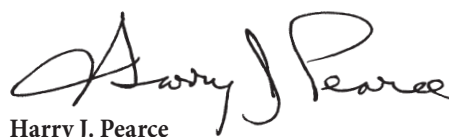
Our employees are the difference

Our employees work hard to provide results for our shareholders, our customers and our communities. We thank them for their commitment to operating safely and maintaining the integrity that is a vital part of our culture, while being good stewards in the communities where they live. Along with our day-to-day safety practices, we have stepped up our attention on cybersecurity in recent years to ensure our customer, employee and company proprietary information is secure. We know we must be vigilant every day to keep our people and our systems safe.

We are excited about our company's future as we continue Building a Strong America.® We believe the new administration's goals for our country will provide additional opportunities for our businesses.

We will maintain our conservative fiscal approach to managing your investment in MDU Resources, while providing the results you expect. We are proud of the fact that we have paid uninterrupted dividends to our shareholders for 79 years, and our commitment to paying dividends is reflected in our membership in the S&P High-Yield Dividend Aristocrats index.

Thank you for your continued support of MDU Resources. We look forward to growing our company while providing you with the long-term value you expect from your investment.



Harry J. Pearce
Chairman of the Board



David L. Goodin
President and Chief Executive Officer

February 24, 2017



Harry J. Pearce

74 (20)
Detroit, Michigan

Chairman of MDU Resources Board of Directors

Retired, formerly chairman of Hughes Electronics Corp., a subsidiary of General Motors Corp., and former vice chairman and director of GM; on the board of several organizations

Expertise: Multinational business management, leadership, finance, engineering and law



David L. Goodin

55 (4)
Bismarck, North Dakota

President and chief executive officer of MDU Resources

Formerly president and chief executive officer of Cascade Natural Gas Corporation, Great Plains Natural Gas Co., Intermountain Gas Company and Montana-Dakota Utilities Co.



Thomas Everist

67 (22)
Sioux Falls, South Dakota

President and chairman of The Everist Co., formerly a construction materials company; a director of several corporations

Expertise: Business management, construction and sand, gravel and aggregate production



Karen B. Fagg

63 (12)
Billings, Montana

Retired, formerly vice president of DOWL HKM and formerly chairman, chief executive officer and majority owner of HKM Engineering Inc.; on the board of several organizations

Expertise: Engineering, construction and business management



Mark A. Hellerstein

64 (4)
Denver, Colorado

Retired, formerly chairman, president and chief executive officer of St. Mary Land & Exploration Co.; a former director of Transocean Inc.

Expertise: Energy industry, business management, accounting and finance



A. Bart Holaday

74 (9)
Denver, Colorado, and Grand Forks, North Dakota

Retired, formerly managing director of Private Markets Group of UBS Asset Management; on the board of several organizations

Expertise: Energy industry, business development, finance and law



Dennis W. Johnson

67 (16)
Dickinson, North Dakota

Chairman, president and chief executive officer of TMI Corp., an architectural woodwork manufacturer; former president of the Dickinson City Commission; a former director of Federal Reserve Bank of Minneapolis

Expertise: Business management, engineering and finance



William E. McCracken

74 (4)
Warren, New Jersey

Retired, formerly chairman and chief executive officer of CA Technologies; previously held executive positions with IBM Corp.; on the board of several organizations; a former director of IKON Office Solutions Inc.

Expertise: Multinational business management, corporate governance, technology and cybersecurity



Patricia L. Moss

63 (14)
Bend, Oregon

Vice chairman of Cascade Bancorp and Bank of the Cascades, formerly president and chief executive officer of Cascade Bancorp and Bank of the Cascades; on the board of several organizations

Expertise: Finance, banking, business development and human resources



John K. Wilson

62 (14)
Omaha, Nebraska

Formerly president of Durham Resources LLC, a privately held financial management company, and formerly a director of a mutual fund; on the board of several organizations

Expertise: Public utilities, accounting and finance

Audit Committee

Dennis W. Johnson, Chair
Mark A. Hellerstein
A. Bart Holaday
John K. Wilson

Compensation Committee

Thomas Everist, Chair
Karen B. Fagg
William E. McCracken
Patricia L. Moss

Nominating and Governance Committee

Karen B. Fagg, Chair
A. Bart Holaday
William E. McCracken
Patricia L. Moss

Numbers indicate age and years of service () on the MDU Resources Board of Directors as of December 31, 2016.

Corporate Management



David L. Goodin
55 (34)

President and Chief Executive Officer of MDU Resources

Serves on the company's Board of Directors and as chairman of the board of all major subsidiary companies; formerly president and chief executive officer of Cascade Natural Gas Corporation, Great Plains Natural Gas Co., Intermountain Gas Company and Montana-Dakota Utilities Co.



David C. Barney
61 (31)

President and Chief Executive Officer of Knife River Corporation

Formerly held executive and management positions with Knife River



Martin A. Fritz
52 (2)

President and Chief Executive Officer of WBI Holdings, Inc.

Formerly an executive with a natural gas production and midstream company



Dennis L. Haider
64 (39)

Executive Vice President of Business Development of MDU Resources

Formerly executive vice president of business development and gas supply of Cascade Natural Gas Corporation, Great Plains Natural Gas Co., Intermountain Gas Company and Montana-Dakota Utilities Co.



Anne M. Jones
53 (35)

Vice President of Human Resources of MDU Resources

Formerly vice president of human resources, customer service and safety of Cascade Natural Gas Corporation, Great Plains Natural Gas Co., Intermountain Gas Company and Montana-Dakota Utilities Co.



Nicole A. Kivisto
43 (22)

President and Chief Executive Officer of Cascade Natural Gas Corporation, Great Plains Natural Gas Co., Intermountain Gas Company and Montana-Dakota Utilities Co.

Formerly vice president of operations of Great Plains Natural Gas and Montana-Dakota Utilities



Daniel S. Kuntz
63 (13)

Vice President, General Counsel and Secretary of MDU Resources

Serves as general counsel and secretary of all major subsidiary companies; formerly associate general counsel and assistant secretary of MDU Resources



Peggy A. Link
50 (12)

Chief Information Officer of MDU Resources

Formerly assistant vice president of technology and cybersecurity officer of MDU Resources



Doran N. Schwartz
47 (12)

Vice President and Chief Financial Officer of MDU Resources

Serves as the senior financial officer and member of the board of directors of all major subsidiary companies; formerly chief accounting officer of MDU Resources



Jeffrey S. Thiede
54 (13)

President and Chief Executive Officer of MDU Construction Services Group, Inc.

Formerly held executive and management positions with MDU Construction Services Group

Other Corporate and Senior Company Officers

Jason L. Vollmer, 39 (12)

Vice President, Treasurer and Chief Accounting Officer of MDU Resources

Management Changes

Peggy A. Link was named chief information officer effective January 1, 2016, and was designated a company officer effective January 1, 2017.

Jason L. Vollmer was named vice president, chief accounting officer and treasurer of MDU Resources effective March 19, 2016. He replaced Nathan W. Ring, who resigned March 18, 2016.

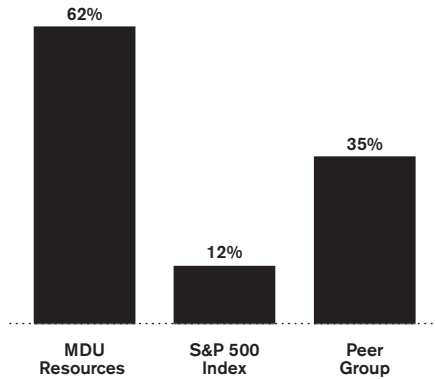
Cynthia J. Norland, vice president of administration of MDU Resources, retired effective January 20, 2017.

Numbers indicate age and years of service () as of December 31, 2016.

Stockholder Return Comparison

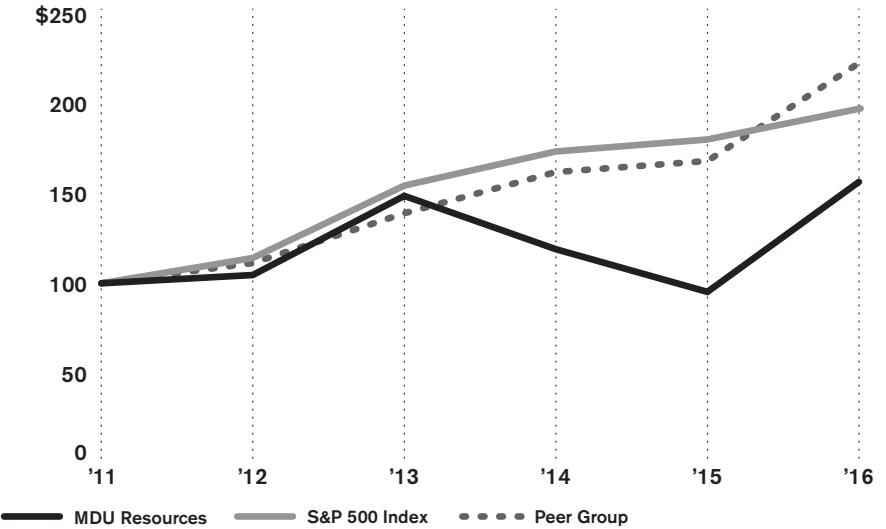
Comparison of One-Year Total Stockholder Return

(as of December 31, 2016)



Comparison of Five-Year Total Stockholder Return (in dollars)

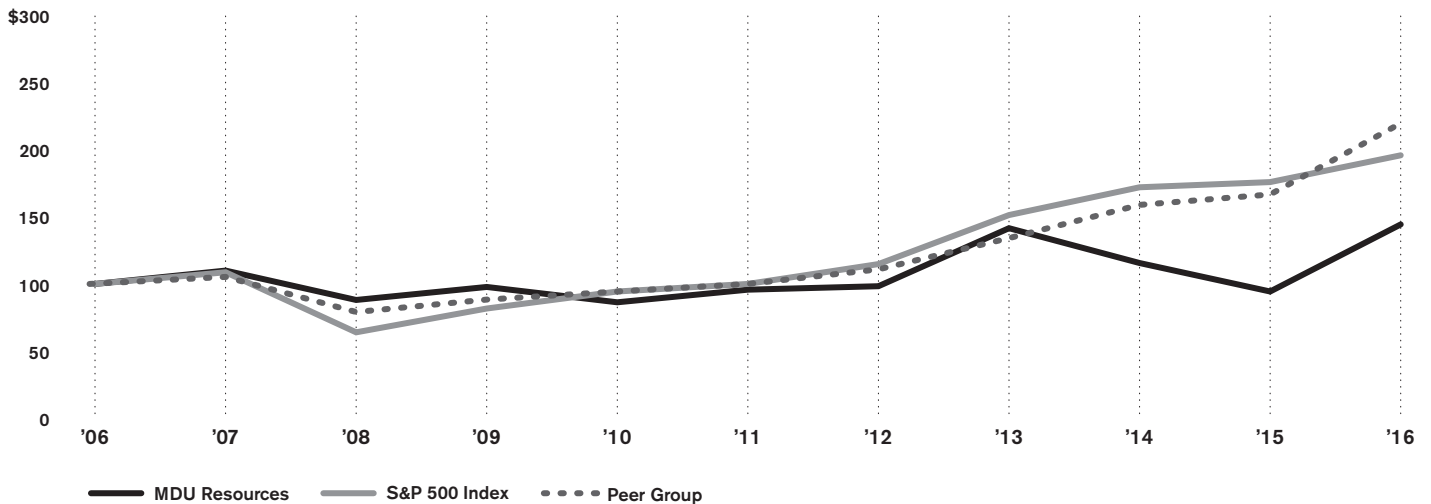
\$100 invested December 31, 2011, in MDU Resources was worth \$155.84 at year-end 2016.



	2011	2012	2013	2014	2015	2016
MDU Resources Group, Inc.	\$100.00	\$102.07	\$150.60	\$118.70	\$96.17	\$155.84
S&P 500 Index	100.00	116.00	153.57	174.60	177.01	198.18
Peer Group	100.00	113.41	138.85	158.33	166.15	225.13

Comparison of 10-Year Total Stockholder Return (in dollars)

\$100 invested December 31, 2006, in MDU Resources was worth \$149.51 at year-end 2016.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MDU Resources Group, Inc.	\$100.00	\$109.85	\$87.82	\$99.13	\$87.90	\$95.94	\$97.93	\$144.48	\$113.87	\$92.26	\$149.51
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76	114.56	151.66	172.42	174.81	195.72
Peer Group	100.00	103.68	85.92	90.09	96.79	99.81	113.20	138.59	158.03	165.84	224.70

2016 Stockholder Return Comparison

Data is indexed to December 31, 2015, for the one-year total stockholder return comparison, December 31, 2011, for the five-year total stockholder return comparison and December 31, 2006, for the 10-year total stockholder return comparison for MDU Resources, the S&P 500 and the peer group. Total stockholder return is calculated using the December 31 price for each year. It is assumed that all dividends are reinvested in stock at the frequency paid, and the returns of each component peer issuer of the group are weighted according to the issuer's stock market capitalization at the beginning of the period.

Peer group issuers are ALLETE, Inc., Alliant Energy Corporation, Atmos Energy Corporation, Avista Corporation, Black Hills Corporation, EMCOR Group, Inc., Granite Construction Incorporated, IDACORP, Inc., IES Holdings, Inc. (formerly Integrated Electrical Services, Inc.), Martin Marietta Materials, Inc., MYR Group Inc., National Fuel Gas Company, Northwest Natural Gas Company, NorthWestern Corporation, Quanta Services, Inc., Sterling Construction Company, Inc., U.S. Concrete, Inc., Vectren Corporation and Vulcan Materials Company.

During 2016, Questar Corporation was merged with another company. As a result, the company was removed from the peer group for the entire period shown in the performance graphs.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 1-3480

MDU RESOURCES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-0423660
(I.R.S. Employer Identification No.)

1200 West Century Avenue
P.O. Box 5650
Bismarck, North Dakota 58506-5650
(Address of principal executive offices)
(Zip Code)

(701) 530-1000
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$1.00	New York Stock Exchange

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

Preferred Stock, par value \$100
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No .

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

State the aggregate market value of the voting common stock held by nonaffiliates of the registrant as of June 30, 2016: \$4,687,305,024.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of February 16, 2017: 195,304,376 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Relevant portions of the registrant's 2017 Proxy Statement are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14 of this Report.

Contents

Part I

Forward-Looking Statements	6
Items 1 and 2 Business and Properties	6
General	6
Electric	7
Natural Gas Distribution	11
Pipeline and Midstream	13
Construction Materials and Contracting	14
Construction Services	17
Discontinued Operations	18
Item 1A Risk Factors	18
Item 1B Unresolved Staff Comments	24
Item 3 Legal Proceedings	24
Item 4 Mine Safety Disclosures	24

Part II

Item 5 Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6 Selected Financial Data	26
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A Quantitative and Qualitative Disclosures About Market Risk	45
Item 8 Financial Statements and Supplementary Data	46
Item 9 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	103
Item 9A Controls and Procedures	103
Item 9B Other Information	103

Part III

Item 10 Directors, Executive Officers and Corporate Governance	104
Item 11 Executive Compensation	104
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	104
Item 13 Certain Relationships and Related Transactions, and Director Independence	104
Item 14 Principal Accountant Fees and Services	104

Part IV

Item 15 Exhibits and Financial Statement Schedules	105
Signatures	112
Exhibits	

The following abbreviations and acronyms used in this Form 10-K are defined below:

Abbreviation or Acronym

AFUDC	Allowance for funds used during construction
Army Corps	U.S. Army Corps of Engineers
ASC	FASB Accounting Standards Codification
ATBs	Atmospheric tower bottoms
BART	Best available retrofit technology
Bcf	Billion cubic feet
Bicent	Bicent Power LLC
Big Stone Station	475-MW coal-fired electric generating facility near Big Stone City, South Dakota (22.7 percent ownership)
BOE	One barrel of oil equivalent - determined using the ratio of one barrel of crude oil, condensate or natural gas liquids to six Mcf of natural gas
Brazilian Transmission Lines	Company's former investment in companies owning three electric transmission lines
Btu	British thermal unit
Calumet	Calumet Specialty Products Partners, L.P.
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
CEM	Colorado Energy Management, LLC, a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Centennial Capital	Centennial Holdings Capital LLC, a direct wholly owned subsidiary of Centennial
Centennial's Consolidated EBITDA	Centennial's consolidated net income from continuing operations plus the related interest expense, taxes, depreciation, depletion, amortization of intangibles and any non-cash charge relating to asset impairment for the preceding 12-month period
Centennial Resources	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
Clean Air Act	Federal Clean Air Act
Clean Water Act	Federal Clean Water Act
Company	MDU Resources Group, Inc.
Coyote Creek	Coyote Creek Mining Company, LLC, a subsidiary of The North American Coal Corporation
Coyote Station	427-MW coal-fired electric generating facility near Beulah, North Dakota (25 percent ownership)
Dakota Prairie Refinery	20,000-barrel-per-day diesel topping plant built by Dakota Prairie Refining in southwestern North Dakota
Dakota Prairie Refining	Dakota Prairie Refining, LLC, a limited liability company previously owned by WBI Energy and Calumet (previously included in the Company's refining segment)
D.C. Circuit Court	United States Court of Appeals for the District of Columbia Circuit
dk	Decatherm
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EBITDA	Earnings before interest, taxes, depreciation, depletion and amortization
EIN	Employer Identification Number
EPA	United States Environmental Protection Agency
ERISA	Employee Retirement Income Security Act of 1974
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelity	Fidelity Exploration & Production Company, a direct wholly owned subsidiary of WBI Holdings (previously referred to as the Company's exploration and production segment)
FIP	Funding improvement plan
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
GVTC	Generation Verification Test Capacity
IBEW	International Brotherhood of Electrical Workers

Definitions

ICWU	International Chemical Workers Union
IFRS	International Financial Reporting Standards
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
IPUC	Idaho Public Utilities Commission
Item 8	Financial Statements and Supplementary Data
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
Knife River - Northwest	Knife River Corporation - Northwest, an indirect wholly owned subsidiary of Knife River
K-Plan	Company's 401(k) Retirement Plan
kW	Kilowatts
kWh	Kilowatt-hour
LWG	Lower Willamette Group
MBbls	Thousands of barrels
MBOE	Thousands of BOE
Mcf	Thousand cubic feet
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Mdk	Thousand dk
MDU Construction Services	MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MEPP	Multiemployer pension plan
MISO	Midcontinent Independent System Operator, Inc.
MMBOE	Millions of BOE
MMBtu	Million Btu
MMcf	Million cubic feet
MMdk	Million dk
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
Montana DEQ	Montana Department of Environmental Quality
Montana Seventeenth Judicial District Court	Montana Seventeenth Judicial District Court, Phillips County
MPPAA	Multiemployer Pension Plan Amendments Act of 1980
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
NGL	Natural gas liquids
Oil	Includes crude oil and condensate
Omimex	Omimex Canada, Ltd.
OPUC	Oregon Public Utility Commission
Oregon DEQ	Oregon State Department of Environmental Quality
PCBs	Polychlorinated biphenyls
Pronghorn	Natural gas processing plant located near Belfield, North Dakota (WBI Energy Midstream previously held a 50 percent non-operating ownership interest)
Proxy Statement	Company's 2017 Proxy Statement
PRP	Potentially Responsible Party
PUD	Proved undeveloped
RCRA	Resource Conservation and Recovery Act
ROD	Record of Decision
RP	Rehabilitation plan
SDPUC	South Dakota Public Utilities Commission
SEC	United States Securities and Exchange Commission
SEC Defined Prices	The average price of oil and natural gas during the applicable 12-month period, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions

Securities Act	Securities Act of 1933, as amended
Securities Act Industry Guide 7	Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations
Sheridan System	A separate electric system owned by Montana-Dakota
South Dakota DENR	South Dakota Department of Environment and Natural Resources
Stock Purchase Plan	Company's Dividend Reinvestment and Direct Stock Purchase Plan which was terminated effective December 5, 2016
Tesoro	Tesoro Refining & Marketing Company LLC
Tesoro Logistics	QEP Field Services, LLC doing business as Tesoro Logistics Rockies LLC
Thurston County Superior Court	State of Washington Thurston County Superior Court
UA	United Association of Journeyman and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada
United States District Court for the District of Montana	United States District Court for the District of Montana, Great Falls Division
United States Supreme Court	Supreme Court of the United States
VIE	Variable interest entity
Washington DOE	Washington State Department of Ecology
WBI Energy	WBI Energy, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Midstream	WBI Energy Midstream, LLC, an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Transmission	WBI Energy Transmission, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
WUTC	Washington Utilities and Transportation Commission
Wygen III	100-MW coal-fired electric generating facility near Gillette, Wyoming (25 percent ownership)
WYPSC	Wyoming Public Service Commission
ZRCs	Zonal resource credits - a MW of demand equivalent assigned to generators by MISO for meeting system reliability requirements

Part I

Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Exchange Act. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words "anticipates," "estimates," "expects," "intends," "plans," "predicts" and similar expressions, and include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and other statements that are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature, including statements contained within Item 7 - MD&A - Prospective Information.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Nonetheless, the Company's expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the risk factors and cautionary statements in this Form 10-K, including statements contained within Item 1A - Risk Factors.

Items 1 and 2. Business and Properties

General

The Company is a regulated energy delivery and construction materials and services business, which was incorporated under the laws of the state of Delaware in 1924. Its principal executive offices are at 1200 West Century Avenue, P.O. Box 5650, Bismarck, North Dakota 58506-5650, telephone (701) 530-1000.

Montana-Dakota, Great Plains, Cascade and Intermountain comprise the natural gas distribution segment. Montana-Dakota also comprises the electric segment.

The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings, Knife River, MDU Construction Services, Centennial Resources and Centennial Capital. WBI Holdings is comprised of the pipeline and midstream segment and Fidelity, formerly the Company's exploration and production business. Knife River is the construction materials and contracting segment, MDU Construction Services is the construction services segment, and Centennial Resources and Centennial Capital are both reflected in the Other category.

In the second quarter of 2016, the Company sold all of the outstanding membership interests in Dakota Prairie Refining and exited that line of business. Therefore, the results of Dakota Prairie Refining are reflected in discontinued operations, other than certain general and administrative costs and interest expense which are reflected in the Other category.

In the second quarter of 2015, the Company announced its plan to market Fidelity and exit that line of business. The Company completed the sale of its oil and natural gas assets. Therefore, the results of Fidelity are reflected in discontinued operations, other than certain general and administrative costs and interest expense which are reflected in the Other category.

For more information on the Company's business segments and discontinued operations, see Item 8 - Notes 2 and 13.

As of December 31, 2016, the Company had 9,598 employees with 138 employed at MDU Resources Group, Inc., 1,030 at Montana-Dakota, 35 at Great Plains, 342 at Cascade, 236 at Intermountain, 342 at WBI Holdings, 3,099 at Knife River and 4,376 at MDU Construction Services. The number of employees at certain Company operations fluctuates during the year depending upon the number and size of construction projects. The Company considers its relations with employees to be satisfactory.

The following information regarding the number of employees represented by labor contracts is as of December 31, 2016.

At Montana-Dakota and WBI Energy Transmission, 359 and 68 employees, respectively, are represented by the IBEW. Labor contracts with such employees are in effect through April 30, 2018, and March 31, 2018, respectively.

At Cascade, 195 employees are represented by the ICWU. The labor contract with the field operations group is effective through March 31, 2018.

At Intermountain, 127 employees are represented by the UA. Labor contracts with such employees are in effect through September 30, 2019.

Knife River operates under 43 labor contracts that represent 505 of its construction materials employees. Knife River is in negotiations on seven of its labor contracts.

MDU Construction Services has 142 labor contracts representing the majority of its employees. MDU Construction Services is in negotiations on five of its labor contracts.

The majority of the labor contracts contain provisions that prohibit work stoppages or strikes and provide for binding arbitration dispute resolution in the event of an extended disagreement.

The Company's principal properties, which are of varying ages and are of different construction types, are generally in good condition, are well maintained and are generally suitable and adequate for the purposes for which they are used.

The financial results and data applicable to each of the Company's business segments, as well as their financing requirements, are set forth in Item 7 - MD&A and Item 8 - Note 13 and Supplementary Financial Information.

The operations of the Company and certain of its subsidiaries are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; state facility-siting regulations; zoning and planning regulations of certain state and local authorities; federal health and safety regulations and state hazard communication standards. The Company believes that it is in substantial compliance with these regulations, except as to what may be ultimately determined with regard to items discussed in Environmental matters in Item 8 - Note 17. There are no pending CERCLA actions for any of the Company's properties, other than the Portland, Oregon, Harbor Superfund Site and the Bremerton Gasworks Superfund Site.

The Company produces GHG emissions primarily from its fossil fuel electric generating facilities, as well as from natural gas pipeline and storage systems, and operations of equipment and fleet vehicles. GHG emissions also result from customer use of natural gas for heating and other uses. As interest in reductions in GHG emissions has grown, the Company has developed renewable generation with lower or no GHG emissions. Governmental legislative and regulatory initiatives regarding environmental and energy policy are continuously evolving and could negatively impact the Company's operations and financial results. Until legislation and regulation are finalized, the impact of these measures cannot be accurately predicted. The Company will continue to monitor legislative and regulatory activity related to environmental and energy policy initiatives. Disclosure regarding specific environmental matters applicable to each of the Company's businesses is set forth under each business description later. In addition, for a discussion of the Company's risks related to environmental laws and regulations, see Item 1A - Risk Factors.

This annual report on Form 10-K, the Company's quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through the Company's Web site as soon as reasonably practicable after the Company has electronically filed such reports with, or furnished such reports to, the SEC. The Company's Web site address is www.mdu.com. The information available on the Company's Web site is not part of this annual report on Form 10-K.

Electric

General Montana-Dakota provides electric service at retail, serving 142,948 residential, commercial, industrial and municipal customers in 178 communities and adjacent rural areas as of December 31, 2016. For more information on the customer classes served, see the table below. The principal properties owned by Montana-Dakota for use in its electric operations include interests in 13 electric generating facilities and three small portable diesel generators, as further described under System Supply, System Demand and Competition, approximately 3,100 and 4,800 miles of transmission and distribution lines, respectively, and 74 transmission and 316 distribution substations. Montana-Dakota has obtained and holds, or is in the process of renewing, valid and existing franchises authorizing it to conduct its electric operations in all of the municipalities it serves where such franchises are required. Montana-Dakota intends to protect its service area and seek renewal of all expiring franchises. At December 31, 2016, Montana-Dakota's net electric plant investment was \$1.3 billion, and the rate base was \$1.0 billion.

Part I

Montana-Dakota's customers served and revenues by class are as follows:

	2016		2015		2014	
	Customers Served	Revenues	Customers Served	Revenues	Customers Served	Revenues
			(Dollars in thousands)			
Residential	118,483	\$ 117,014	118,413	\$ 107,767	115,164	\$ 109,279
Commercial	22,693	135,390	22,423	121,463	21,890	118,026
Industrial	244	31,913	240	32,786	245	30,457
Other	1,528	7,580	1,511	6,791	1,497	6,750
	142,948	\$ 291,897	142,587	\$ 268,807	138,796	\$ 264,512

The percentage of Montana-Dakota's retail electric utility operating revenues by jurisdiction is as follows:

	2016	2015	2014
North Dakota	68%	65%	64%
Montana	19%	21%	21%
Wyoming	8%	9%	10%
South Dakota	5%	5%	5%

Retail electric rates, service, accounting and certain security issuances are subject to regulation by the NDPSC, MTPSC, SDPUC and WYPSC. The interstate transmission and wholesale electric power operations of Montana-Dakota also are subject to regulation by the FERC under provisions of the Federal Power Act, as are interconnections with other utilities and power generators, the issuance of securities, accounting and other matters.

Through MISO, Montana-Dakota has access to wholesale energy, ancillary services and capacity markets for its interconnected system. MISO is a regional transmission organization responsible for operational control of the transmission systems of its members. MISO provides security center operations, tariff administration and operates day-ahead and real-time energy markets, ancillary services and capacity markets. As a member of MISO, Montana-Dakota's generation is sold into the MISO energy market and its energy needs are purchased from that market.

System Supply, System Demand and Competition Through an interconnected electric system, Montana-Dakota serves markets in portions of western North Dakota, including Bismarck, Mandan, Dickinson, Williston and Watford City; eastern Montana, including Sidney, Glendive and Miles City; and northern South Dakota, including Mobridge. The maximum electric peak demand experienced to date attributable to Montana-Dakota's sales to retail customers on the interconnected system was 611,542 kW in August 2015. Montana-Dakota's latest forecast for its interconnected system indicates that its annual peak will continue to occur during the summer and the sales growth rate through 2021 will approximate two percent annually. The interconnected system consists of 12 electric generating facilities and three small portable diesel generators, which have an aggregate nameplate rating attributable to Montana-Dakota's interest of 704,143 kW and total net ZRCs of 521.0 in 2016. ZRCs are a MW of demand equivalent measure and are allocated to individual generators to meet planning reserve margin requirements within MISO. For 2016, Montana-Dakota's total ZRCs, including its firm purchase power contracts, were 559.7. Montana-Dakota's planning reserve margin requirement within MISO was 559.7 for 2016. Montana-Dakota's interconnected system electric generating capability includes five steam-turbine generating units at four facilities using coal for fuel, three combustion turbine peaking stations, three wind electric generating facilities, two reciprocating internal combustion engines at one facility, a heat recovery electric generating facility and three small portable diesel generators.

In June 2016, Montana-Dakota and a partner began building a 345-kilovolt transmission line within the footprint of MISO from Ellendale, North Dakota, to Big Stone City, South Dakota, a distance of about 160 miles, which will facilitate public policy goals and objectives, including delivery of renewable wind energy from North Dakota to eastern markets. The project has been approved as a MISO multivalued project. Approximately 97 percent of the necessary easements have been secured. The Company expects the project to be completed in 2019.

In December 2016, Montana-Dakota signed a 25-year agreement to purchase the power from a wind farm expansion in southwest North Dakota. The agreement also includes an option to buy the project at the close of construction. The expansion of the wind farm will boost the combined production at the wind farm to approximately 150 MW of renewable energy and will increase Montana-Dakota's nameplate generation portfolio from approximately 22 percent renewables to 27 percent. The original 107.5-MW wind farm includes 43 turbines; it was purchased by Montana-Dakota in December 2015. The expansion includes 13 to 16 turbines, depending on the turbine size selected. It is expected to be online in December 2018. Construction costs for the project are estimated to be \$85 million. Additional energy will be

purchased as needed, or if more economical, from the MISO market. In 2016, Montana-Dakota purchased approximately 26 percent of its net kWh needs for its interconnected system through the MISO market.

Through the Sheridan System, Montana-Dakota serves Sheridan, Wyoming, and neighboring communities. The maximum peak demand experienced to date attributable to Montana-Dakota sales to retail customers on that system was approximately 61,501 kW in July 2012. Montana-Dakota has a power supply contract with Black Hills Power, Inc. to purchase up to 49,000 kW of capacity annually through December 31, 2023. Wygen III serves a portion of the needs of its Sheridan-area customers.

The following table sets forth details applicable to the Company's electric generating stations:

Generating Station	Type	Nameplate Rating (kW)	2016 ZRCs (a)	2016 Net Generation (kWh in thousands)
Interconnected System:				
North Dakota:				
Coyote (b)	Steam	103,647	80.6	615,730
Heskett	Steam	86,000	87.3	458,788
Heskett	Combustion Turbine	89,038	57.0	2,868
Glen Ullin	Heat Recovery	7,500	4.2	39,383
Cedar Hills	Wind	19,500	4.9	60,790
Diesel Units	Oil	5,475	3.8	9
Thunder Spirit	Wind	107,500	17.2	427,960
South Dakota:				
Big Stone (b)	Steam	94,111	99.7	440,834
Montana:				
Lewis & Clark	Steam	44,000	51.9	261,058
Lewis & Clark	Reciprocating Internal Combustion Engine	18,700	14.1	11,918
Glendive	Combustion Turbine	75,522	72.5	6,277
Miles City	Combustion Turbine	23,150	21.6	712
Diamond Willow	Wind	30,000	6.2	100,119
		704,143	521.0	2,426,446
Sheridan System:				
Wyoming:				
Wygen III (b)	Steam	28,000	N/A	200,317
		732,143	521.0	2,626,763

(a) Interconnected system only. MISO requires generators to obtain their summer capability through the GVTC. The GVTC is then converted to ZRCs by applying each generator's forced outage factor against its GVTC. Wind generator's ZRCs are calculated based on a wind capacity study performed annually by MISO. ZRCs are used to meet supply obligations within MISO.

(b) Reflects Montana-Dakota's ownership interest.

Virtually all of the current fuel requirements of the Heskett and Lewis & Clark stations are met with coal supplied by subsidiaries of Westmoreland Coal Company under contracts that expire in December 2021 and December 2017, respectively. The Heskett and Lewis & Clark coal supply agreements provide for the purchase of coal necessary to supply the coal requirements of these stations at contracted pricing. Montana-Dakota estimates the Heskett and Lewis & Clark coal requirement to be in the range of 425,000 to 460,000 tons and 250,000 to 350,000 tons per contract year, respectively.

The owners of Coyote Station, including Montana-Dakota, have a contract with Coyote Creek for coal supply to the Coyote Station that expires December 2040. Montana-Dakota estimates the Coyote Station coal supply agreement to be approximately 2.5 million tons per contract year. For more information, see Item 8 - Note 17.

The owners of Big Stone Station, including Montana-Dakota, have coal supply agreements, which meet a portion of the Big Stone Station's fuel requirements, for the purchase of 750,000 tons in 2017 from Alpha Coal Sales Co., LLC at contracted pricing. The remainder of the Big Stone Station fuel requirements will be secured through separate future contracts.

Montana-Dakota has a coal supply agreement with Wyodak Resources Development Corp., to supply the coal requirements of Wygen III at contracted pricing through June 1, 2060. Montana-Dakota estimates the maximum annual coal consumption of the facility to be 585,000 tons.

Part I

The average cost of coal purchased, including freight, at Montana-Dakota's electric generating stations (including the Big Stone, Coyote and Wygen III stations) was as follows:

Years ended December 31,	2016	2015	2014
Average cost of coal per MMBtu	\$ 1.89	\$ 1.75	\$ 1.74
Average cost of coal per ton	\$ 27.45	\$ 25.41	\$ 25.11

Montana-Dakota expects that it has secured adequate capacity available through existing baseload generating stations, renewable generation, turbine peaking stations, demand reduction programs and firm contracts to meet the peak customer demand requirements of its customers through mid-2022. Future capacity that is needed to replace contracts and meet system growth requirements is expected to be met by constructing new generation resources, or acquiring additional capacity through power purchase contracts or the MISO capacity auction. For more information regarding potential power generation projects, see Item 7 - MD&A - Prospective Information - Electric and natural gas distribution.

Montana-Dakota has major interconnections with its neighboring utilities and considers these interconnections adequate for coordinated planning, emergency assistance, exchange of capacity and energy and power supply reliability.

Montana-Dakota is subject to competition in varying degrees, in certain areas, from rural electric cooperatives, on-site generators, co-generators and municipally owned systems. In addition, competition in varying degrees exists between electricity and alternative forms of energy such as natural gas.

Regulatory Matters and Revenues Subject to Refund In North Dakota, Montana-Dakota's results of operations reflect monthly increases or decreases in fuel and purchased power costs (including demand charges) and is deferring those electric fuel and purchased power costs that are greater or less than amounts presently being recovered through its existing rate schedules. In Montana, a monthly Fuel and Purchased Power Tracking Adjustment mechanism allows Montana-Dakota's results of operations to reflect 90 percent of the increases or decreases in fuel and purchased power costs (including demand charges) and Montana-Dakota is deferring 90 percent of costs that are greater or less than amounts presently being recovered through its existing rate schedules. A fuel adjustment clause contained in South Dakota jurisdictional electric rate schedules allows Montana-Dakota's results of operations to reflect monthly increases or decreases in fuel and purchased power costs (excluding demand charges). In Wyoming, an annual Electric Power Supply Cost Adjustment mechanism allows Montana-Dakota's results of operations to reflect increases or decreases in purchased power costs (including demand charges) related to power supply and Montana-Dakota is deferring costs that are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments which are filed annually. As of March 1, 2017, Montana-Dakota's results of operations will reflect 95 percent of the increases or decreases from the base purchased power costs and in addition will also reflect 85 percent of the increases or decreases from the base coal price, which will also be recovered through the Electric Power Supply Cost Adjustment. For more information, see Item 8 - Note 4.

In North Dakota, Montana-Dakota recovers in rates the costs associated with environmental upgrades at Big Stone Station and Lewis & Clark Station. Montana-Dakota will maintain a tracker account until all costs are recovered or until the associated costs are reflected in base rates as a part of a general rate case.

In North Dakota, Montana-Dakota has the ability to recover the costs associated with new generation through a rider mechanism. Montana-Dakota will utilize this rider mechanism for new generation until such time as the costs and investment are included in base rates. For the Thunder Spirit Wind project, Montana-Dakota implemented a renewable resource cost adjustment rider. Montana-Dakota also has in place in North Dakota a transmission tracker to recover transmission costs associated with MISO and the Southwest Power Pool, regional transmission systems serving Montana-Dakota, along with certain of the transmission investments not recovered through retail rates. The tracking mechanism has an annual true-up.

In South Dakota, Montana-Dakota recovers the South Dakota investment in the Thunder Spirit Wind project through an Infrastructure Rider tracking mechanism that is subject to an annual true-up. Montana-Dakota also has in place in South Dakota a transmission tracker to recover transmission costs associated with MISO and the Southwest Power Pool, regional transmission systems serving Montana-Dakota, along with certain of the transmission investments not recovered through retail rates. The tracking mechanism has an annual true-up.

For more information on regulatory matters, see Item 8 - Note 16.

Environmental Matters Montana-Dakota's electric operations are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; state facility-siting regulations; zoning and planning regulations of certain state and local authorities; federal health and safety regulations; and state hazard communication standards. Montana-Dakota believes it is in substantial compliance with these regulations.

Montana-Dakota's electric generating facilities have Title V Operating Permits, under the Clean Air Act, issued by the states in which they operate. Each of these permits has a five-year life. Near the expiration of these permits, renewal applications are submitted. Permits continue in force beyond the expiration date, provided the application for renewal is submitted by the required date, usually six months prior to expiration. The Title V Operating Permit renewal application for Big Stone Station was submitted timely to the South Dakota DENR in November 2013. Big Stone Station continues to operate under conditions of the Title V Operating Permit issued by the South Dakota DENR in June 2009. It is expected that a final renewed permit will be issued in 2017 as the South Dakota DENR incorporates the completed BART air quality control system into the permit. Wygen III is allowed to operate under the facility's construction permit until the Title V Operating Permit is issued by the Wyoming Department of Environmental Quality. The Title V Operating Permit application for Wygen III was submitted timely in January 2011, with the permit expected to be issued in 2017. An application to modify the Title V Operating Permit for incorporation of two new natural gas-fired engines at Lewis & Clark Station was submitted to the Montana DEQ timely in December 2016, with a final permit expected to be issued in 2017. The Title V Operating Permit applications for the Miles City and Glendive stations were submitted timely in 2016 and final permits were issued by the Montana DEQ for each facility in August 2016 and July 2016, respectively.

State water discharge permits issued under the requirements of the Clean Water Act are maintained for power production facilities on the Yellowstone and Missouri rivers. These permits also have five-year lives. Montana-Dakota renews these permits as necessary prior to expiration. Other permits held by these facilities may include an initial siting permit, which is typically a one-time, preconstruction permit issued by the state; state permits to dispose of combustion by-products; state authorizations to withdraw water for operations; and Army Corps permits to construct water intake structures. Montana-Dakota's Army Corps permits grant one-time permission to construct and do not require renewal. Other permit terms vary and the permits are renewed as necessary.

Montana-Dakota's electric operations are conditionally exempt small-quantity hazardous waste generators and subject only to minimum regulation under the RCRA. Montana-Dakota routinely handles PCBs from its electric operations in accordance with federal requirements. PCB storage areas are registered with the EPA as required.

Montana-Dakota incurred \$14.2 million of environmental capital expenditures in 2016, mainly for ash management projects at Lewis & Clark Station and air emission control projects at Heskett Station and Coyote Station. Environmental capital expenditures are estimated to be \$3.5 million, \$9.0 million and \$6.5 million in 2017, 2018 and 2019, respectively, for various environmental upgrades and improvements for air emission and water and coal ash management at power plants. Montana-Dakota's capital and operational expenditures could also be affected by future air emission regulations and coal ash management requirements, including the Clean Power Plan rule published by the EPA in October 2015. The Clean Power Plan requires existing fossil fuel-fired electric generation facilities to reduce carbon dioxide emissions. Montana-Dakota is evaluating the Clean Power Plan and has not included estimates for capital expenditures in 2017 through 2019 for potential compliance requirements. On February 9, 2016, the United States Supreme Court granted an application for a stay of the Clean Power Plan pending disposition of the applicants' petition for review in the D.C. Circuit Court and disposition of the applicants' petition for a writ of certiorari if such a writ is sought.

Natural Gas Distribution

General The Company's natural gas distribution operations consist of Montana-Dakota, Great Plains, Cascade and Intermountain, which sell natural gas at retail, serving 922,408 residential, commercial and industrial customers in 335 communities and adjacent rural areas across eight states as of December 31, 2016, and provide natural gas transportation services to certain customers on the Company's systems. For more information on the customer classes served, see the table below. These services are provided through distribution systems aggregating approximately 19,400 miles. The natural gas distribution operations have obtained and hold, or are in the process of renewing, valid and existing franchises authorizing them to conduct their natural gas operations in all of the municipalities they serve where such franchises are required. These operations intend to protect their service areas and seek renewal of all expiring franchises. At December 31, 2016, the natural gas distribution operations' net natural gas distribution plant investment was \$1.5 billion, and the rate base was \$868 million.

The customers served and revenues by class for the natural gas distribution operations are as follows:

	2016		2015		2014	
	Customers Served	Revenues	Customers Served	Revenues	Customers Served	Revenues
			(Dollars in thousands)			
Residential	818,163	\$ 429,828	803,846	\$ 455,301	791,870	\$ 513,373
Commercial	103,438	253,333	101,688	277,022	100,288	324,203
Industrial	807	23,337	811	26,568	756	30,917
	922,408	\$ 706,498	906,345	\$ 758,891	892,914	\$ 868,493

Part I

The percentage of the natural gas distribution operations' natural gas utility operating sales revenues by jurisdiction is as follows:

	2016	2015	2014
Idaho	34%	32%	29%
Washington	26%	26%	25%
North Dakota	13%	15%	16%
Montana	8%	8%	9%
Oregon	8%	8%	8%
South Dakota	6%	6%	7%
Minnesota	3%	3%	4%
Wyoming	2%	2%	2%

The natural gas distribution operations are subject to regulation by the IPUC, MNPUC, MTPSC, NDPSC, OPUC, SDPUC, WUTC and WYPSC regarding retail rates, service, accounting and certain security issuances.

System Supply, System Demand and Competition The natural gas distribution operations serve retail natural gas markets, consisting principally of residential and firm commercial space and water heating users, in portions of Idaho, including Boise, Nampa, Twin Falls, Pocatello and Idaho Falls; western Minnesota, including Fergus Falls, Marshall and Crookston; eastern Montana, including Billings, Glendive and Miles City; North Dakota, including Bismarck, Mandan, Dickinson, Wahpeton, Williston, Watford City, Minot and Jamestown; central and eastern Oregon, including Bend, Pendleton, Ontario and Baker City; western and north-central South Dakota, including Rapid City, Pierre, Spearfish and Mobridge; western, southeastern and south-central Washington, including Bellingham, Bremerton, Longview, Aberdeen, Wenatchee/Moses Lake, Mount Vernon, Tri-Cities, Walla Walla and Yakima; and northern Wyoming, including Sheridan and Lovell. These markets are highly seasonal and sales volumes depend largely on the weather, the effects of which are mitigated in certain jurisdictions by a weather normalization mechanism discussed in Regulatory Matters. In addition to the residential and commercial sales, the utilities transport natural gas for larger commercial and industrial customers who purchase their own supply of natural gas.

Competition in varying degrees exists between natural gas and other fuels and forms of energy. The natural gas distribution operations have established various natural gas transportation service rates for their distribution businesses to retain interruptible commercial and industrial loads. These services have enhanced the natural gas distribution operations' competitive posture with alternative fuels, although certain customers have bypassed the distribution systems by directly accessing transmission pipelines within close proximity. These bypasses did not have a material effect on results of operations.

The natural gas distribution operations and various distribution transportation customers obtain their system requirements directly from producers, processors and marketers. The Company's purchased natural gas is supplied by a portfolio of contracts specifying market-based pricing and is transported under transportation agreements with WBI Energy Transmission, Northern Border Pipeline Company, Northwest Pipeline LLC, Northern Natural Gas, Gas Transmission Northwest LLC, Northwestern Energy, Viking Gas Transmission Company, Westcoast Energy Inc., Ruby Pipeline LLC, Foothills Pipe Lines Ltd. and NOVA Gas Transmission Ltd. The natural gas distribution operations have contracts for storage services to provide gas supply during the winter heating season and to meet peak day demand with various storage providers, including WBI Energy Transmission, Questar Pipeline Company, Northwest Pipeline LLC and Northern Natural Gas. In addition, certain of the operations have entered into natural gas supply management agreements with various parties. Demand for natural gas, which is a widely traded commodity, has historically been sensitive to seasonal heating and industrial load requirements as well as changes in market price. The natural gas distribution operations believe that, based on current and projected domestic and regional supplies of natural gas and the pipeline transmission network currently available through their suppliers and pipeline service providers, supplies are adequate to meet their system natural gas requirements for the next decade.

Regulatory Matters The natural gas distribution operations' retail natural gas rate schedules contain clauses permitting adjustments in rates based upon changes in natural gas commodity, transportation and storage costs. Current tariffs allow for recovery or refunds of under- or over-recovered gas costs through rate adjustments which are filed annually.

Montana-Dakota's North Dakota and South Dakota natural gas tariffs contain weather normalization mechanisms applicable to certain firm customers that adjust the distribution delivery charge revenues to reflect weather fluctuations during the November 1 through May 1 billing periods.

On December 28, 2015, the OPUC approved an extension of Cascade's decoupling mechanism until January 1, 2020, with an agreement that Cascade would initiate a review of the mechanism by September 30, 2019. Cascade also has an earnings sharing mechanism with respect to its Oregon jurisdictional operations as required by the OPUC.

On July 7, 2016, the WUTC approved a full decoupling mechanism where Cascade is allowed recovery of an average revenue per customer regardless of actual consumption. The mechanism also includes an earnings sharing component if Cascade earns beyond its authorized return. The decoupling mechanism will be reviewed following the end of 2019.

On December 22, 2016, the MNPUC approved a request by Great Plains to implement a full revenue decoupling mechanism pilot project. The decoupling mechanism will reflect the period October 1 through September 30 with the first adjustment to be billed to customers effective December 1 each year for the 3 year pilot project.

For more information on regulatory matters, see Item 8 - Note 16.

Environmental Matters The natural gas distribution operations are subject to federal, state and local environmental, facility-siting, zoning and planning laws and regulations. The natural gas distribution operations believe they are in substantial compliance with those regulations.

The Company's natural gas distribution operations are conditionally exempt small-quantity hazardous waste generators and subject only to minimum regulation under the RCRA. Certain locations of the natural gas distribution operations routinely handle PCBs from their natural gas operations in accordance with federal requirements. PCB storage areas are registered with the EPA as required. Capital and operational expenditures for natural gas distribution operations could be affected in a variety of ways by potential new GHG legislation or regulation. In particular, such legislation or regulation would likely increase capital expenditures for energy efficiency and conservation programs and operational costs associated with GHG emissions compliance. Natural gas distribution operations expect to recover the operational and capital expenditures for GHG regulatory compliance in rates consistent with the recovery of other reasonable costs of complying with environmental laws and regulations.

The natural gas distribution operations did not incur any material environmental expenditures in 2016. Except as to what may be ultimately determined with regard to the issues described in the following paragraph, the natural gas distribution operations do not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2019.

Montana-Dakota and Great Plains have ties to six historic manufactured gas plants as a successor corporation or through direct ownership of the plant. Montana-Dakota is investigating one of these former manufactured gas plant sites and providing input on another site investigation conducted by a third party. To the extent not covered by insurance, Montana-Dakota will seek recovery in its natural gas rates charged to customers for any investigation and remediation costs incurred for these sites. Cascade has ties to nine historic manufactured gas plants as a successor corporation or through direct ownership of the plant. Cascade is involved in the investigation and remediation of three of these manufactured gas plants in Washington and Oregon. See Item 8 - Note 17 for a further discussion of these three manufactured gas plants. To the extent not covered by insurance, Cascade will seek recovery of investigation and remediation costs through its natural gas rates charged to customers.

Pipeline and Midstream

General WBI Energy owns and operates both regulated and nonregulated businesses. The regulated business of this segment, WBI Energy Transmission, owns and operates approximately 4,000 miles of transmission, gathering and storage lines in Montana, North Dakota, South Dakota and Wyoming. Three underground storage fields in Montana and Wyoming provide storage services to local distribution companies, industrial customers, natural gas marketers and others, and serve to enhance system reliability. Its system is strategically located near five natural gas producing basins, making natural gas supplies available to its transportation and storage customers. The system has 13 interconnecting points with other pipeline facilities allowing for the receipt and/or delivery of natural gas to and from other regions of the country and from Canada. Under the Natural Gas Act, as amended, WBI Energy Transmission is subject to the jurisdiction of the FERC regarding certificate, rate, service and accounting matters, and at December 31, 2016, its net plant investment was \$388.0 million.

The nonregulated business of this segment owns and operates gathering facilities in Montana and Wyoming. In total, facilities include approximately 800 miles of operated field gathering lines, some of which interconnect with WBI Energy's regulated pipeline system. The nonregulated business provides natural gas gathering services and a variety of other energy-related services, including cathodic protection, contract compression operations, measurement services, and energy efficiency product sales and installation services to large end-users. In November 2016, the Company entered into an agreement to sell its ownership in the Pronghorn assets, which included a 50 percent undivided interest in a natural gas processing plant, both oil and gas gathering pipelines, an oil storage terminal and an oil pipeline in western North Dakota. The transaction closed in January 2017.

A majority of its pipeline and midstream business is transacted in the northern Great Plains and Rocky Mountain regions of the United States.

For information regarding natural gas gathering operations litigation, see Item 8 - Note 17.

Part I

System Supply, System Demand and Competition Natural gas supplies emanate from traditional and nontraditional production activities in the region from both on-system and off-system supply sources. New incremental supply from nontraditional sources have developed, such as the Bakken area in Montana and North Dakota, which has helped offset declines in traditional regional supply sources and supports WBI Energy Transmission's transportation and storage services. In addition, off-system supply sources are available through the Company's interconnections with other pipeline systems. WBI Energy Transmission will continue to look for opportunities to increase transportation, gathering and storage services through system expansion and/or other pipeline interconnections or enhancements that could provide substantial future benefits.

WBI Energy Transmission's underground natural gas storage facilities have a certificated storage capacity of approximately 353 Bcf, including 193 Bcf of working gas capacity, 85 Bcf of cushion gas and 75 Bcf of native gas. These storage facilities enable customers to purchase natural gas throughout the year and meet winter peak requirements.

WBI Energy Transmission competes with several pipelines for its customers' transportation, storage and gathering business and at times may discount rates in an effort to retain market share. However, the strategic location of its system near five natural gas producing basins and the availability of underground storage and gathering services, along with interconnections with other pipelines, serve to enhance its competitive position.

Although certain of WBI Energy Transmission's firm customers, including its largest firm customer Montana-Dakota, serve relatively secure residential and commercial end-users, they generally all have some price-sensitive end-users that could switch to alternate fuels.

WBI Energy Transmission transports substantially all of Montana-Dakota's natural gas, primarily utilizing firm transportation agreements, which for 2016 represented 39 percent of WBI Energy Transmission's subscribed firm transportation contract demand. The majority of the firm transportation agreements with Montana-Dakota expire in June 2022. In addition, Montana-Dakota has contracts with WBI Energy Transmission to provide firm storage services to facilitate meeting Montana-Dakota's winter peak requirements expiring in July 2035.

The nonregulated business competes with several midstream companies for existing customers, the expansion of its systems and the installation of new systems. Its strong position in the fields in which it operates, its focus on customer service and the variety of services it offers, along with its interconnection with various other pipelines, serve to enhance its competitive position.

Environmental Matters The pipeline and midstream operations are generally subject to federal, state and local environmental, facility-siting, zoning and planning laws and regulations. The Company believes it is in substantial compliance with those regulations.

Ongoing operations are subject to the Clean Air Act, the Clean Water Act, the RCRA and other state and federal regulations. Administration of many provisions of these laws has been delegated to the states where WBI Energy and its subsidiaries operate. Permit terms vary and all permits carry operational compliance conditions. Some permits require annual renewal, some have terms ranging from one to five years and others have no expiration date. Permits are renewed and modified, as necessary, based on defined permit expiration dates, operational demand and/or regulatory changes.

Detailed environmental assessments and/or environmental impact statements as required by the National Environmental Policy Act are included in the FERC's environmental review process for both the construction and abandonment of WBI Energy Transmission's natural gas transmission pipelines, compressor stations and storage facilities.

The pipeline and midstream operations did not incur any material environmental expenditures in 2016 and do not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2019.

Construction Materials and Contracting

General Knife River operates construction materials and contracting businesses headquartered in Alaska, California, Hawaii, Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, Texas, Washington and Wyoming. These operations mine, process and sell construction aggregates (crushed stone, sand and gravel); produce and sell asphalt mix and supply ready-mixed concrete for use in most types of construction, including roads, freeways and bridges, as well as homes, schools, shopping centers, office buildings and industrial parks. Although not common to all locations, other products include the sale of cement, liquid asphalt for various commercial and roadway applications, various finished concrete products and other building materials and related contracting services.

The construction materials business had approximately \$538 million in backlog at December 31, 2016, compared to \$491 million at December 31, 2015. The Company anticipates that a significant amount of the current backlog will be completed during 2017.

Competition Knife River's construction materials products are marketed under highly competitive conditions. Price is the principal competitive force to which these products are subject, with service, quality, delivery time and proximity to the customer also being significant factors. The number and size of competitors varies in each of Knife River's principal market areas and product lines.

The demand for construction materials products is significantly influenced by the cyclical nature of the construction industry in general. In addition, construction materials activity in certain locations may be seasonal in nature due to the effects of weather. The key economic factors affecting product demand are changes in the level of local, state and federal governmental spending, general economic conditions within the market area that influence both the commercial and residential sectors, and prevailing interest rates.

Knife River is not dependent on any single customer or group of customers for sales of its products and services, the loss of which would have a material adverse effect on its construction materials businesses.

Reserve Information Aggregate reserve estimates are calculated based on the best available data. This data is collected from drill holes and other subsurface investigations, as well as investigations of surface features such as mine high walls and other exposures of the aggregate reserves. Mine plans, production history and geologic data also are utilized to estimate reserve quantities. Most acquisitions are made of mature businesses with established reserves, as distinguished from exploratory-type properties.

Estimates are based on analyses of the data described above by experienced internal mining engineers, operating personnel and geologists. Property setbacks and other regulatory restrictions and limitations are identified to determine the total area available for mining. Data described previously are used to calculate the thickness of aggregate materials to be recovered. Topography associated with alluvial sand and gravel deposits is typically flat and volumes of these materials are calculated by applying the thickness of the resource over the areas available for mining. Volumes are then converted to tons by using an appropriate conversion factor. Typically, 1.5 tons per cubic yard in the ground is used for sand and gravel deposits.

Topography associated with the hard rock reserves is typically much more diverse. Therefore, using available data, a final topography map is created and computer software is utilized to compute the volumes between the existing and final topographies. Volumes are then converted to tons by using an appropriate conversion factor. Typically, 2 tons per cubic yard in the ground is used for hard rock quarries.

Estimated reserves are probable reserves as defined in Securities Act Industry Guide 7. Remaining reserves are based on estimates of volumes that can be economically extracted and sold to meet current market and product applications. The reserve estimates include only salable tonnage and thus exclude waste materials that are generated in the crushing and processing phases of the operation. Approximately 911 million tons of the 989 million tons of aggregate reserves are permitted reserves. The remaining reserves are on properties that are expected to be permitted for mining under current regulatory requirements. The data used to calculate the remaining reserves may require revisions in the future to account for changes in customer requirements and unknown geological occurrences. The years remaining were calculated by dividing remaining reserves by the three-year average sales from 2014 through 2016. Actual useful lives of these reserves will be subject to, among other things, fluctuations in customer demand, customer specifications, geological conditions and changes in mining plans.

Part I

The following table sets forth details applicable to the Company's aggregate reserves under ownership or lease as of December 31, 2016, and sales for the years ended December 31, 2016, 2015 and 2014:

Production Area	Number of Sites (Crushed Stone)		Number of Sites (Sand & Gravel)		Tons Sold (000's)			Estimated Reserves (000's tons)	Lease Expiration	Reserve Life (years)
	owned	leased	owned	leased	2016	2015	2014			
Anchorage, AK	—	—	1	—	1,343	1,837	1,665	15,972	N/A	10
Hawaii	—	6	—	—	1,901	1,892	1,840	52,091	2017-2064	28
Northern CA	—	—	9	1	1,604	1,580	1,340	46,411	2018	31
Southern CA	—	2	—	—	224	118	147	91,622	2035	Over 100
Portland, OR	1	3	5	3	4,044	3,562	3,244	217,712	2025-2055	60
Eugene, OR	3	4	7	—	662	819	928	155,090	2021-2046	Over 100
Central OR/WA/ID	—	1	6	2	1,685	1,493	1,254	88,467	2020-2077	60
Southwest OR	5	6	11	7	2,689	1,872	1,624	102,151	2017-2053	50
Central MT	—	—	3	2	1,135	1,383	1,260	29,310	2023-2027	23
Northwest MT	—	—	8	2	1,514	1,423	1,486	66,287	2017-2020	45
Wyoming	—	—	1	2	742	888	952	9,988	2019	12
Central MN	—	1	37	12	2,831	2,556	1,674	52,087	2017-2028	22
Northern MN	2	—	14	7	537	595	491	24,887	2017-2021	46
ND/SD	—	—	2	22	1,643	1,959	2,377	26,108	2017-2031	13
Texas	1	2	1	—	1,243	1,138	903	10,901	2022-2029	10
Sales from other sources					3,783	3,844	4,642			
					27,580	26,959	25,827	989,084		

The 989 million tons of estimated aggregate reserves at December 31, 2016, are comprised of 467 million tons that are owned and 522 million tons that are leased. Approximately 31 percent of the tons under lease have lease expiration dates of 20 years or more. The weighted average years remaining on all leases containing estimated probable aggregate reserves is approximately 21 years, including options for renewal that are at Knife River's discretion. Based on a three-year average of sales from 2014 through 2016 of leased reserves, the average time necessary to produce remaining aggregate reserves from such leases is approximately 52 years. Some sites have leases that expire prior to the exhaustion of the estimated reserves. The estimated reserve life assumes, based on Knife River's experience, that leases will be renewed to allow sufficient time to fully recover these reserves.

The changes in Knife River's aggregate reserves for the years ended December 31 were as follows:

	2016	2015	2014
	(000's of tons)		
Aggregate reserves:			
Beginning of year	1,022,513	1,061,156	1,083,376
Acquisitions	24,993	7,406	12,343
Sales volumes*	(23,797)	(23,115)	(21,185)
Other**	(34,625)	(22,934)	(13,378)
End of year	989,084	1,022,513	1,061,156

* Excludes sales from other sources.

** Includes property sales, revisions of previous estimates and expiring leases.

Environmental Matters Knife River's construction materials and contracting operations are subject to regulation customary for such operations, including federal, state and local environmental compliance and reclamation regulations. Except as to the issues described later, Knife River believes it is in substantial compliance with these regulations. Individual permits applicable to Knife River's various operations are managed largely by local operations, particularly as they relate to application, modification, renewal, compliance and reporting procedures.

Knife River's asphalt and ready-mixed concrete manufacturing plants and aggregate processing plants are subject to Clean Air Act and Clean Water Act requirements for controlling air emissions and water discharges. Some mining and construction activities also are subject to these laws. In most of the states where Knife River operates, these regulatory programs have been delegated to state and local regulatory authorities. Knife River's facilities also are subject to the RCRA as it applies to the management of hazardous wastes and underground

storage tank systems. These programs also have generally been delegated to the state and local authorities in the states where Knife River operates. Knife River's facilities must comply with requirements for managing wastes and underground storage tank systems.

Some Knife River activities are directly regulated by federal agencies. For example, certain in-water mining operations are subject to provisions of the Clean Water Act that are administered by the Army Corps. Knife River operates several such operations, including gravel bar skimming and dredging operations, and Knife River has the associated permits as required. The expiration dates of these permits vary, with five years generally being the longest term.

Knife River's operations also are occasionally subject to the ESA. For example, land use regulations often require environmental studies, including wildlife studies, before a permit may be granted for a new or expanded mining facility or an asphalt or concrete plant. If endangered species or their habitats are identified, ESA requirements for protection, mitigation or avoidance apply. Endangered species protection requirements are usually included as part of land use permit conditions. Typical conditions include avoidance, setbacks, restrictions on operations during certain times of the breeding or rearing season, and construction or purchase of mitigation habitat. Knife River's operations also are subject to state and federal cultural resources protection laws when new areas are disturbed for mining operations or processing plants. Land use permit applications generally require that areas proposed for mining or other surface disturbances be surveyed for cultural resources. If any are identified, they must be protected or managed in accordance with regulatory agency requirements.

The most comprehensive environmental permit requirements are usually associated with new mining operations, although requirements vary widely from state to state and even within states. In some areas, land use regulations and associated permitting requirements are minimal. However, some states and local jurisdictions have very demanding requirements for permitting new mines. Environmental impact reports are sometimes required before a mining permit application can even be considered for approval. These reports can take up to several years to complete. The report can include projected impacts of the proposed project on air and water quality, wildlife, noise levels, traffic, scenic vistas and other environmental factors. The reports generally include suggested actions to mitigate the projected adverse impacts.

Provisions for public hearings and public comments are usually included in land use permit application review procedures in the counties where Knife River operates. After taking into account environmental, mine plan and reclamation information provided by the permittee as well as comments from the public and other regulatory agencies, the local authority approves or denies the permit application. Denial is rare, but land use permits often include conditions that must be addressed by the permittee. Conditions may include property line setbacks, reclamation requirements, environmental monitoring and reporting, operating hour restrictions, financial guarantees for reclamation, and other requirements intended to protect the environment or address concerns submitted by the public or other regulatory agencies.

Knife River has been successful in obtaining mining and other land use permit approvals so sufficient permitted reserves are available to support its operations. For mining operations, this often requires considerable advanced planning to ensure sufficient time is available to complete the permitting process before the newly permitted aggregate reserve is needed to support Knife River's operations.

Knife River's Gascoyne surface coal mine last produced coal in 1995 but continues to be subject to reclamation requirements of the Surface Mining Control and Reclamation Act, as well as the North Dakota Surface Mining Act. Portions of the Gascoyne Mine remain under reclamation bond until the 10-year revegetation liability period has expired. A portion of the original permit has been released from bond and additional areas are currently in the process of having the bond released. Knife River's intention is to request bond release as soon as it is deemed possible.

Knife River did not incur any material environmental expenditures in 2016 and, except as to what may be ultimately determined with regard to the issues described in the following paragraph, Knife River does not expect to incur any material expenditures related to environmental compliance with current laws and regulations through 2019.

In December 2000, Knife River - Northwest was named by the EPA as a PRP in connection with the cleanup of a commercial property site, acquired by Knife River - Northwest in 1999, and part of the Portland, Oregon, Harbor Superfund Site. For more information, see Item 8 - Note 17.

Mine Safety The Dodd-Frank Act requires disclosure of certain mine safety information. For more information, see Item 4 - Mine Safety Disclosures.

Construction Services

General MDU Construction Services provides utility construction services specializing in constructing and maintaining electric and communication lines, gas pipelines, fire suppression systems, and external lighting and traffic signalization. This segment also provides utility excavation and inside electrical and mechanical services, and manufactures and distributes transmission line construction equipment and other supplies. These services are provided to utilities and large manufacturing, commercial, industrial, institutional and government customers.

Part I

Construction and maintenance crews are active year round. However, activity in certain locations may be seasonal in nature due to the effects of weather.

MDU Construction Services operates a fleet of owned and leased trucks and trailers, support vehicles and specialty construction equipment, such as backhoes, excavators, trenchers, generators, boring machines and cranes. In addition, as of December 31, 2016, MDU Construction Services owned or leased facilities in 16 states. This space is used for offices, equipment yards, manufacturing, warehousing, storage and vehicle shops.

MDU Construction Services' backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts. The backlog at December 31, 2016, was approximately \$475 million compared to \$493 million at December 31, 2015. MDU Construction Services expects to complete a significant amount of this backlog during 2017. Due to the nature of its contractual arrangements, in many instances MDU Construction Services' customers are not committed to the specific volumes of services to be purchased under a contract, but rather MDU Construction Services is committed to perform these services if and to the extent requested by the customer. Therefore, there can be no assurance as to the customers' requirements during a particular period or that such estimates at any point in time are predictive of future revenues.

MDU Construction Services works with the National Electrical Contractors Association, the IBEW and other trade associations on hiring and recruiting a qualified workforce.

Competition MDU Construction Services operates in a highly competitive business environment. Most of MDU Construction Services' work is obtained on the basis of competitive bids or by negotiation of either cost-plus or fixed-price contracts. The workforce and equipment are highly mobile, providing greater flexibility in the size and location of MDU Construction Services' market area. Competition is based primarily on price and reputation for quality, safety and reliability. The size and location of the services provided, as well as the state of the economy, will be factors in the number of competitors that MDU Construction Services will encounter on any particular project. MDU Construction Services believes that the diversification of the services it provides, the markets it serves throughout the United States and the management of its workforce will enable it to effectively operate in this competitive environment.

Utilities and independent contractors represent the largest customer base for this segment. Accordingly, utility and subcontract work accounts for a significant portion of the work performed by MDU Construction Services and the amount of construction contracts is dependent to a certain extent on the level and timing of maintenance and construction programs undertaken by customers. MDU Construction Services relies on repeat customers and strives to maintain successful long-term relationships with these customers.

Environmental Matters MDU Construction Services' operations are subject to regulation customary for the industry, including federal, state and local environmental compliance. MDU Construction Services believes it is in substantial compliance with these regulations.

The nature of MDU Construction Services' operations is such that few, if any, environmental permits are required. Operational convenience supports the use of petroleum storage tanks in several locations, which are permitted under state programs authorized by the EPA. MDU Construction Services has no ongoing remediation related to releases from petroleum storage tanks. MDU Construction Services' operations are conditionally exempt small-quantity waste generators, subject to minimal regulation under the RCRA. Federal permits for specific construction and maintenance jobs that may require these permits are typically obtained by the hiring entity, and not by MDU Construction Services.

MDU Construction Services did not incur any material environmental expenditures in 2016 and does not expect to incur any material capital expenditures related to environmental compliance with current laws and regulations through 2019.

Discontinued Operations

General Discontinued operations includes the results of Dakota Prairie Refining and Fidelity other than certain general and administrative costs and interest expense. In the second quarter of 2016, the Company sold all of the outstanding membership interests in Dakota Prairie Refining. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. For more information on discontinued operations, see Item 8 - Note 2 and Supplementary Financial Information.

Item 1A. Risk Factors

The Company's business and financial results are subject to a number of risks and uncertainties, including those set forth below and in other documents that it files with the SEC. The factors and the other matters discussed herein are important factors that could cause actual

results or outcomes for the Company to differ materially from those discussed in the forward-looking statements included elsewhere in this document.

Economic Risks

The Company's pipeline and midstream business is dependent on factors, including commodity prices and commodity price basis differentials, that are subject to various external influences that cannot be controlled.

These factors include: fluctuations in oil, NGL and natural gas production and prices; fluctuations in commodity price basis differentials; domestic and foreign supplies of oil, NGL and natural gas; political and economic conditions in oil producing countries; actions of the Organization of Petroleum Exporting Countries; and other risks incidental to the development and operations of natural gas pipeline systems. Continued prolonged depressed prices for oil, NGL and natural gas could impede the growth of the pipeline and midstream business, and could negatively affect the results of operations, cash flows and asset values of the Company's pipeline and midstream business.

The regulatory approval, permitting, construction, startup and/or operation of pipelines and power generation and transmission facilities may involve unanticipated events or delays that could negatively impact the Company's business and its results of operations and cash flows.

The construction, startup and operation of pipelines and power generation and transmission facilities involve many risks, which may include: delays; breakdown or failure of equipment; inability to obtain required governmental permits and approvals; inability to obtain or renew easements; public opposition; inability to complete financing; inability to negotiate acceptable equipment acquisition, construction, fuel supply, off-take, transmission, transportation or other material agreements; changes in markets and market prices for power; cost increases and overruns; the risk of performance below expected levels of output or efficiency; and the inability to obtain full cost recovery in regulated rates. Such unanticipated events could negatively impact the Company's business, its results of operations and cash flows.

Economic volatility, including volatility in North Dakota's Bakken region, affects the Company's operations, as well as the demand for its products and services and the value of its investments and investment returns including its pension and other postretirement benefit plans, and may have a negative impact on the Company's future revenues and cash flows.

The global demand and price volatility for natural resources, interest rate changes, governmental budget constraints and the ongoing threat of terrorism can create volatility in the financial markets. Unfavorable economic conditions can negatively affect the level of public and private expenditures on projects and the timing of these projects which, in turn, can negatively affect the demand for the Company's products and services, primarily at the Company's construction businesses. The level of demand for construction products and services could be adversely impacted by the economic conditions in the industries the Company serves, as well as in the economy in general. State and federal budget issues may negatively affect the funding available for infrastructure spending. The ability of the Company's electric and natural gas distribution businesses to grow service territory and customer base is affected by the economic environments of the markets served. This economic volatility could have a material adverse effect on the Company's results of operations, cash flows and asset values.

Changing market conditions could negatively affect the market value of assets held in the Company's pension and other postretirement benefit plans and may increase the amount and accelerate the timing of required funding contributions.

The Company relies on financing sources and capital markets. Access to these markets may be adversely affected by factors beyond the Company's control. If the Company is unable to obtain cost effective financing in the future, the Company's ability to execute its business plans, make capital expenditures or pursue acquisitions that the Company may otherwise rely on for future growth could be impaired. As a result, the market value of the Company's common stock may be adversely affected. If the Company issues a substantial amount of common stock it could have a dilutive effect on its existing shareholders.

The Company relies on access to short-term borrowings, including the issuance of commercial paper, long-term capital markets and asset sales as sources of liquidity for capital requirements not satisfied by its cash flow from operations. If the Company is not able to access capital at competitive rates, the ability to implement its business plans may be adversely affected. Market disruptions or a downgrade of the Company's credit ratings may increase the cost of borrowing or adversely affect its ability to access one or more financial markets. Such disruptions could include:

- A significant economic downturn
- The financial distress of unrelated industry leaders in the same line of business
- Deterioration in capital market conditions
- Turmoil in the financial services industry
- Volatility in commodity prices
- Terrorist attacks

Part I

- Cyberattacks

Economic turmoil, market disruptions and volatility in the securities trading markets, as well as other factors including changes in the Company's results of operations, financial position and prospects, may adversely affect the market price of the Company's common stock.

The issuance of a substantial amount of the Company's common stock, whether issued in connection with an acquisition or otherwise, or the perception that such an issuance could occur, may adversely affect the market price of the Company's common stock.

The Company is exposed to credit risk and the risk of loss resulting from the nonpayment and/or nonperformance by the Company's customers and counterparties.

If the Company's customers or counterparties were to experience financial difficulties or file for bankruptcy, the Company could experience difficulty in collecting receivables. The nonpayment and/or nonperformance by the Company's customers and counterparties could have a negative impact on the Company's results of operations and cash flows.

The backlogs at the Company's construction materials and contracting and construction services businesses are subject to delay or cancellation and may not be realized.

Backlog consists of the uncompleted portion of services to be performed under job-specific contracts. Contracts are subject to delay, default or cancellation and the contracts in the Company's backlog are subject to changes in the scope of services to be provided as well as adjustments to the costs relating to the applicable contracts. Backlog may also be affected by project delays or cancellations resulting from weather conditions, external market factors and economic factors beyond the Company's control. Accordingly, there is no assurance that backlog will be realized.

Environmental and Regulatory Risks

The Company's operations are subject to environmental laws and regulations that may increase costs of operations, impact or limit business plans, or expose the Company to environmental liabilities.

The Company is subject to environmental laws and regulations affecting many aspects of its operations, including laws and regulations regarding air and water quality, waste management and other environmental considerations. These laws and regulations can increase capital, operating and other costs, cause delays as a result of litigation and administrative proceedings, and create compliance, remediation, containment, monitoring and reporting obligations, particularly relating to electric generation and natural gas gathering, transmission and storage operations. These laws and regulations generally require the Company to obtain and comply with a variety of environmental licenses, permits, inspections and other approvals. Although the Company strives to comply with all applicable environmental laws and regulations, public and private entities and private individuals may interpret the Company's legal or regulatory requirements differently and seek injunctive relief or other remedies against the Company. The Company cannot predict the outcome, financial or operational, of any such litigation or administrative proceedings.

Existing environmental laws and regulations may be revised and new laws and regulations seeking to protect the environment may be adopted or become applicable to the Company. These laws and regulations could require the Company to limit the use or output of certain facilities, restrict the use of certain fuels, retire and replace certain facilities, install pollution controls, remediate environmental impacts, remove or reduce environmental hazards, or forego or limit the development of resources. Revised or new laws and regulations that increase compliance costs or restrict operations, particularly if costs are not fully recoverable from customers, could have a material adverse effect on the Company's results of operations and cash flows.

On April 17, 2015, the EPA published a rule, under the RCRA, for coal combustion residuals that regulates coal ash as a solid waste and not a hazardous waste. The rule requires ground water and location restriction evaluations to be conducted by October 2017 at ash impoundments and landfills not located at coal mines. In 2015, one ash impoundment at Lewis & Clark Station was replaced with a new concrete basin. Additional site and groundwater analyses may identify the need to upgrade or close additional impoundments or the Company may need to install replacement ash management systems. The cost of replacement ash impoundments or landfills may be material. If these costs are not fully recoverable from customers, they could have a material adverse effect on the Company's results of operations and cash flows.

On August 15, 2014, the EPA published a rule under Section 316(b) of the Clean Water Act, establishing requirements for water intake structures at existing steam electric generating facilities. The purpose of the rule is to reduce impingement and entrainment of fish and other aquatic organisms at cooling water intake structures. The majority of the Company's electric generating facilities are either not subject to the rule or have completed studies that project compliance expenditures are not material. The Lewis & Clark Station will complete a study that will be submitted to the Montana DEQ by July 31, 2019, to be used in determining any required controls. It is unknown at this time

what controls may be required at this facility or if compliance costs will be material. The installation schedule for any required controls would be established with the permitting agency after the study is completed.

Initiatives to reduce GHG emissions could adversely impact the Company's operations.

Concern that GHG emissions are contributing to global climate change has led to international, federal and state legislative and regulatory proposals to reduce or mitigate the effects of GHG emissions. The Company's primary GHG emission is carbon dioxide from fossil fuels combustion at Montana-Dakota's electric generating facilities, particularly its coal-fired facilities. Approximately 50 percent of Montana-Dakota's owned generating capacity and approximately 75 percent of the electricity it generated in 2016 was from coal-fired facilities.

On October 23, 2015, the EPA published the Clean Power Plan rule that requires existing fossil fuel-fired electric generating facilities to reduce carbon dioxide emissions. On February 9, 2016, however, the United States Supreme Court granted an application for a stay of the Clean Power Plan pending disposition of the applicants' petition for review in the D.C. Circuit Court and disposition of the applicants' petition for a writ of certiorari if such a writ is sought. As published, the rule required that by September 6, 2016, states submit to the EPA either a request for a two-year extension to submit a final state plan or a final plan demonstrating how emissions reductions will be achieved including emission limits in the form of an annual emission cap or an emission rate that will be applied to each fossil fuel-fired electric generating facility within the state starting in 2022. Emissions limits become more stringent from 2022 to 2030, with the 2030 emission limits applying thereafter. It is unknown at this time what each state will require for emissions limits or reductions from each of Montana-Dakota's owned and jointly owned fossil fuel-fired electric generating units. Compliance costs will become clearer as final state plans are submitted to the EPA. The effective date and compliance dates in the rule are expected to be addressed in a future decision made by the United States Supreme Court.

On January 14, 2015, the federal government of the United States announced a goal to reduce methane emissions from the oil and natural gas industry by 40 percent to 45 percent below 2012 levels by 2025. On June 3, 2016, the EPA published a rule updating new source performance standards for the oil and natural gas industry. The rule builds on 2012 requirements to reduce volatile organic compound emissions from oil and natural gas sources by establishing requirements to reduce methane emissions from previously regulated sources, as well as adding volatile organic compound and methane requirements for sources previously not covered by the rule. The rule impacts new and modified natural gas gathering and boosting stations and transmission and storage compressor stations. WBI Energy is developing implementation plans for complying with the rule. In addition, on March 10, 2016, the EPA announced plans to reduce emissions from the oil and natural gas industry by moving to regulate emissions from existing sources. On November 10, 2016, the EPA issued an Information Collection Request to gather information on existing sources of methane emissions, technologies to reduce emissions and the costs of those technologies in the oil and natural gas industry. Several companies, including WBI Energy, were selected to respond to the Information Collection Request. The information collected will be used to develop comprehensive regulations to reduce methane emissions from existing sources. It is unknown at this time how the Company will be impacted or if compliance costs will be material.

On September 15, 2016, the Washington DOE issued a Clean Air rule that requires carbon dioxide emission reductions from various industries in the state, including emissions from the combustion of natural gas supplied to end-use customers by natural gas distribution companies, such as Cascade. In 2017, the rule requires Cascade to hold carbon dioxide emissions to a baseline, equal to the average emissions in 2012 to 2016. Beginning in 2018, annual carbon dioxide emissions are reduced by an additional 1.7 percent of the baseline from the previous year's emissions. Compliance for natural gas suppliers is to be achieved through purchasing emissions credits from projects located within the state of Washington and, to a limited and declining extent, out-of-state allowances. Purchasing emissions credits and allowances will increase operating costs for Cascade. If Cascade is not able to receive timely and full recovery of compliance costs from its customers, such costs could adversely impact the results of its operations. On September 27, 2016 and September 30, 2016, Cascade and three other natural gas distribution utility companies jointly filed complaints in the United States District Court for the Eastern District of Washington and the Thurston County Superior Court, respectively, asking the courts to deem the rule invalid. The companies assert that the Washington DOE undertook this rulemaking without the requisite statutory authority. The Thurston County Superior Court is scheduled to hear oral arguments on April 14, 2017, while litigation in the United States District Court for the Eastern District of Washington has been held in abeyance until there is a ruling in the Thurston County Superior Court.

Additional treaties, legislation or regulations to reduce GHG emissions may be adopted that affect the Company's utility operations by requiring additional energy conservation efforts or renewable energy sources, as well as other mandates that could significantly increase capital expenditures and operating costs or reduce demand for the Company's utility services. If the Company's utility operations do not receive timely and full recovery of GHG emission compliance costs from customers, then such costs could adversely impact the results of its operations and cash flows.

The Company monitors, analyzes and reports GHG emissions from its other operations as required by applicable laws and regulations. The Company will continue to monitor GHG regulations and their potential impact on operations.

Part I

Due to the uncertain availability of technologies to control GHG emissions and the unknown obligations that potential GHG emission legislation or regulations may create, the Company cannot determine the potential financial impact on its operations.

The Company is subject to government regulations that may delay and/or have a negative impact on its business and its results of operations and cash flows. Statutory and regulatory requirements also may limit another party's ability to acquire the Company or impose conditions on an acquisition of or by the Company.

The Company is subject to regulation or governmental actions by federal, state and local regulatory agencies with respect to, among other things, allowed rates of return and recovery of investment and cost, financing, rate structures, health care coverage and cost, taxes, franchises and recovery of purchased power and purchased gas costs. These governmental regulations significantly influence the Company's operating environment and may affect its ability to recover costs from its customers. The Company is unable to predict the impact on operating results from the future regulatory activities of any of these agencies. Changes in regulations or the imposition of additional regulations could have an adverse impact on the Company's results of operations and cash flows. Approval from a number of federal and state regulatory agencies would need to be obtained by any potential acquirer of the Company as well as for acquisitions by the Company. The approval process could be lengthy and the outcome uncertain.

The Company's electric and natural gas transmission and distribution operations involve risks that may result in accidents. These events and pipeline safety regulation costs could adversely affect the Company's business and its results of operations and cash flows.

The Company's electric and natural gas transmission and distribution activities include a variety of operating risks, such as leaks, explosions and mechanical problems, which could result in loss of human life, personal injury, property damage, environmental pollution, impairment of operations and substantial losses. The Company maintains insurance against some, but not all, of these risks and losses. The occurrence of these losses not fully covered by insurance could have a material effect on the Company's financial position, results of operations and cash flows.

Additionally, the operating or other costs that may be required to comply with current pipeline safety regulations and potential new regulations under various agencies could be significant. The regulations require verification of pipeline infrastructure records by pipeline owners and operators to confirm the maximum allowable operating pressure of certain lines. Increased emphasis on pipeline safety issues and increased regulatory scrutiny may result in penalties and higher costs of operations. If these costs are not fully recoverable from customers, they could have a material adverse effect on the Company's results of operations and cash flows.

Other Risks

Weather conditions can adversely affect the Company's operations, revenues and cash flows.

The Company's results of operations can be affected by changes in the weather. Weather conditions influence the demand for electricity and natural gas, affect the price of energy commodities, affect the ability to perform services at the construction materials and contracting and construction services businesses and affect ongoing operation and maintenance and construction activities for the pipeline and midstream business. In addition, severe weather can be destructive, causing outages, and/or property damage, which could require additional costs to be incurred. As a result, adverse weather conditions could negatively affect the Company's results of operations, financial position and cash flows.

Competition exists in all of the Company's businesses.

All of the Company's businesses are subject to competition. Construction services' competition is based primarily on price and reputation for quality, safety and reliability. Construction materials products are marketed under highly competitive conditions and are subject to such competitive forces as price, service, delivery time and proximity to the customer. The electric utility and natural gas industries also are experiencing increased competitive pressures as a result of consumer demands, technological advances and other factors. The pipeline and midstream business competes with several pipelines for access to natural gas supplies and gathering, transportation and storage business. Competition could negatively affect the Company's results of operations, financial position and cash flows.

The Company could be subject to limitations on its ability to pay dividends.

The Company depends on earnings from its divisions and dividends from its subsidiaries to pay dividends on its common stock. Regulatory, contractual and legal limitations, as well as capital requirements and the Company's financial performance or cash flows, could limit the earnings of the Company's divisions and subsidiaries which, in turn, could restrict the Company's ability to pay dividends on its common stock and adversely affect the Company's stock price.

Costs related to obligations under MEPPs could have a material negative effect on the Company's results of operations and cash flows.

Various operating subsidiaries of the Company participate in approximately 75 MEPPs for employees represented by certain unions. The Company is required to make contributions to these plans in amounts established under numerous collective bargaining agreements between the operating subsidiaries and those unions.

The Company may be obligated to increase its contributions to underfunded plans that are classified as being in endangered, seriously endangered or critical status as defined by the Pension Protection Act of 2006. Plans classified as being in one of these statuses are required to adopt RPs or FIPs to improve their funded status through increased contributions, reduced benefits or a combination of the two. Based on available information, the Company believes that approximately 35 percent of the MEPPs to which it contributes are currently in endangered, seriously endangered or critical status.

The Company may also be required to increase its contributions to MEPPs if the other participating employers in such plans withdraw from the plans and are not able to contribute amounts sufficient to fund the unfunded liabilities associated with their participants in the plans. The amount and timing of any increase in the Company's required contributions to MEPPs may also depend upon one or more factors including the outcome of collective bargaining, actions taken by trustees who manage the plans, actions taken by the plans' other participating employers, the industry for which contributions are made, future determinations that additional plans reach endangered, seriously endangered or critical status, government regulations and the actual return on assets held in the plans, among others. The Company may experience increased operating expenses as a result of the required contributions to MEPPs, which may have a material adverse effect on the Company's results of operations, financial position or cash flows.

In addition, pursuant to ERISA, as amended by MPPAA, the Company could incur a partial or complete withdrawal liability upon withdrawing from a plan, exiting a market in which it does business with a union workforce or upon termination of a plan to the extent these plans are underfunded. The Company could also incur additional withdrawal liability if its withdrawal from a plan is determined by that plan to be part of a mass withdrawal.

The Company's operations may be negatively impacted by cyberattacks or acts of terrorism.

The Company operates in industries that require continual operation of sophisticated information technology systems and network infrastructure. While the Company has developed procedures and processes that are designed to strengthen and protect these systems, they may be vulnerable to failures or unauthorized access due to hacking, theft, sabotage, viruses, acts of terrorism, acts of war or other causes. If the technology systems were to fail or be breached and these systems were not recovered in a timely manner, the Company's operational systems and infrastructure, such as the Company's electric generation, transmission and distribution facilities and its natural gas storage and pipeline systems, may be unable to fulfill critical business functions, including an inability to generate or distribute some part of our energy services and other products to customers. Such disruption could result in decreased revenues and/or significant remediation costs which could have a material adverse effect on the Company's results of operations, financial position and cash flows. Additionally, because electric generation and transmission systems and natural gas pipelines are part of an interconnected system with other operators, a disruption elsewhere in the system could negatively impact the Company's business.

The Company's business requires access to sensitive customer, employee and Company data in the ordinary course of business. Despite the Company's implementation of security measures, a failure or breach of a security system could compromise sensitive data. Such an event could result in negative publicity and reputational harm, remediation costs and possible legal claims and fines which could adversely affect the Company's financial results. The Company's third-party service providers that perform critical business functions or have access to sensitive information may also be vulnerable to security breaches and other risks that could have an adverse effect on the Company.

The Company may be subject to potential material liabilities relating to the past sale of assets or businesses, primarily arising from events prior to sale.

The Company previously sold its oil and natural gas assets and its membership interests in Dakota Prairie Refining. The Company may be subject to potential liabilities, either directly or through indemnification of the buyers or others, relating to these transactions or other sales, primarily arising from events prior to the sale, or from breaches of any representations, warranties or covenants in the purchase and sale agreements.

Part I

Other factors that could impact the Company's businesses.

The following are other factors that should be considered for a better understanding of the financial condition of the Company. These other factors may impact the Company's financial results in future periods.

- Acquisition, disposal and impairments of assets or facilities
- Changes in operation, performance and construction of plant facilities or other assets
- Changes in present or prospective generation
- The ability to obtain adequate and timely cost recovery for the Company's regulated operations through regulatory proceedings
- The availability of economic expansion or development opportunities
- Population growth rates and demographic patterns
- Market demand for, available supplies of, and/or costs of, energy- and construction-related products and services
- The cyclical nature of large construction projects at certain operations
- Changes in tax rates, policies or tax reform
- Unanticipated project delays or changes in project costs, including related energy costs
- Unanticipated changes in operating expenses or capital expenditures
- Labor negotiations or disputes
- Inability of the contract counterparties to meet their contractual obligations
- Changes in accounting principles and/or the application of such principles to the Company
- Changes in technology
- Changes in legal or regulatory proceedings
- The ability to effectively integrate the operations and the internal controls of acquired companies
- The ability to attract and retain skilled labor and key personnel
- Increases in employee and retiree benefit costs and funding requirements

Item 1B. Unresolved Staff Comments

The Company has no unresolved comments with the SEC.

Item 3. Legal Proceedings

For information regarding legal proceedings, see Item 8 - Note 17, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

For information regarding mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K, see Exhibit 95 to this Form 10-K, which is incorporated herein by reference.

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is listed on the New York Stock Exchange under the symbol "MDU." The price range of the Company's common stock as reported by The Wall Street Journal composite tape during 2016 and 2015 and dividends declared thereon were as follows:

	Common Stock Price (High)	Common Stock Price (Low)	Common Stock Dividends Declared Per Share
2016			
First quarter	\$19.55	\$15.57	\$.1875
Second quarter	24.01	18.70	.1875
Third quarter	25.79	22.47	.1875
Fourth quarter	29.92	24.49	.1925
			\$.7550
2015			
First quarter	\$24.51	\$20.01	\$.1825
Second quarter	23.12	19.22	.1825
Third quarter	19.73	16.15	.1825
Fourth quarter	19.66	16.26	.1875
			\$.7350

As of December 31, 2016, the Company's common stock was held by approximately 12,400 stockholders of record.

The Company depends on earnings from its divisions and dividends from its subsidiaries to pay dividends on common stock. The declaration and payment of dividends is at the sole discretion of the board of directors, subject to limitations imposed by the Company's credit agreements, federal and state laws, and applicable regulatory limitations. For more information on factors that may limit the Company's ability to pay dividends, see Item 8 - Note 9.

The following table includes information with respect to the Company's purchase of equity securities:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
October 1 through October 31, 2016	—			
November 1 through November 30, 2016	34,974	\$28.30		
December 1 through December 31, 2016	2,244	28.96		
Total	37,218			

(1) Represents shares of common stock purchased on the open market in connection with annual stock grants made to the Company's non-employee directors and for those directors who elected to receive additional shares of common stock in lieu of a portion of their cash retainer.

(2) Not applicable. The Company does not currently have in place any publicly announced plans or programs to purchase equity securities.

Part II

Item 6. Selected Financial Data

	2016	2015	2014	2013	2012	2011
Selected Financial Data						
Operating revenues (000's):						
Electric	\$ 322,356	\$ 280,615	\$ 277,874	\$ 257,260	\$ 236,895	\$ 225,468
Natural gas distribution	766,115	817,419	921,986	851,945	754,848	907,400
Pipeline and midstream	141,602	154,904	157,292	144,568	142,610	152,972
Construction materials and contracting	1,874,270	1,904,282	1,765,330	1,712,137	1,617,425	1,510,010
Construction services	1,073,272	926,427	1,119,529	1,039,839	938,558	854,389
Other	8,643	9,191	9,364	9,620	10,370	11,446
Intersegment eliminations	(57,430)	(78,786)	(136,302)	(95,201)	(74,595)	(68,482)
	\$ 4,128,828	\$ 4,014,052	\$ 4,115,073	\$ 3,920,168	\$ 3,626,111	\$ 3,593,203
Operating income (loss) (000's):						
Electric	\$ 68,497	\$ 57,955	\$ 61,331	\$ 54,274	\$ 49,852	\$ 49,096
Natural gas distribution	65,014	53,810	65,633	78,829	67,579	82,856
Pipeline and midstream	43,374	29,988	46,713	20,896	49,139	45,365
Construction materials and contracting	178,719	146,026	86,462	93,629	57,864	51,092
Construction services	53,705	43,376	82,309	85,246	66,531	39,144
Other	(189)	(8,438)	(5,366)	(4,384)	(5,325)	(7,079)
Intersegment eliminations	—	(2,942)	(9,900)	(7,176)	—	—
	\$ 409,120	\$ 319,775	\$ 327,182	\$ 321,314	\$ 285,640	\$ 260,474
Earnings (loss) on common stock (000's):						
Electric	\$ 42,222	\$ 35,914	\$ 36,731	\$ 34,837	\$ 30,634	\$ 29,258
Natural gas distribution	27,102	23,607	30,484	37,656	29,409	38,398
Pipeline and midstream	23,435	13,250	24,666	7,701	26,588	23,082
Construction materials and contracting	102,687	89,096	51,510	50,946	32,420	26,430
Construction services	33,945	23,762	54,432	52,213	38,429	21,627
Other	(3,231)	(14,941)	(7,386)	(10,776)	(7,209)	(5,918)
Intersegment eliminations	6,251	5,016	(6,095)	(4,307)	—	—
Earnings on common stock before income (loss) from discontinued operations	232,411	175,704	184,342	168,270	150,271	132,877
Income (loss) from discontinued operations, net of tax*	(300,354)	(834,080)	109,311	109,615	(151,710)	79,464
Loss from discontinued operations attributable to noncontrolling interest	(131,691)	(35,256)	(3,895)	(363)	—	—
	\$ 63,748	\$ (623,120)	\$ 297,548	\$ 278,248	\$ (1,439)	\$ 212,341
Earnings (loss) per common share before discontinued operations - diluted						
	\$ 1.19	\$.90	\$.96	\$.89	\$.80	\$.70
Discontinued operations attributable to the Company, net of tax						
	(.86)	(4.10)	.59	.58	(.81)	.42
	\$.33	\$ (3.20)	\$ 1.55	\$ 1.47	\$ (.01)	\$ 1.12
Common Stock Statistics						
Weighted average common shares outstanding - diluted (000's)	195,618	194,986	192,587	189,693	188,826	188,905
Dividends declared per common share	\$.7550	\$.7350	\$.7150	\$.6950	\$.6750	\$.6550
Book value per common share	\$ 11.78	\$ 12.83	\$ 16.66	\$ 15.01	\$ 13.95	\$ 14.62
Market price per common share (year end)	\$ 28.77	\$ 18.32	\$ 23.50	\$ 30.55	\$ 21.24	\$ 21.46
Market price ratios:						
Dividend payout**	63%	82%	74%	78%	84%	94%
Yield	2.7%	4.1%	3.1%	2.3%	3.2%	3.1%
Market value as a percent of book value	244.2%	142.8%	141.1%	203.5%	152.3%	146.8%

* Reflects oil and natural gas properties noncash write-downs of \$315.3 million (after tax) and \$246.8 million (after tax) in 2015 and 2012, respectively, and fair value impairments of assets held for sale of \$157.8 million (after tax) and \$475.4 million (after tax) in 2016 and 2015, respectively.

** Based on continuing operations.

Item 6. Selected Financial Data (continued)

	2016	2015	2014	2013	2012	2011
General						
Total assets (000's)	\$ 6,284,467	\$ 6,565,154	\$ 7,805,405	\$ 7,043,365	\$ 6,675,609	\$ 6,539,676
Total long-term debt (000's)	\$ 1,790,159	\$ 1,796,163	\$ 2,016,198	\$ 1,773,050	\$ 1,738,833	\$ 1,418,693
Capitalization ratios:						
Total equity	56%	58%	62%	62%	60%	66%
Total debt	44	42	38	38	40	34
	100%	100%	100%	100%	100%	100%
Electric						
Retail sales (thousand kWh)	3,258,537	3,316,017	3,308,358	3,173,086	2,996,528	2,878,852
Electric system summer and firm purchase contract ZRCs (Interconnected system)	559.7	547.3	584.0	583.5	552.8	572.8
Electric system peak demand obligation, including firm purchase contracts, planning reserve margin requirement (Interconnected system)	559.7	547.3	522.4	508.3	550.7	524.2
All-time demand peak - kW (Interconnected system)	611,542	611,542	582,083	573,587	573,587	535,761
Electricity produced (thousand kWh)	2,626,763	1,898,160	2,519,938	2,430,001	2,299,686	2,488,337
Electricity purchased (thousand kWh)	904,702	1,658,002	1,010,422	971,261	870,516	645,567
Average cost of fuel and purchased power per kWh	\$.021	\$.024	\$.025	\$.025	\$.023	\$.021
Natural Gas Distribution						
Sales (Mdk)	99,296	95,559	104,297	108,260	93,810	103,237
Transportation (Mdk)	147,592	154,225	145,941	149,490	132,010	124,227
Degree days (% of normal)						
Montana-Dakota/Great Plains	89%	88%	103%	105%	84%	101%
Cascade	87%	83%	89%	98%	96%	103%
Intermountain	96%	89%	95%	110%	91%	107%
Pipeline and Midstream						
Transportation (Mdk)	285,254	290,494	233,483	178,598	137,720	113,217
Gathering (Mdk)	20,049	33,441	38,372	40,737	47,084	66,500
Customer natural gas storage balance (Mdk)	26,403	16,600	14,885	26,693	43,731	36,021
Construction Materials and Contracting						
Sales (000's):						
Aggregates (tons)	27,580	26,959	25,827	24,713	23,285	24,736
Asphalt (tons)	7,203	6,705	6,070	6,228	5,988	6,709
Ready-mixed concrete (cubic yards)	3,655	3,592	3,460	3,223	3,157	2,864
Aggregate reserves (000's tons)	989,084	1,022,513	1,061,156	1,083,376	1,088,236	1,088,833

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company's strategy is to apply its expertise in the regulated energy delivery and construction materials and services businesses to increase market share, increase profitability and enhance shareholder 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
- The development of projects that are accretive to earnings per share and return on invested capital
- Divestiture of certain assets to fund capital growth projects throughout the Company

The Company has capabilities to fund its growth and operations through various sources, including internally generated funds, commercial paper facilities, revolving credit facilities, the issuance from time to time of debt and equity securities and asset sales. For more information on the Company's capital expenditures, see Liquidity and Capital Commitments.

The key strategies for each of the Company's business segments and certain related business challenges are summarized below. For a summary of the Company's businesses, see Item 8 - Note 13.

Key Strategies and Challenges

Electric and Natural Gas Distribution

Strategy Provide safe and reliable competitively priced energy and related services to customers. The electric and natural gas distribution segments continually seek opportunities to retain, grow and expand their customer base through extensions of existing operations, including building and upgrading electric generation and transmission and natural gas systems, and through selected acquisitions of companies and properties at prices that will provide stable cash flows and an opportunity for the Company to earn a competitive return on investment.

Challenges Both segments are subject to extensive regulation in the state jurisdictions where they conduct operations with respect to costs and timely recovery and permitted returns on investment as well as subject to certain operational, system integrity and environmental regulations. These regulations can require substantial investment to upgrade facilities. The ability of these segments to grow through acquisitions is subject to significant competition. In addition, the ability of both segments to grow service territory and customer base is affected by the economic environment of the markets served and competition from other energy providers and fuels. The construction of any new electric generating facilities, transmission lines and other service facilities is subject to increasing cost and lead time, extensive permitting procedures, and federal and state legislative and regulatory initiatives, which will necessitate increases in electric energy prices. Legislative and regulatory initiatives to increase renewable energy resources and reduce GHG emissions could impact the price and demand for electricity and natural gas and could result in the retirement of certain electric generating facilities before they are fully depreciated.

Pipeline and Midstream

Strategy Utilize the segment's existing expertise in energy infrastructure and related services to increase market share and profitability through optimization of existing operations, internal growth, and investments in and acquisitions of energy-related assets and companies both in its current operating areas and beyond its Rocky Mountain and northern Great Plains base. Incremental and new growth opportunities include: access to new energy sources for storage, gathering and transportation services; expansion of existing storage, gathering and transmission facilities; incremental pipeline projects which expand pipeline capacity; and expansion of the pipeline and midstream business to include liquid pipelines and processing activities.

Challenges Challenges for this segment include: energy price volatility; basis differentials; environmental and regulatory requirements; securing permits and easements; recruitment and retention of a skilled workforce; and competition from other pipeline and midstream companies.

Construction Materials and Contracting

Strategy Focus on high-growth strategic markets located near major transportation corridors and desirable mid-sized metropolitan areas; strengthen long-term, strategic aggregate reserve position through purchase and/or lease opportunities; enhance profitability through cost containment, margin discipline and vertical integration of the segment's operations; develop and recruit talented employees; and continue growth through organic and acquisition opportunities. Vertical integration allows the segment to manage operations from aggregate mining to final lay-down of concrete and asphalt, with control of and access to permitted aggregate reserves being significant. A key element of the Company's long-term strategy for this business is to further expand its market presence in the higher-margin materials business (rock, sand, gravel, liquid asphalt, asphalt concrete, ready-mixed concrete and related products), complementing and expanding on the Company's expertise.

Challenges Recruitment and retention of key personnel and volatility in the cost of raw materials such as diesel, gasoline, liquid asphalt, cement and steel, are ongoing challenges. This business unit expects to continue cost containment efforts, positioning its operations for the resurgence in the private market, while continuing the emphasis on industrial, energy and public works projects.

Construction Services

Strategy Provide a superior return on investment by: building new and strengthening existing customer relationships; effectively controlling costs; retaining, developing and recruiting talented employees; growing through organic and acquisition opportunities; and focusing efforts on projects that will permit higher margins while properly managing risk.

Challenges This segment operates in highly competitive markets with many jobs subject to competitive bidding. Maintenance of effective operational and cost controls, retention of key personnel, managing through downturns in the economy and effective management of working capital are ongoing challenges.

For more information on the risks and challenges the Company faces as it pursues its growth strategies and other factors that should be considered for a better understanding of the Company's financial condition, see Item 1A - Risk Factors. For more information on key growth strategies, projections and certain assumptions, see Prospective Information. For information pertinent to various commitments and contingencies, see Item 8 - Notes to Consolidated Financial Statements.

Earnings Overview

The following table summarizes the contribution to consolidated earnings (loss) by each of the Company's businesses.

Years ended December 31,	2016	2015	2014
	(Dollars in millions, where applicable)		
Electric	\$ 42.2	\$ 35.9	\$ 36.7
Natural gas distribution	27.1	23.6	30.5
Pipeline and midstream	23.4	13.3	24.7
Construction materials and contracting	102.7	89.1	51.5
Construction services	33.9	23.8	54.5
Other	(3.2)	(15.0)	(7.4)
Intersegment eliminations	6.3	5.0	(6.2)
Earnings before discontinued operations	232.4	175.7	184.3
Income (loss) from discontinued operations, net of tax	(300.4)	(834.1)	109.3
Loss from discontinued operations attributable to noncontrolling interest	(131.7)	(35.3)	(3.9)
Earnings (loss) on common stock	\$ 63.7	\$ (623.1)	\$ 297.5
Earnings (loss) per common share - basic:			
Earnings before discontinued operations	\$ 1.19	\$.90	\$.96
Discontinued operations, net of tax	(.86)	(4.10)	.59
Earnings (loss) per common share - basic	\$.33	\$ (3.20)	\$ 1.55
Earnings (loss) per common share - diluted:			
Earnings before discontinued operations	\$ 1.19	\$.90	\$.96
Discontinued operations, net of tax	(.86)	(4.10)	.59
Earnings (loss) per common share - diluted	\$.33	\$ (3.20)	\$ 1.55

2016 compared to 2015 The Company recognized consolidated earnings of \$63.7 million in 2016, compared to a consolidated loss of \$623.1 million in 2015. This increase was due to:

- Discontinued operations which reflect the absence in 2016 of fair value impairments of the exploration and production business's assets of \$475.4 million (after tax) and a noncash write-down of oil and natural gas properties of \$315.3 million (after tax) offset in part by a fair value impairment of the refining business of \$156.7 million (after tax) in 2016
- Higher construction margins and revenues and higher asphalt and aggregate volumes and margins at the construction materials and contracting business
- Other loss decreased primarily the result of lower operation and maintenance and interest expense due to the sales of the exploration and production and refining businesses
- Higher inside electrical workloads and margins in the Western region offset in part by lower equipment sales and rental margins at the construction services business

Part II

- Absence in 2016 of impairments of natural gas gathering assets of \$10.6 million (after tax) partially offset by a fair value impairment in 2016 of \$1.4 million (after tax) associated with the sale of Pronghorn at the pipeline and midstream business
- Increased electric retail sales margins, largely due to approved rate recovery, partially offset by higher operation and maintenance expense and higher depreciation, depletion and amortization expense at the electric business

2015 compared to 2014 The Company recognized a consolidated loss of \$623.1 million in 2015, compared to consolidated earnings of \$297.5 million in 2014. This decrease was due to:

- Discontinued operations which had fair value impairments of the exploration and production business's assets of \$475.4 million (after tax), a \$315.3 million after-tax noncash write-down of oil and natural gas properties, decreased average realized commodity prices and decreased production
- Lower workloads and margins in the Western region and lower equipment rental sales and margins at the construction services business
- Impairments of natural gas gathering assets of \$10.6 million (after tax) at the pipeline and midstream business
- Higher depreciation, depletion and amortization expense due to plant additions and lower natural gas sales volumes offset in part by natural gas retail rate increases at the natural gas distribution business

Partially offsetting these increases were higher earnings on all product lines at the construction materials and contracting business.

Financial and Operating Data

Following are key financial and operating data for each of the Company's businesses.

Electric

Years ended December 31,	2016	2015	2014
	(Dollars in millions, where applicable)		
Operating revenues	\$ 322.3	\$ 280.6	\$ 277.9
Operating expenses:			
Fuel and purchased power	75.5	86.2	89.3
Operation and maintenance	115.2	87.7	81.1
Depreciation, depletion and amortization	50.2	37.6	35.0
Taxes, other than income	12.9	11.1	11.1
	253.8	222.6	216.5
Operating income	68.5	58.0	61.4
Earnings	\$ 42.2	\$ 35.9	\$ 36.7
Retail sales (million kWh):			
Residential	1,132.5	1,173.9	1,225.3
Commercial	1,491.8	1,499.6	1,471.3
Industrial	544.2	550.3	520.4
Other	90.0	92.2	91.4
	3,258.5	3,316.0	3,308.4
Average cost of fuel and purchased power per kWh	\$.021	\$.024	\$.025

2016 compared to 2015 Electric earnings increased \$6.3 million (18 percent) compared to the prior year due to:

- Increased electric retail sales margins, largely due to approved final and interim rate increases reduced in part by decreased electric sales volumes of 2 percent, largely decreased residential customer volumes
- Favorable income tax changes, which includes \$10.1 million due to higher production tax credits

Partially offsetting these increases were:

- Higher operation and maintenance expense of \$17.1 million (after tax) primarily due to higher contract services and higher payroll-related costs
- Higher depreciation, depletion and amortization expense of \$7.8 million (after tax) due to increased property, plant and equipment balances
- Lower other income, which includes \$7.1 million (after tax) primarily related to AFUDC
- Higher interest expense, which includes \$4.4 million (after tax) largely the result of higher long-term debt

Certain of the higher operation and maintenance expense, higher depreciation, depletion and amortization expense and higher production tax credits in 2016, due to increased capital investments, are potentially recoverable and/or refundable through the rate recovery process. The previous table also reflects lower average cost of fuel and purchased power per kWh due to no fuel and purchased power costs associated with the Thunder Spirit Wind farm.

2015 compared to 2014 Electric earnings decreased \$800,000 (2 percent) compared to the prior year due to:

- Higher operation and maintenance expense, which includes \$4.3 million (after tax) largely related to higher contract services, primarily related to a planned outage at an electric generation station, and higher payroll and benefit-related costs
- Higher depreciation, depletion and amortization expense of \$1.6 million (after tax) due to increased property, plant and equipment balances
- Higher net interest expense, which includes \$1.1 million (after tax) due to higher long-term debt

Partially offsetting these decreases were:

- Increased electric retail sales margins, primarily due to rate recovery of new generation
- Higher other income, which includes \$3.5 million (after tax) primarily related to AFUDC

Natural Gas Distribution

Years ended December 31,	2016	2015	2014
	(Dollars in millions, where applicable)		
Operating revenues	\$ 766.1	\$ 817.4	\$ 922.0
Operating expenses:			
Purchased natural gas sold	431.5	499.0	603.2
Operation and maintenance	158.1	153.5	150.2
Depreciation, depletion and amortization	65.4	64.8	54.7
Taxes, other than income	46.1	46.3	48.3
	701.1	763.6	856.4
Operating income	65.0	53.8	65.6
Earnings	\$ 27.1	\$ 23.6	\$ 30.5
Volumes (MMdk)			
Sales:			
Residential	56.2	54.0	58.8
Commercial	38.9	37.6	41.0
Industrial	4.2	4.0	4.5
	99.3	95.6	104.3
Transportation:			
Commercial	1.8	1.8	1.9
Industrial	145.8	152.4	144.0
	147.6	154.2	145.9
Total throughput	246.9	249.8	250.2
Degree days (% of normal)*			
Montana-Dakota/Great Plains	89%	88%	103%
Cascade	87%	83%	89%
Intermountain	96%	89%	95%
Average cost of natural gas, including transportation, per dk	\$ 4.35	\$ 5.22	\$ 5.78

* Degree days are a measure of the daily temperature-related demand for energy for heating.

Part II

2016 compared to 2015 The natural gas distribution business experienced an increase in earnings of \$3.5 million (15 percent) compared to the prior year due to higher natural gas retail sales margins resulting from increased retail sales volumes of 4 percent to all customer classes due to customer growth and colder weather in certain regions, as well as final and interim rate increases, partially offset by higher operation and maintenance expense, which includes \$4.6 million (after tax) largely higher payroll-related costs, and higher depreciation, depletion and amortization expense from increased property, plant and equipment balances.

The previous table also includes lower nonutility project costs reflected in operation and maintenance expense, as well as the pass-through of lower natural gas prices which are reflected in the decrease in both sales revenue and purchased natural gas sold in 2016.

2015 compared to 2014 The natural gas distribution business experienced a decrease in earnings of \$6.9 million (23 percent) compared to the prior year due to:

- Higher depreciation, depletion and amortization expense of \$6.3 million (after tax), largely resulting from increased property, plant and equipment balances
- Lower natural gas sales margins, primarily lower retail sales volumes of 8 percent to all customer classes due to warmer weather than the prior year, partially offset by approved rate increases effective in 2015 and increased transportation volumes

The pass-through of lower natural gas prices is reflected in the decrease in both sales revenue and purchased natural gas sold in 2015.

Pipeline and Midstream

Years ended December 31,	2016	2015	2014
	(Dollars in millions)		
Operating revenues	\$ 141.6	\$ 154.9	\$ 157.3
Operating expenses:			
Operation and maintenance	61.4	84.7	68.0
Depreciation, depletion and amortization	24.9	28.0	29.8
Taxes, other than income	11.9	12.2	12.8
	98.2	124.9	110.6
Operating income	43.4	30.0	46.7
Earnings	\$ 23.4	\$ 13.3	\$ 24.7
Transportation volumes (MMdk)	285.3	290.5	233.5
Natural gas gathering volumes (MMdk)	20.0	33.4	38.4
Customer natural gas storage balance (MMdk):			
Beginning of period	16.6	14.9	26.7
Net injection (withdrawal)	9.8	1.7	(11.8)
End of period	26.4	16.6	14.9

2016 compared to 2015 Pipeline and midstream earnings increased \$10.1 million (77 percent) largely due to:

- Lower operation and maintenance expense, which includes \$13.6 million (after tax) largely due to the absence in 2016 of impairments of natural gas gathering assets of \$10.6 million (after tax), as discussed in Item 8 - Notes 1 and 5, lower payroll-related costs and lower material costs partially offset by a fair value impairment in 2016 of \$1.4 million (after tax) associated with the sale of Pronghorn, as discussed in Item 8 - Note 2
- Lower depreciation, depletion and amortization of \$1.9 million (after tax), largely due to the sale of certain non-strategic natural gas gathering assets in the fourth quarter of 2015
- Higher storage services earnings, primarily due to higher average interruptible storage balances
- Lower interest expense of \$1.2 million (after tax), primarily the result of lower debt interest rates and balances

Partially offsetting the earnings increase was lower gathering and processing earnings of \$8.0 million (after tax) resulting from lower natural gas gathering volumes, primarily due to the sale of certain non-strategic assets, as previously discussed, and lower oil gathering volumes, partially offset by higher oil gathering rates at Pronghorn.

2015 compared to 2014 Pipeline and midstream earnings decreased \$11.4 million (46 percent) largely due to:

- Impairments of natural gas gathering assets of \$10.6 million (after tax) included in operation and maintenance expense, as discussed in Item 8 - Notes 1 and 5
- Lower gathering and processing earnings of \$5.2 million (after tax), primarily lower processing prices and natural gas gathering volumes

- Lower storage services earnings, primarily due to lower interruptible storage withdrawal volumes and lower average balances

Partially offsetting the earnings decrease was higher earnings of \$5.7 million (after tax) due to higher transportation revenue, primarily resulting from higher rates due to a rate case settlement effective in May 2014, and increased volumes.

Construction Materials and Contracting

Years ended December 31,	2016	2015	2014
	(Dollars in millions)		
Operating revenues	\$ 1,874.3	\$ 1,904.3	\$ 1,765.3
Operating expenses:			
Operation and maintenance	1,595.4	1,652.3	1,571.5
Depreciation, depletion and amortization	58.4	65.9	68.6
Taxes, other than income	41.8	40.1	38.8
	1,695.6	1,758.3	1,678.9
Operating income	178.7	146.0	86.4
Earnings	\$ 102.7	\$ 89.1	\$ 51.5
Sales (000's):			
Aggregates (tons)	27,580	26,959	25,827
Asphalt (tons)	7,203	6,705	6,070
Ready-mixed concrete (cubic yards)	3,655	3,592	3,460

2016 compared to 2015 Earnings at the construction materials and contracting business increased \$13.6 million (15 percent) due to:

- Higher earnings of \$8.1 million (after tax) resulting from higher construction margins and revenues due to more available work in most regions
- A \$6.7 million (after tax) reduction in 2016 to a previously recorded MEPP withdrawal liability compared to an increase to a MEPP withdrawal liability of \$1.5 million (after tax) in 2015, as discussed in Item 8 - Note 14
- Higher earnings of \$2.9 million (after tax) resulting from higher asphalt volumes and margins, which includes lower asphalt oil and production costs
- Higher earnings of \$2.3 million (after tax) resulting from higher aggregate volumes and margins due to increased demand

Partially offsetting these increases were:

- Higher effective income tax rates
- Lower earnings of \$1.3 million (after tax) from other product lines

Lower diesel fuel costs contributed to higher earnings from all product lines.

2015 compared to 2014 Earnings at the construction materials and contracting business increased \$37.6 million (73 percent) due to:

- Higher earnings of \$9.1 million (after tax) resulting from higher ready-mixed concrete margins and volumes
- Higher earnings of \$7.2 million (after tax) resulting from higher asphalt margins and volumes, which includes lower asphalt oil costs
- An increase to a MEPP withdrawal liability of \$1.5 million (after tax) in 2015, compared to \$8.4 million (after tax) in 2014, as discussed in Item 8 - Note 14
- Higher earnings of \$6.1 million (after tax) resulting from higher construction revenues and margins including the effects of favorable weather
- Higher earnings of \$1.6 million (after tax) resulting from higher aggregate margins and volumes
- Higher earnings resulting from higher other product line margins and volumes

Partially offsetting these increases were higher selling, general and administrative expense of \$5.7 million (after tax), largely related to higher payroll-related and other costs.

Lower diesel fuel costs contributed to higher earnings from all product lines.

Part II

Construction Services

Years ended December 31,	2016	2015	2014
	(In millions)		
Operating revenues	\$ 1,073.3	\$ 926.4	\$ 1,119.5
Operating expenses:			
Operation and maintenance	965.3	838.5	990.7
Depreciation, depletion and amortization	15.3	13.4	12.9
Taxes, other than income	39.0	31.1	33.6
	1,019.6	883.0	1,037.2
Operating income	53.7	43.4	82.3
Earnings	\$ 33.9	\$ 23.8	\$ 54.5

2016 compared to 2015 Construction services earnings increased \$10.1 million (43 percent) largely due to:

- Higher earnings of \$15.8 million (after tax) in the Western region largely due to higher workloads and margins resulting from the successful completion of construction projects in certain markets, as well as lower labor costs due to increased efficiencies and lower workers' compensation claim costs
- Higher earnings of \$3.5 million (after tax) resulting from the sale of a non-strategic asset in 2015

These increases were partially offset by:

- Higher selling, general and administrative expense of \$4.0 million (after tax), primarily due to higher payroll and benefit-related costs and higher bad debt expense
- Lower equipment sales and rental margins due to decreased customer demand
- Lower earnings of \$1.6 million (after tax) in the Central region due to lower margins, largely the result of the loss on a project

2015 compared to 2014 Construction services earnings decreased \$30.7 million (56 percent) due to:

- Lower earnings of \$25.1 million (after tax) largely due to lower workloads and margins in the Western region resulting from substantial completion of significant projects in 2014, lower equipment sales and rental margins, lower margins in the Central region and lower electrical supply sales and margins
- The absence of the favorable resolution of certain income tax matters and higher income tax benefits in 2014

These decreases were partially offset by lower selling, general and administrative expense of \$3.0 million (after tax), largely related to lower payroll and benefit-related costs.

Other

Years ended December 31,	2016	2015	2014
	(In millions)		
Operating revenues	\$ 8.6	\$ 9.2	\$ 9.4
Operating expenses:			
Operation and maintenance	6.6	15.4	12.3
Depreciation, depletion and amortization	2.1	2.1	2.2
Taxes, other than income	.1	.1	.2
	8.8	17.6	14.7
Operating loss	(.2)	(8.4)	(5.3)
Loss	\$ (3.2)	\$ (15.0)	\$ (7.4)

Included in Other are general and administrative costs and interest expense previously allocated to the exploration and production and refining businesses that do not meet the criteria for income (loss) from discontinued operations.

2016 compared to 2015 Other loss decreased \$11.8 million compared to the prior year primarily due to lower operation and maintenance expense and interest expense previously allocated to the exploration and production business, due to the sale of that business which included the repayment of long-term debt. Also contributing to the decreased loss was lower operation and maintenance expense in 2016

due to the absence of a 2015 corporate asset impairment and the absence of a 2015 foreign currency translation loss including the effects of the sale of the Company's remaining interest in the Brazilian Transmission Lines.

2015 compared to 2014 Other loss increased \$7.6 million compared to the prior year primarily due to the absence of prior year income tax benefits; higher operation and maintenance expense, largely a corporate asset impairment; as well as a foreign currency translation loss including the effects of the sale of the Company's remaining interest in the Brazilian Transmission Lines.

Discontinued Operations

Years ended December 31,	2016	2015	2014
	(In millions)		
Income (loss) from discontinued operations before intercompany eliminations, net of tax	\$ (303.2)	\$ (829.9)	\$ 108.8
Intercompany eliminations*	2.8	(4.2)	.5
Income (loss) from discontinued operations, net of tax	(300.4)	(834.1)	109.3
Loss from discontinued operations attributable to noncontrolling interest	(131.7)	(35.3)	(3.9)
Income (loss) from discontinued operations attributable to the Company, net of tax	\$ (168.7)	\$ (798.8)	\$ 113.2

* Includes eliminations for the presentation of income tax adjustments between continuing and discontinued operations.

2016 compared to 2015 The loss from discontinued operations attributable to the Company was \$168.7 million compared to a loss of \$798.8 million in the prior year. The decreased loss is primarily due to the completion of the sales of Company's exploration and production and refining businesses. The decreased loss was largely the result of the absence in 2016 of a noncash write-down of oil and natural gas properties of \$315.3 million (after tax) and fair value impairments of the exploration and production business's assets held for sale of \$475.4 million (after tax), as discussed in Item 8 - Note 2, partially offset by a fair value impairment of the refining business of \$156.7 million (after tax) in 2016, as discussed in Item 8 - Note 2.

2015 compared to 2014 Discontinued operations attributable to the Company recognized a loss of \$798.8 million compared to income of \$113.2 million in the prior year. The decrease in income was primarily due to the marketing and sale of the Company's exploration and production business's assets. The decrease was largely the result of a noncash write-down of oil and natural gas properties of \$315.3 million (after tax) and fair value impairments of the exploration and production business's assets held for sale of \$475.4 million (after tax), as discussed in Item 8 - Note 2, as well as decreased average realized commodity prices and decreased production.

Intersegment Transactions

Amounts presented in the preceding tables will not agree with the Consolidated Statements of Income due to the Company's elimination of intersegment transactions. The amounts relating to these items are as follows:

Years ended December 31,	2016	2015	2014
	(In millions)		
Intersegment transactions:			
Operating revenues	\$ 57.4	\$ 78.8	\$ 136.3
Purchased natural gas sold	48.7	48.9	44.7
Operation and maintenance	8.7	26.9	81.7
Income from continuing operations*	(6.3)	(5.0)	6.2

* Includes eliminations for the presentation of income tax adjustments between continuing and discontinued operations.

For more information on intersegment eliminations, see Item 8 - Note 13.

Prospective Information

The following information highlights the key growth strategies, projections and certain assumptions for the Company and its subsidiaries and other matters for certain of the Company's businesses. Many of these highlighted points are "forward-looking statements." There is no assurance that the Company's projections, including estimates for growth and changes in earnings, will in fact be achieved. Please refer to assumptions contained in this section, as well as the various important factors listed in Item 1A - Risk Factors. Changes in such assumptions and factors could cause actual future results to differ materially from the Company's growth and earnings projections.

Part II

MDU Resources Group, Inc.

- The Company continually seeks opportunities to expand through organic growth opportunities and strategic acquisitions.

Electric and natural gas distribution

- The Company expects to grow its rate base by approximately 4 percent annually over the next five years on a compound basis. This growth projection is on a much larger base, having grown rate base at a record pace of 12 percent compounded annually over the past five-year period. The utility operations are spread across eight states where customer growth is expected to be higher than the national average. This customer growth, along with system upgrades and replacements needed to supply safe and reliable service, will require investments in new electric generation and transmission, and electric and natural gas distribution. Rate base at December 31, 2016, was \$1.9 billion.
- The Company expects its customer base to grow by 1.0 percent to 2.0 percent per year.
- In June 2016, the Company, along with a partner, began to build a 345-kilovolt transmission line from Ellendale, North Dakota, to Big Stone City, South Dakota, a distance of about 160 miles. The project has been approved as a MISO multivalued project. Approximately 97 percent of the necessary easements have been secured. The Company expects the project to be completed in 2019.
- The Company signed a 25-year agreement to purchase the power from a wind farm expansion in southwest North Dakota. The agreement also includes an option to buy the project at the close of construction. The expansion of the Thunder Spirit Wind farm will boost the combined production at the wind farm to approximately 150 MW of renewable energy and will increase the Company's nameplate generation portfolio from approximately 22 percent renewables to 27 percent. The original 107.5-MW Thunder Spirit Wind farm includes 43 turbines; it was purchased by the Company in December 2015. The expansion includes 13 to 16 turbines, depending on the turbine size selected. It is expected to be online in December 2018. If the Company buys the project, the capital will be incremental to the capital expenditures forecast. Construction costs for the project are estimated to be \$85 million.
- The Company is in the process of completing its 2017 integrated resource plan and is evaluating its future generation and power supply portfolio options, including a large-scale resource. The plan will be finalized and will be required to be filed by mid-2017. Future resource requirements identified in the plan could require investment that would be incremental to the capital expenditures forecast.
- The Company is involved with a number of pipeline projects to enhance the reliability and deliverability of its system.
- The Company is focused on organic growth, while monitoring potential merger and acquisition opportunities.
- The Company is evaluating the final Clean Power Plan rule published by the EPA in October 2015, which requires existing fossil fuel-fired electric generation facilities to reduce carbon dioxide emissions. It is unknown at this time what each state will require for emissions limits or reductions from each of the Company's owned and jointly owned fossil fuel-fired electric generating units. In February 2016, the United States Supreme Court granted an application for a stay of the Clean Power Plan pending the outcome of legal challenges. The Company has not included capital expenditures in 2017 through 2019 for the potential compliance requirements of the Clean Power Plan.
- Regulatory actions

Completed Cases:

Since January 1, 2015, the Company has finalized rate increases totaling \$56.8 million in annual revenue. This includes electric rate proceedings in Montana, North Dakota, South Dakota, Wyoming and before the FERC, and natural gas proceedings in Minnesota, Montana, North Dakota, Oregon, South Dakota, Washington and Wyoming. Cases recently completed were:

- On April 29, 2016, the Company filed an application with the OPUC for a natural gas rate increase, as discussed in Item 8 - Note 16.
- On June 10, 2016, the Company filed an application for an increase in electric rates with the WYPSC, as discussed in Item 8 - Note 16.
- On December 2, 2016, the Company filed an application with the MTPSC requesting authority to implement gas and electric tax tracking adjustments, as discussed in Item 8 - Note 16.
- On September 1, 2016, and as amended on January 10, 2017, the Company submitted an update to its transmission formula rate under the MISO tariff, as discussed in Item 8 - Note 16.

Pending Cases:

The Company is requesting rate increases totaling \$55.4 million in annual revenue, which includes \$43.6 million in implemented interim rates. Cases pending are:

- On October 26, 2015, the Company filed an application with the NDPSC requesting a renewable resource cost adjustment rider, as discussed in Item 8 - Note 16.
- On October 26, 2015, the Company filed an application with the NDPSC for an update to the electric generation resource recovery rider, as discussed in Item 8 - Note 16.

- On November 25, 2015, the Company filed an application with the NDPSC for an update of its transmission cost adjustment rider for recovery of MISO-related charges and two transmission projects in North Dakota, as discussed in Item 8 - Note 16.
- On August 12, 2016, the Company filed an application with the IPUC for a natural gas rate increase, as discussed in Item 8 - Note 16.
- On October 14, 2016, the Company filed an application with the NDPSC for an electric rate increase, as discussed in Item 8 - Note 16.
- On December 2, 2016, the Company filed an application with the MTPSC requesting authority to implement gas and electric tax tracking adjustments, as previously discussed in the completed cases and in Item 8 - Note 16.
- On December 21, 2016, the Company filed an application with the MNPUC requesting authority to implement a gas utility infrastructure cost tariff, as discussed in Item 8 - Note 16.

Pipeline and midstream

- In September 2016, the Company secured sufficient capacity commitments and started survey work on a 38-mile pipeline that will deliver natural gas supply to eastern North Dakota and far western Minnesota. The Valley Expansion project will connect the Viking Gas Transmission Company pipeline near Felton, Minnesota, to the Company's existing pipeline near Mapleton, North Dakota. Cost of the expansion is estimated at \$55 million to \$60 million. The project, which is designed to transport 40 MMcf of natural gas per day, is under the jurisdiction of the FERC. In October 2016, the Company received FERC approval on its pre-filing for the Valley Expansion project. With minor enhancements, the pipeline will be able to transport significantly more volume if required, based on capacity requested or as needed in the future as the region's demand grows. Following receipt of necessary permits and regulatory approvals, construction is expected to begin in early 2018 with completion expected in late 2018.
- The Company signed agreements to complete expansion projects, including the Charbonneau and Line Section 25 expansion project. The Charbonneau and Line Section 25 expansion project will include a new compression station as well as other compression modifications and is expected to be in service in the second quarter of 2017. In addition, the Company completed the North Badlands project, which includes a 4-mile loop of the Garden Creek pipeline segment and other ancillary facilities, and it was placed in service on August 1, 2016. The Northwest North Dakota project, which includes modification of existing compression, a new compression unit and re-cylindering, was put into service in June 2016.
- The Company continues to target profitable growth by means of both organic projects in areas of existing operations and by looking for potential acquisitions that fit existing expertise and capabilities.
- The Company is focused on improving existing operations and accelerating growth in its current markets while evaluating expansion into other basins.

Construction materials and contracting

- Approximate work backlog at December 31, 2016, was \$538 million, compared to \$491 million a year ago.
- Projected revenues are in the range of \$1.85 billion to \$1.95 billion in 2017.
- The Company anticipates margins in 2017 to be slightly higher compared to 2016 margins.
- In December 2015, a \$305 billion, five-year federal highway bill was passed for funding of transportation infrastructure projects that are a key part of the construction materials market.
- As the country's fifth-largest sand and gravel producer, the Company will continue to strategically manage its 1.0 billion tons of aggregate reserves in all its markets, as well as take further advantage of being vertically integrated.

Construction services

- Approximate work backlog at December 31, 2016, was \$475 million, compared to \$493 million a year ago. The backlog includes transmission, distribution, substation, industrial, petrochemical, high technology, solar energy renewables, research and development, higher education, government, transportation, health care, hospitality, gaming, commercial, institutional and service work.
- Projected revenues are in the range of \$1.0 billion to \$1.1 billion in 2017.
- The Company anticipates margins in 2017 to be comparable to 2016 margins.
- The Company continues to pursue opportunities for expansion in energy projects, such as petrochemical, transmission, substations, utility services, and renewables. Initiatives are aimed at capturing additional market share and expanding into new markets.
- As the 13th-largest specialty contractor, the Company continues to pursue opportunities for expansion and execute initiatives in current and new markets that align with the Company's expertise, resources and strategic growth plan.

New Accounting Standards

For information regarding new accounting standards, see Item 8 - Note 1, which is incorporated herein by reference.

Critical Accounting Policies Involving Significant Estimates

The Company has prepared its financial statements in conformity with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. The Company's significant accounting policies are discussed in Item 8 - Note 1.

Estimates are used for items such as impairment testing of assets held for sale, long-lived assets and goodwill; fair values of acquired assets and liabilities under the acquisition method of accounting; aggregate reserves; property depreciable lives; tax provisions; uncollectible accounts; environmental and other loss contingencies; accumulated provision for revenues subject to refund; costs on construction contracts; unbilled revenues; actuarially determined benefit costs; asset retirement obligations; and the valuation of stock-based compensation. The Company's critical accounting policies are subject to judgments and uncertainties that affect the application of such policies. As discussed below, the Company's financial position or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies.

As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates. The following critical accounting policies involve significant judgments and estimates.

Impairment testing of assets held for sale

The Company evaluates disposal groups classified as held for sale based on the lower of carrying value or fair value less cost to sell. The Company performed a fair value assessment of the assets and liabilities classified as held for sale. In the first quarter of 2016, the estimated fair value of Fidelity's assets was determined using the market approach largely based on a purchase and sale agreement. In the second quarter of 2016, the fair value of Fidelity's assets was determined using the income and market approaches. The income approach was determined by using the present value of estimated future cash flows. The market approach was based on market transactions of similar properties. Also in the second quarter of 2016, the estimated fair value of Dakota Prairie Refining was determined using the market approach based on the sale transaction to Tesoro. In the fourth quarter of 2016, the estimated fair value of Pronghorn was determined using the market approach based on the purchase and sale agreement with Tesoro Logistics.

There is risk involved when determining the fair value of assets, as there may be unforeseen events and changes in circumstances and market conditions that have a material impact on the estimated amount and timing of future cash flows. In addition, the fair value of the assets could be different using different estimates and assumptions in the valuation techniques used.

The Company believes its estimates used in calculating the fair value of its assets held for sale are reasonable based on the information that is known when the estimates are made. For more information related to impairment testing of assets held for sale, see Item 8 - Note 2.

Impairment of long-lived assets and intangibles

The Company reviews the carrying values of its long-lived assets and intangibles, excluding assets held for sale, whenever events or changes in circumstances indicate that such carrying values may not be recoverable and at least annually for goodwill.

Goodwill The Company performs its goodwill impairment testing annually in the fourth quarter. In addition, the test is performed on an interim basis whenever events or circumstances indicate that the carrying amount of goodwill may not be recoverable. Examples of such events or circumstances may include a significant adverse change in business climate, weakness in an industry in which the Company's reporting units operate or recent significant cash or operating losses with expectations that those losses will continue.

The goodwill impairment test is a two-step process performed at the reporting unit level. The Company has determined that the reporting units for its goodwill impairment test are its operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. For more information on the Company's operating segments, see Item 8 - Note 13. The first step of the impairment test involves comparing the fair value of each reporting unit to its carrying value. If the fair value of a reporting unit exceeds its carrying value, the test is complete and no impairment is recorded. If the fair value of a reporting unit is less than its carrying value, step two of the test is performed to determine the amount of impairment loss, if any. The impairment is computed by comparing the implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. If the carrying value is greater than the implied fair value, an impairment loss must be recorded. For the years ended December 31, 2016, 2015, and 2014, there were no significant impairment losses recorded. At December 31, 2016, the fair value substantially exceeded the carrying value at all reporting units.

Determining the fair value of a reporting unit requires judgment and the use of significant estimates which include assumptions about the Company's future revenue, profitability and cash flows, amount and timing of estimated capital expenditures, inflation rates, weighted

average cost of capital, operational plans, and current and future economic conditions, among others. The fair value of each reporting unit is determined using a weighted combination of income and market approaches. The Company uses a discounted cash flow methodology for its income approach. Under the income approach, the discounted cash flow model determines fair value based on the present value of projected cash flows over a specified period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate which reflects the best estimate of the weighted average cost of capital at each reporting unit. The weighted average cost of capital, which varies by reporting unit and is in the range of 5 percent to 9 percent, and a long-term growth rate projection of approximately 3 percent were utilized in the goodwill impairment test performed in the fourth quarter of 2016. Under the market approach, the Company estimates fair value using multiples derived from comparable sales transactions and enterprise value to EBITDA for comparative peer companies for each respective reporting unit. These multiples are applied to operating data for each reporting unit to arrive at an indication of fair value. In addition, the Company adds a reasonable control premium when calculating the fair value utilizing the peer multiples, which is estimated as the premium that would be received in a sale in an orderly transaction between market participants. The Company believes that the estimates and assumptions used in its impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated.

Long-Lived Assets Unforeseen events and changes in circumstances and market conditions and material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows could negatively affect the fair value of the Company's assets and result in an impairment charge. If an impairment indicator exists for tangible and intangible assets, excluding goodwill, the asset group held and used is tested for recoverability by comparing an estimate of undiscounted future cash flows attributable to the assets compared to the carrying value of the assets. If impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value.

There is risk involved when determining the fair value of assets, tangible and intangible, as there may be unforeseen events and changes in circumstances and market conditions that have a material impact on the estimated amount and timing of future cash flows. In addition, the fair value of the asset could be different using different estimates and assumptions in the valuation techniques used.

The Company believes its estimates used in calculating the fair value of long-lived assets, including goodwill and identifiable intangibles, are reasonable based on the information that is known when the estimates are made.

Revenue recognition

Revenue is recognized when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collection is reasonably assured. The recognition of revenue requires the Company to make estimates and assumptions that affect the reported amounts of revenue. Critical estimates related to the recognition of revenue include costs on construction contracts under the percentage-of-completion method.

The Company recognizes construction contract revenue from fixed-price and modified fixed-price construction contracts at its construction businesses using the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. This method depends largely on the ability to make reasonably dependable estimates related to the extent of progress toward completion of the contract, contract revenues and contract costs. Inasmuch as contract prices are generally set before the work is performed, the estimates pertaining to every project could contain significant unknown risks such as volatile labor, material and fuel costs, weather delays, adverse project site conditions, unforeseen actions by regulatory agencies, performance by subcontractors, job management and relations with project owners. Changes in estimates could have a material effect on the Company's results of operations, financial position and cash flows.

Several factors are evaluated in determining the bid price for contract work. These include, but are not limited to, the complexities of the job, past history performing similar types of work, seasonal weather patterns, competition and market conditions, job site conditions, work force safety, reputation of the project owner, availability of labor, materials and fuel, project location and project completion dates. As a project commences, estimates are continually monitored and revised as information becomes available and actual costs and conditions surrounding the job become known. If a loss is anticipated on a contract, the loss is immediately recognized.

The Company believes its estimates surrounding percentage-of-completion accounting are reasonable based on the information that is known when the estimates are made. The Company has contract administration, accounting and management control systems in place that allow its estimates to be updated and monitored on a regular basis. Because of the many factors that are evaluated in determining bid prices, it is inherent that the Company's estimates have changed in the past and will continually change in the future as new information becomes available for each job. There were no material changes in contract estimates at the individual contract level in 2016.

Part II

Pension and other postretirement benefits

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. Various actuarial assumptions are used in calculating the benefit expense (income) and liability (asset) related to these plans. Costs of providing pension and other postretirement benefits bear the risk of change, as they are dependent upon numerous factors based on assumptions of future conditions.

The Company makes various assumptions when determining plan costs, including the current discount rates and the expected long-term return on plan assets, the rate of compensation increases, actuarially determined mortality data, and health care cost trend rates. In selecting the expected long-term return on plan assets, which is considered to be one of the key variables in determining benefit expense or income, the Company considers historical returns, current market conditions and expected future market trends, including changes in interest rates and equity and bond market performance. Another key variable in determining benefit expense or income is the discount rate. In selecting the discount rate, the Company matches forecasted future cash flows of the pension and postretirement plans to a yield curve which consists of a hypothetical portfolio of high-quality corporate bonds with varying maturity dates, as well as other factors, as a basis. The Company's pension and other postretirement benefit plan assets are primarily made up of equity and fixed-income investments. Fluctuations in actual equity and bond market returns as well as changes in general interest rates may result in increased or decreased pension and other postretirement benefit costs in the future. Management estimates the rate of compensation increase based on long-term assumed wage increases and the health care cost trend rates are determined by historical and future trends. The Company estimates that a 50 basis point decrease in the discount rate or in the expected return on plan assets would each increase expense by less than \$1.3 million (after tax) for the year ended December 31, 2016.

The Company believes the estimates made for its pension and other postretirement benefits are reasonable based on the information that is known when the estimates are made. These estimates and assumptions are subject to a number of variables and are expected to change in the future. Estimates and assumptions will be affected by changes in the discount rate, the expected long-term return on plan assets, the rate of compensation increase and health care cost trend rates. The Company plans to continue to use its current methodologies to determine plan costs. For more information on the assumptions used in determining plan costs, see Item 8 - Note 14.

Income taxes

Income taxes require significant judgments and estimates including the determination of income tax expense, deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets and accruals for uncertain tax positions. The effective income tax rate is subject to variability from period to period as a result of changes in federal and state income tax rates and/or changes in tax laws. In addition, the effective tax rate may be affected by other changes including the allocation of property, payroll and revenues between states. The Company estimates that a one percent change in the effective tax rate would affect the income tax expense by less than \$3.3 million for the year ended December 31, 2016.

The Company provides deferred federal and state income taxes on all temporary differences between the book and tax basis of the Company's assets and liabilities. Excess deferred income tax balances associated with the Company's rate-regulated activities have been recorded as a regulatory liability and are included in other liabilities. These regulatory liabilities are expected to be reflected as a reduction in future rates charged to customers in accordance with applicable regulatory procedures.

The Company uses the deferral method of accounting for investment tax credits and amortizes the credits on regulated electric and natural gas distribution plant over various periods that conform to the ratemaking treatment prescribed by the applicable state public service commissions.

Tax positions taken or expected to be taken in an income tax return are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes.

Significant federal tax credit carryforwards and federal and state net operating loss carryforwards have been generated. The Company may not be able to utilize all of these carryforwards prior to their expiration. As a result, the Company has recorded valuation allowances for the amounts it may not be able to utilize. Changes in tax regulations or assumptions regarding current and future taxable income could require a change to the estimated valuation allowances in the future resulting in a material impact to the Company's financial position and results of operations. For more information related to federal and state net operating loss carryforwards, see Item 8 - Notes 2 and 11.

The Company believes its estimates surrounding income taxes are reasonable based on the information that is known when the estimates are made.

Liquidity and Capital Commitments

At December 31, 2016, the Company had cash and cash equivalents of \$46.1 million and available capacity of \$504.9 million under the outstanding credit facilities of the Company and its subsidiaries. The Company expects to meet its obligations for debt maturing within one year from various sources, including internally generated funds; the Company's credit facilities, as described later; and through the issuance of long-term debt.

Cash flows

Operating activities The changes in cash flows from operating activities generally follow the results of operations as discussed in Financial and Operating Data and also are affected by changes in working capital. Changes in cash flows for discontinued operations are related to the former exploration and production and refining businesses.

Cash flows provided by operating activities in 2016 decreased \$199.6 million from 2015. The decrease in cash flows provided by operating activities was largely from lower cash flows at the exploration and production business. The decrease was also due to higher working capital requirements at the electric, natural gas distribution and pipeline and midstream businesses. Partially offsetting the decrease in cash flows provided by operating activities was higher cash flows from continuing operations (excluding working capital) at the electric, pipeline and midstream and construction materials and contracting businesses.

Cash flows provided by operating activities in 2015 increased \$74.8 million from 2014. The increase was primarily due to lower working capital requirements of \$232.2 million, primarily at the natural gas distribution business, largely related to lower natural gas sales and the construction services business, largely due to lower workloads; as well as lower income tax payments. Partially offsetting this increase was lower earnings primarily due to lower commodity prices at the exploration and production business.

Investing activities Cash flows used in investing activities in 2016 decreased \$77.4 million from 2015 primarily due to lower capital expenditures largely at the electric and refining businesses. Partially offsetting this decrease is lower proceeds from the sale of properties at the exploration and production business.

Cash flows used in investing activities in 2015 decreased \$521.7 million from 2014 primarily due to lower capital expenditures (including discontinued operations) and higher proceeds from the sale of properties, largely at the exploration and production business.

Financing activities Cash flows used in financing activities in 2016 decreased \$60.8 million from 2015 primarily due to the lower repayment of long-term debt of \$250.9 million, partially offset by debt repayment in connection with the sale of the refining business, lower capital contributions at the refining business and lower issuance of long-term debt of \$36.9 million.

Cash flows used in financing activities was \$255.7 million in 2015 compared to cash flows provided by financing activities of \$325.2 million in 2014. The change was primarily due to the lower issuance of long-term debt of \$260.2 million, higher repayment of long-term debt of \$201.3 million and lower issuance of common stock.

Defined benefit pension plans

The Company has qualified noncontributory defined benefit pension plans for certain employees. Plan assets consist of investments in equity and fixed-income securities. Various actuarial assumptions are used in calculating the benefit expense (income) and liability (asset) related to the pension plans. Actuarial assumptions include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases as determined by the Company within certain guidelines. At December 31, 2016, the pension plans' accumulated benefit obligations exceeded these plans' assets by approximately \$102.8 million. Pretax pension expense reflected in the years ended December 31, 2016, 2015 and 2014, was \$2.1 million, \$2.0 million and \$1.1 million, respectively. The Company's pension expense is currently projected to be approximately \$2.5 million to \$3.5 million in 2017. Funding for the pension plans is actuarially determined. The minimum required contributions for 2015 and 2014 were approximately \$3.9 million and \$10.8 million, respectively. There were no minimum required contributions for 2016. For more information on the Company's pension plans, see Item 8 - Note 14.

Part II

Capital expenditures

The Company's capital expenditures from continuing operations for 2014 through 2016 and as anticipated for 2017 through 2019 are summarized in the following table.

	Actual (a)			Estimated		
	2014	2015	2016	2017	2018	2019
	(In millions)					
Capital expenditures:						
Electric	\$ 185	\$ 333	\$ 111	\$ 142	\$ 140	\$ 110
Natural gas distribution	121	131	126	135	134	147
Pipeline and midstream	62	18	35	41	57	120
Construction materials and contracting	38	48	38	43	55	46
Construction services	27	38	60	9	9	10
Other (b)	2	4	2	153	152	2
Total capital expenditures	\$ 435	\$ 572	\$ 372	\$ 523	\$ 547	\$ 435

(a) Capital expenditures for 2016, 2015 and 2014 include noncash capital expenditure-related accounts payable and AFUDC, totaling \$(15.8) million, \$35.3 million and \$5.1 million, respectively.

(b) Other includes additional growth capital in 2017 and 2018 not allocated to a specific business unit.

The 2016 capital expenditures were met from internal sources and the issuance of long-term debt. Estimated capital expenditures for the years 2017 through 2019 include those for:

- System upgrades
- Routine replacements
- Service extensions
- Routine equipment maintenance and replacements
- Buildings, land and building improvements
- Pipeline, gathering and other midstream projects
- Power generation and transmission opportunities, including certain costs for additional electric generating capacity
- Environmental upgrades
- Other growth opportunities

The Company continues to evaluate potential future acquisitions and other growth opportunities; however, they are dependent upon the availability of economic opportunities and, as a result, capital expenditures may vary significantly from the estimates in the preceding table. It is anticipated that all of the funds required for capital expenditures for the years 2017 through 2019 will be met from various sources, including internally generated funds; the Company's credit facilities, as described later; through the issuance of long-term debt; and asset sales.

Capital resources

Certain debt instruments of the Company and its subsidiaries, including those discussed later, contain restrictive covenants and cross-default provisions. In order to borrow under the respective credit agreements, the Company and its subsidiaries must be in compliance with the applicable covenants and certain other conditions, all of which the Company and its subsidiaries, as applicable, were in compliance with at December 31, 2016. In the event the Company and its subsidiaries do not comply with the applicable covenants and other conditions, alternative sources of funding may need to be pursued. For more information on the covenants, certain other conditions and cross-default provisions, see Item 8 - Note 6.

The following table summarizes the outstanding revolving credit facilities of the Company and its subsidiaries at December 31, 2016:

Company	Facility		Facility Limit		Amount Outstanding		Letters of Credit		Expiration Date
(In millions)									
MDU Resources Group, Inc.	Commercial paper/Revolving credit agreement	(a) \$	175.0	\$	111.0	(b) \$	—		5/8/19
Cascade Natural Gas Corporation	Revolving credit agreement	\$	50.0	(c) \$	—	\$	2.2	(d)	7/9/18
Intermountain Gas Company	Revolving credit agreement	\$	65.0	(e) \$	20.9	\$	—		7/13/18
Centennial Energy Holdings, Inc.	Commercial paper/Revolving credit agreement	(f) \$	500.0	\$	151.0	(b) \$	—		9/23/21

(a) The commercial paper program is supported by a revolving credit agreement with various banks (provisions allow for increased borrowings, at the option of the Company on stated conditions, up to a maximum of \$225.0 million). There were no amounts outstanding under the credit agreement.

(b) Amount outstanding under commercial paper program.

(c) Certain provisions allow for increased borrowings, up to a maximum of \$75.0 million.

(d) Outstanding letter(s) of credit reduce the amount available under the credit agreement.

(e) Certain provisions allow for increased borrowings, up to a maximum of \$90.0 million.

(f) The commercial paper program is supported by a revolving credit agreement with various banks (provisions allow for increased borrowings, at the option of Centennial on stated conditions, up to a maximum of \$600.0 million). There were no amounts outstanding under the credit agreement.

The Company's and Centennial's respective commercial paper programs are supported by revolving credit agreements. While the amount of commercial paper outstanding does not reduce available capacity under the respective revolving credit agreements, the Company and Centennial do not issue commercial paper in an aggregate amount exceeding the available capacity under their credit agreements. The commercial paper borrowings may vary during the period, largely the result of fluctuations in working capital requirements due to the seasonality of the construction businesses.

The following includes information related to the preceding table.

MDU Resources Group, Inc. The Company's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings. The Company's objective is to maintain acceptable credit ratings in order to access the capital markets through the issuance of commercial paper. Downgrades in the Company's credit ratings have not limited, nor are currently expected to limit, the Company's ability to access the capital markets. If the Company were to experience a downgrade of its credit ratings, it may need to borrow under its credit agreement and may experience an increase in overall interest rates with respect to its cost of borrowings.

Prior to the maturity of the credit agreement, the Company expects that it will negotiate the extension or replacement of this agreement. If the Company is unable to successfully negotiate an extension of, or replacement for, the credit agreement, or if the fees on this facility become too expensive, which the Company does not currently anticipate, the Company would seek alternative funding.

The Company's coverage of fixed charges including preferred stock dividends was 3.9 times and 3.1 times for the 12 months ended December 31, 2016 and 2015, respectively.

On November 21, 2016, the Company entered into a \$100.0 million note purchase agreement. The Company issued \$40.0 million of Senior Notes under the agreement on November 21, 2016, with a due date of November 21, 2046, at an interest rate of 4.15 percent. The Company contracted to issue an additional \$60.0 million of Senior Notes under the agreement on March 21, 2017, with due dates ranging from March 2032 to March 2037 at a weighted average interest rate of 3.61 percent.

Total equity as a percent of total capitalization was 56 percent and 58 percent at December 31, 2016 and 2015, respectively. This ratio is calculated as the Company's total equity, divided by the Company's total capital. Total capital is the Company's total debt, including short-term borrowings and long-term debt due within one year, plus total equity. This ratio indicates how a company is financing its operations, as well as its financial strength.

On May 20, 2013, the Company entered into an Equity Distribution Agreement with Wells Fargo Securities, LLC with respect to the issuance and sale of up to 7.5 million shares of the Company's common stock. The agreement terminated on February 28, 2016. The common stock was offered for sale, from time to time, in accordance with the terms and conditions of the agreement. Proceeds from the shares of common stock under the agreement were used for corporate development purposes and other general corporate purposes. Under the agreement, the Company did not issue any shares of stock between January 1, 2016 and February 28, 2016. Since inception of the Equity Distribution Agreement, the Company issued a cumulative total of 4.4 million shares of stock receiving net proceeds of \$144.7 million through February 28, 2016.

Part II

Intermountain Gas Company On November 9, 2016, Intermountain issued \$30.0 million of Senior Notes with a due date of November 9, 2046, at an interest rate of 4.0 percent.

Centennial Energy Holdings, Inc. On September 23, 2016, Centennial amended its revolving credit agreement to decrease the borrowing limit by \$150.0 million to \$500.0 million and extend the termination date to September 23, 2021. The credit agreement contains customary covenants and provisions, including a covenant of Centennial not to permit, as of the end of any fiscal quarter, the ratio of total consolidated debt to total consolidated capitalization to be greater than 65 percent. Other covenants include restricted payments, restrictions on the sale of certain assets, limitations on subsidiary indebtedness and the making of certain loans and investments.

Centennial's revolving credit agreement contains cross-default provisions. These provisions state that if Centennial or any subsidiary of Centennial fails to make any payment with respect to any indebtedness or contingent obligations, in excess of a specified amount, under any agreement that causes such indebtedness to be due prior to its stated maturity or the contingent obligation to become payable, the revolving credit agreement will be in default.

Centennial's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings. Centennial's objective is to maintain acceptable credit ratings in order to access the capital markets through the issuance of commercial paper. Downgrades in Centennial's credit ratings have not limited, nor are currently expected to limit, Centennial's ability to access the capital markets. If Centennial were to experience a downgrade of its credit ratings, it may need to borrow under its credit agreement and may experience an increase in overall interest rates with respect to its cost of borrowings.

Prior to the maturity of the Centennial credit agreement, Centennial expects that it will negotiate the extension or replacement of this agreement, which provides credit support to access the capital markets. In the event Centennial is unable to successfully negotiate this agreement, or in the event the fees on this facility become too expensive, which Centennial does not currently anticipate, it would seek alternative funding.

WBI Energy Transmission, Inc. On May 17, 2016, WBI Energy Transmission entered into an amendment to its amended and restated uncommitted note purchase and private shelf agreement to increase the aggregate issuance capacity from \$175.0 million to \$200.0 million and extend the issuance period to May 16, 2019. WBI Energy Transmission had \$100.0 million of notes outstanding at December 31, 2016, which reduced capacity under this uncommitted private shelf agreement to \$100.0 million. This agreement contains customary covenants and provisions, including a covenant of WBI Energy Transmission not to permit, as of the end of any fiscal quarter, the ratio of total debt to total capitalization to be greater than 55 percent. Other covenants include a limitation on priority debt and restrictions on the sale of certain assets and the making of certain investments.

Off balance sheet arrangements

In June 2016, WBI Energy sold all of the outstanding membership interests in Dakota Prairie Refining. In connection with the sale, Centennial agreed to continue to guarantee certain debt obligations of Dakota Prairie Refining which totaled \$63.8 million at December 31, 2016, and are expected to mature by 2023. Tesoro agreed to indemnify Centennial for any losses and litigation expenses arising from the guarantee. Continuation of the guarantee was required as a condition to the sale of Dakota Prairie Refining.

In March 2016, a sale agreement was signed to sell Fidelity's assets in the Paradox Basin. In connection with the sale, Centennial agreed to guarantee Fidelity's indemnity obligations associated with the Paradox Basin assets. The guarantee was required by the buyer as a condition to the sale of the Paradox Basin assets.

In connection with the sale of the Brazilian Transmission Lines, Centennial has agreed to guarantee payment of any indemnity obligations of certain of the Company's indirect wholly owned subsidiaries who were the sellers in three purchase and sale agreements for periods ranging up to 10 years from the date of sale. The guarantees were required by the buyers as a condition to the sale of the Brazilian Transmission Lines.

Contractual obligations and commercial commitments

For more information on the Company's contractual obligations on long-term debt, operating leases and purchase commitments, see Item 8 - Notes 6 and 17. At December 31, 2016, the Company's commitments under these obligations were as follows:

	2017	2018	2019	2020	2021	Thereafter	Total
	(In millions)						
Long-term debt	\$ 43.6	\$ 169.4	\$ 162.2	\$ 15.0	\$ 151.0	\$ 1,254.9	\$ 1,796.1
Estimated interest payments*	77.4	74.5	65.2	62.7	61.3	543.0	884.1
Operating leases	51.7	43.3	33.9	23.2	9.4	42.0	203.5
Purchase commitments	367.7	215.7	189.4	138.0	130.6	859.5	1,900.9
	\$ 540.4	\$ 502.9	\$ 450.7	\$ 238.9	\$ 352.3	\$ 2,699.4	\$ 4,784.6

* Estimated interest payments are calculated based on the applicable rates and payment dates.

At December 31, 2016, the Company had total liabilities of \$315.0 million related to asset retirement obligations that are excluded from the table above. Of the total asset retirement obligations, the current portion was \$4.3 million at December 31, 2016, and was included in other accrued liabilities on the Consolidated Balance Sheet. The remainder, which constitutes the long-term portion of asset retirement obligations, was included in other liabilities on the Consolidated Balance Sheet. Due to the nature of these obligations, the Company cannot determine precisely when the payments will be made to settle these obligations. For more information, see Item 8 - Note 7.

The Company has no uncertain tax positions and no minimum funding requirements for its defined benefit pension plans for 2017.

The Company's MEPP contributions are based on union employee payroll, which cannot be determined in advance for future periods. The Company may also be required to make additional contributions to its MEPPs as a result of their funded status. For more information, see Item 1A - Risk Factors and Item 8 - Note 14.

Effects of Inflation

Inflation did not have a significant effect on the Company's operations in 2016, 2015 or 2014.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to the impact of market fluctuations associated with interest rates. The Company has policies and procedures to assist in controlling these market risks and from time to time has utilized derivatives to manage a portion of its risk.

Interest rate risk

The Company uses fixed and variable rate long-term debt to partially finance capital expenditures and mandatory debt retirements. These debt agreements expose the Company to market risk related to changes in interest rates. The Company manages this risk by taking advantage of market conditions when timing the placement of long-term financing. The Company from time to time has utilized interest rate swap agreements to manage a portion of the Company's interest rate risk and may take advantage of such agreements in the future to minimize such risk.

At December 31, 2016 and 2015, the Company had no outstanding interest rate hedges.

The following table shows the amount of debt, including current portion, and related weighted average interest rates, both by expected maturity dates, as of December 31, 2016.

	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
	(Dollars in millions)							
Long-term debt:								
Fixed rate	\$ 43.6	\$ 148.5	\$ 51.2	\$ 15.0	—	\$ 1,254.9	\$ 1,513.2	\$ 1,559.0
Weighted average interest rate	6.3%	6.1%	4.3%	5.2%	—	4.8%	4.9%	—
Variable rate	—	\$ 20.9	\$ 111.0	—	\$ 151.0	—	\$ 282.9	\$ 282.9
Weighted average interest rate	—	3.1%	1.1%	—	1.4%	—	1.4%	—

Part II

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

The management of MDU Resources Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*.

Based on our evaluation under the framework in *Internal Control-Integrated Framework (2013)*, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report.

/s/ David L. Goodin

/s/ Doran N. Schwartz

David L. Goodin
President and Chief Executive Officer

Doran N. Schwartz
Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of MDU Resources Group, Inc.

We have audited the accompanying consolidated balance sheets of MDU Resources Group, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MDU Resources Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
February 24, 2017

Part II

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of MDU Resources Group, Inc.

We have audited the internal control over financial reporting of MDU Resources Group, Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2016 of the Company and our report dated February 24, 2017 expressed an unqualified opinion on those consolidated financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
February 24, 2017

Consolidated Statements of Income

Years ended December 31,	2016	2015	2014
	(In thousands, except per share amounts)		
Operating revenues:			
Electric, natural gas distribution and regulated pipeline and midstream	\$ 1,141,454	\$ 1,149,038	\$ 1,246,903
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	2,987,374	2,865,014	2,868,170
Total operating revenues	4,128,828	4,014,052	4,115,073
Operating expenses:			
Fuel and purchased power	75,512	86,238	89,312
Purchased natural gas sold	382,753	450,114	558,463
Operation and maintenance:			
Electric, natural gas distribution and regulated pipeline and midstream	312,404	278,171	269,175
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	2,580,895	2,527,052	2,523,039
Depreciation, depletion and amortization	216,318	211,747	203,084
Taxes, other than income	151,826	140,955	144,818
Total operating expenses	3,719,708	3,694,277	3,787,891
Operating income	409,120	319,775	327,182
Other income	4,956	18,457	9,138
Interest expense	87,848	91,179	86,871
Income before income taxes	326,228	247,053	249,449
Income taxes	93,132	70,664	64,422
Income from continuing operations	233,096	176,389	185,027
Income (loss) from discontinued operations, net of tax (Note 2)	(300,354)	(834,080)	109,311
Net income (loss)	(67,258)	(657,691)	294,338
Loss from discontinued operations attributable to noncontrolling interest (Note 2)	(131,691)	(35,256)	(3,895)
Dividends declared on preferred stocks	685	685	685
Earnings (loss) on common stock	\$ 63,748	\$ (623,120)	\$ 297,548
Earnings (loss) per common share - basic:			
Earnings before discontinued operations	\$ 1.19	\$.90	\$.96
Discontinued operations attributable to the Company, net of tax	(.86)	(4.10)	.59
Earnings (loss) per common share - basic	\$.33	\$ (3.20)	\$ 1.55
Earnings (loss) per common share - diluted:			
Earnings before discontinued operations	\$ 1.19	\$.90	\$.96
Discontinued operations attributable to the Company, net of tax	(.86)	(4.10)	.59
Earnings (loss) per common share - diluted	\$.33	\$ (3.20)	\$ 1.55
Weighted average common shares outstanding - basic	195,299	194,928	192,507
Weighted average common shares outstanding - diluted	195,618	194,986	192,587

The accompanying notes are an integral part of these consolidated financial statements.

Part II

Consolidated Statements of Comprehensive Income

Years ended December 31,	2016	2015	2014
	(In thousands)		
Net income (loss)	\$ (67,258)	\$ (657,691)	\$ 294,338
Other comprehensive income (loss):			
Net unrealized gain on derivative instruments qualifying as hedges:			
Reclassification adjustment for loss on derivative instruments included in net income (loss), net of tax of \$226, \$233 and \$240 in 2016, 2015 and 2014, respectively	367	404	399
Reclassification adjustment for loss on derivative instruments included in income (loss) from discontinued operations, net of tax of \$0, \$0 and \$173 in 2016, 2015 and 2014, respectively	—	—	295
Net unrealized gain on derivative instruments qualifying as hedges	367	404	694
Postretirement liability adjustment:			
Postretirement liability losses arising during the period, net of tax of \$(836), \$(55) and \$(7,665) in 2016, 2015 and 2014, respectively	(1,470)	(88)	(12,409)
Amortization of postretirement liability losses included in net periodic benefit cost (credit), net of tax of \$1,425, \$1,128 and \$492 in 2016, 2015 and 2014, respectively	2,506	1,794	796
Reclassification of postretirement liability adjustment to regulatory asset, net of tax of \$0, \$1,416 and \$4,509 in 2016, 2015 and 2014, respectively	—	2,255	7,202
Postretirement liability adjustment	1,036	3,961	(4,411)
Foreign currency translation adjustment:			
Foreign currency translation adjustment recognized during the period, net of tax of \$31, \$(105) and \$(99) in 2016, 2015 and 2014, respectively	51	(173)	(162)
Reclassification adjustment for loss on foreign currency translation adjustment included in net income (loss), net of tax of \$0, \$490 and \$0 in 2016, 2015 and 2014, respectively	—	802	—
Foreign currency translation adjustment	51	629	(162)
Net unrealized loss on available-for-sale investments:			
Net unrealized loss on available-for-sale investments arising during the period, net of tax of \$(98), \$(91) and \$(83) in 2016, 2015 and 2014, respectively	(182)	(170)	(154)
Reclassification adjustment for loss on available-for-sale investments included in net income (loss), net of tax of \$77, \$70 and \$73 in 2016, 2015 and 2014, respectively	143	131	135
Net unrealized loss on available-for-sale investments	(39)	(39)	(19)
Other comprehensive income (loss)	1,415	4,955	(3,898)
Comprehensive income (loss)	(65,843)	(652,736)	290,440
Comprehensive loss from discontinued operations attributable to noncontrolling interest	(131,691)	(35,256)	(3,895)
Comprehensive income (loss) attributable to common stockholders	\$ 65,848	\$ (617,480)	\$ 294,335

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

December 31,	2016	2015
	(In thousands, except shares and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 46,107	\$ 83,903
Receivables, net	630,243	582,475
Inventories	238,273	240,551
Prepayments and other current assets	48,461	29,528
Current assets held for sale	14,391	54,847
Total current assets	977,475	991,304
Investments	125,866	119,704
Property, plant and equipment (Note 1)	6,510,229	6,387,702
Less accumulated depreciation, depletion and amortization	2,578,902	2,489,322
Net property, plant and equipment	3,931,327	3,898,380
Deferred charges and other assets:		
Goodwill (Note 3)	631,791	635,204
Other intangible assets, net (Note 3)	5,925	7,342
Other	415,419	351,603
Noncurrent assets held for sale	196,664	561,617
Total deferred charges and other assets	1,249,799	1,555,766
Total assets	\$ 6,284,467	\$ 6,565,154
Liabilities and Equity		
Current liabilities:		
Long-term debt due within one year	\$ 43,598	\$ 238,539
Accounts payable	279,962	286,061
Taxes payable	48,164	46,880
Dividends payable	37,767	36,784
Accrued compensation	65,867	45,192
Other accrued liabilities	184,377	167,322
Current liabilities held for sale	9,924	126,483
Total current liabilities	669,659	947,261
Long-term debt (Note 6)	1,746,561	1,557,624
Deferred credits and other liabilities:		
Deferred income taxes	668,226	663,629
Other	883,777	812,342
Noncurrent liabilities held for sale	—	63,750
Total deferred credits and other liabilities	1,552,003	1,539,721
Commitments and contingencies (Notes 14, 16 and 17)		
Equity:		
Preferred stocks (Note 8)	15,000	15,000
Common stockholders' equity:		
Common stock (Note 9)		
Authorized - 500,000,000 shares, \$1.00 par value		
Issued - 195,843,297 shares in 2016 and 195,804,665 shares in 2015	195,843	195,805
Other paid-in capital	1,232,478	1,230,119
Retained earnings	912,282	996,355
Accumulated other comprehensive loss	(35,733)	(37,148)
Treasury stock at cost - 538,921 shares	(3,626)	(3,626)
Total common stockholders' equity	2,301,244	2,381,505
Total stockholders' equity	2,316,244	2,396,505
Noncontrolling interest	—	124,043
Total equity	2,316,244	2,520,548
Total liabilities and equity	\$ 6,284,467	\$ 6,565,154

The accompanying notes are an integral part of these consolidated financial statements.

Part II

Consolidated Statements of Equity

Years ended December 31, 2016, 2015 and 2014

	Preferred Stock		Common Stock		Other Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount				Shares	Amount		
(In thousands, except shares)											
Balance at											
December 31, 2013	150,000	\$15,000	189,868,780	\$189,869	\$1,056,996	\$1,603,130	\$(38,205)	(538,921)	\$(3,626)	\$ 32,738	\$2,855,902
Net income (loss)	—	—	—	—	—	298,233	—	—	—	(3,895)	294,338
Other comprehensive loss	—	—	—	—	—	—	(3,898)	—	—	—	(3,898)
Dividends declared on preferred stocks	—	—	—	—	—	(685)	—	—	—	—	(685)
Dividends declared on common stock	—	—	—	—	—	(137,851)	—	—	—	—	(137,851)
Stock-based compensation	—	—	—	—	6,191	—	—	—	—	—	6,191
Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings	—	—	326,122	326	(5,890)	—	—	—	—	—	(5,564)
Excess tax benefit on stock-based compensation	—	—	—	—	4,729	—	—	—	—	—	4,729
Issuance of common stock	—	—	4,559,910	4,560	145,162	—	—	—	—	—	149,722
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	86,900	86,900
Balance at											
December 31, 2014	150,000	15,000	194,754,812	194,755	1,207,188	1,762,827	(42,103)	(538,921)	(3,626)	115,743	3,249,784
Net loss	—	—	—	—	—	(622,435)	—	—	—	(35,256)	(657,691)
Other comprehensive income	—	—	—	—	—	—	4,955	—	—	—	4,955
Dividends declared on preferred stocks	—	—	—	—	—	(685)	—	—	—	—	(685)
Dividends declared on common stock	—	—	—	—	—	(143,352)	—	—	—	—	(143,352)
Stock-based compensation	—	—	—	—	3,689	—	—	—	—	—	3,689
Net tax deficit on stock-based compensation	—	—	—	—	(1,606)	—	—	—	—	—	(1,606)
Issuance of common stock	—	—	1,049,853	1,050	20,848	—	—	—	—	—	21,898
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	52,000	52,000
Distribution to non-controlling interest	—	—	—	—	—	—	—	—	—	(8,444)	(8,444)
Balance at											
December 31, 2015	150,000	15,000	195,804,665	195,805	1,230,119	996,355	(37,148)	(538,921)	(3,626)	124,043	2,520,548
Net income (loss)	—	—	—	—	—	64,433	—	—	—	(131,691)	(67,258)
Other comprehensive income	—	—	—	—	—	—	1,415	—	—	—	1,415
Dividends declared on preferred stocks	—	—	—	—	—	(685)	—	—	—	—	(685)
Dividends declared on common stock	—	—	—	—	—	(147,821)	—	—	—	—	(147,821)
Stock-based compensation	—	—	—	—	4,383	—	—	—	—	—	4,383
Net tax deficit on stock-based compensation	—	—	—	—	(1,663)	—	—	—	—	—	(1,663)
Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings	—	—	38,632	38	(361)	—	—	—	—	—	(323)
Contribution from non-controlling interest	—	—	—	—	—	—	—	—	—	7,648	7,648
Balance at											
December 31, 2016	150,000	\$ 15,000	195,843,297	\$ 195,843	\$ 1,232,478	\$ 912,282	\$(35,733)	(538,921)	\$(3,626)	\$ —	\$ 2,316,244

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31,	2016	2015	2014
	(In thousands)		
Operating activities:			
Net income (loss)	\$ (67,258)	\$ (657,691)	\$ 294,338
Income (loss) from discontinued operations, net of tax	(300,354)	(834,080)	109,311
Income from continuing operations	233,096	176,389	185,027
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	216,318	211,747	203,084
Deferred income taxes	(2,049)	(25,356)	54,963
Excess tax benefit on stock-based compensation	—	—	(4,729)
Changes in current assets and liabilities, net of acquisitions:			
Receivables	(25,641)	4,704	6,652
Inventories	2,433	2,265	(17,484)
Other current assets	(17,925)	60,182	(45,830)
Accounts payable	7,039	37,224	(47,092)
Other current liabilities	36,146	6,864	(17,252)
Other noncurrent changes	(26,459)	(10,240)	(18,144)
Net cash provided by continuing operations	422,958	463,779	299,195
Net cash provided by discontinued operations	39,251	198,053	287,867
Net cash provided by operating activities	462,209	661,832	587,062
Investing activities:			
Capital expenditures	(388,183)	(536,832)	(429,336)
Net proceeds from sale or disposition of property and other	44,826	54,569	28,899
Investments	(1,396)	1,515	(1,041)
Net cash used in continuing operations	(344,753)	(480,748)	(401,478)
Net cash provided by (used in) discontinued operations	39,658	98,295	(502,712)
Net cash used in investing activities	(305,095)	(382,453)	(904,190)
Financing activities:			
Repayment of short-term borrowings	—	—	(11,500)
Issuance of long-term debt	309,064	345,920	606,168
Repayment of long-term debt	(315,647)	(566,498)	(365,247)
Proceeds from issuance of common stock	—	21,898	150,060
Dividends paid	(147,156)	(142,835)	(136,712)
Excess tax benefit on stock-based compensation	—	—	4,729
Tax withholding on stock-based compensation	(323)	—	(5,564)
Net cash provided by (used in) continuing operations	(154,062)	(341,515)	241,934
Net cash provided by (used in) discontinued operations	(40,852)	85,785	83,262
Net cash provided by (used in) financing activities	(194,914)	(255,730)	325,196
Effect of exchange rate changes on cash and cash equivalents	4	(225)	(155)
Increase (decrease) in cash and cash equivalents	(37,796)	23,424	7,913
Cash and cash equivalents - beginning of year	83,903	60,479	52,566
Cash and cash equivalents - end of year	\$ 46,107	\$ 83,903	\$ 60,479

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of presentation

The abbreviations and acronyms used throughout are defined following the Notes to Consolidated Financial Statements. The consolidated financial statements of the Company include the accounts of the following businesses: electric, natural gas distribution, pipeline and midstream, construction materials and contracting, construction services and other. The electric and natural gas distribution businesses, as well as a portion of the pipeline and midstream business, are regulated. Construction materials and contracting, construction services and the other businesses, as well as a portion of the pipeline and midstream business, are nonregulated. For further descriptions of the Company's businesses, see Note 13. Intercompany balances and transactions have been eliminated in consolidation, except for certain transactions related to the Company's regulated operations in accordance with GAAP. The statements also include the ownership interests in the assets, liabilities and expenses of jointly owned electric generating facilities.

The Company's regulated businesses are subject to various state and federal agency regulations. The accounting policies followed by these businesses are generally subject to the Uniform System of Accounts of the FERC. These accounting policies differ in some respects from those used by the Company's nonregulated businesses.

The Company's regulated businesses account for certain income and expense items under the provisions of regulatory accounting, which requires these businesses to defer as regulatory assets or liabilities certain items that would have otherwise been reflected as expense or income, respectively, based on the expected regulatory treatment in future rates. The expected recovery or flowback of these deferred items generally is based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are being amortized consistently with the regulatory treatment established by the FERC and the applicable state public service commissions. See Note 4 for more information regarding the nature and amounts of these regulatory deferrals.

Depreciation, depletion and amortization expense is reported separately on the Consolidated Statements of Income and therefore is excluded from the other line items within operating expenses.

Management has also evaluated the impact of events occurring after December 31, 2016, up to the date of issuance of these consolidated financial statements.

On June 24, 2016, WBI Energy entered into a membership interest purchase agreement with Tesoro to sell all of the outstanding membership interests in Dakota Prairie Refining to Tesoro. WBI Energy and Calumet each previously owned 50 percent of the Dakota Prairie Refining membership interests and were equal members in building and operating Dakota Prairie Refinery. To effectuate the sale, WBI Energy acquired Calumet's 50 percent membership interest in Dakota Prairie Refining on June 27, 2016. The sale of the membership interests to Tesoro closed on June 27, 2016. The sale of Dakota Prairie Refining reduces the Company's risk by decreasing exposure to commodity prices.

In the second quarter of 2015, the Company began the marketing and sale process of Fidelity, with an anticipated sale to occur within one year. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. The sale of Fidelity was part of the Company's strategic plan to grow its capital investments in the remaining business segments and to focus on creating a greater long-term value.

The assets and liabilities for the Company's discontinued operations have been classified as held for sale and the results of operations are shown in income (loss) from discontinued operations, other than certain general and administrative costs and interest expense which do not meet the criteria for income (loss) from discontinued operations. The Company's consolidated financial statements and accompanying notes for current and prior periods have been restated. At the time the assets were classified as held for sale, depreciation, depletion and amortization expense was no longer recorded. Unless otherwise indicated, the amounts presented in the accompanying notes to the consolidated financial statements relate to the Company's continuing operations. For more information on the Company's discontinued operations, see Note 2.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of trade receivables from the sale of goods and services which are recorded at the invoiced amount net of allowance for doubtful accounts, and costs and estimated earnings in excess of billings on uncompleted contracts. For more

information, see Percentage-of-completion method in this note. The total balance of receivables past due 90 days or more was \$29.2 million and \$27.8 million at December 31, 2016 and 2015, respectively.

The allowance for doubtful accounts is determined through a review of past due balances and other specific account data. Account balances are written off when management determines the amounts to be uncollectible. The Company's allowance for doubtful accounts at December 31, 2016 and 2015, was \$10.5 million and \$9.8 million, respectively.

Inventories and natural gas in storage

Natural gas in storage for the Company's regulated operations is generally carried at average cost, or cost using the last-in, first-out method. All other inventories are stated at the lower of average cost or market value. The portion of the cost of natural gas in storage expected to be used within one year was included in inventories. Inventories at December 31 consisted of:

	2016	2015
	(In thousands)	
Aggregates held for resale	\$ 115,471	\$ 115,854
Asphalt oil	29,103	36,498
Natural gas in storage (current)	25,761	21,023
Materials and supplies	18,372	16,997
Merchandise for resale	16,437	15,318
Other	33,129	34,861
Total	\$ 238,273	\$ 240,551

The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, was included in deferred charges and other assets - other and was \$49.5 million and \$49.1 million at December 31, 2016 and 2015, respectively.

Investments

The Company's investments include the cash surrender value of life insurance policies, an insurance contract, mortgage-backed securities and U.S. Treasury securities. The Company measures its investment in the insurance contract at fair value with any unrealized gains and losses recorded on the Consolidated Statements of Income. The Company has not elected the fair value option for its mortgage-backed securities and U.S. Treasury securities and, as a result, the unrealized gains and losses on these investments are recorded in accumulated other comprehensive income (loss). For more information, see Notes 5 and 14.

Property, plant and equipment

Additions to property, plant and equipment are recorded at cost. When regulated assets are retired, or otherwise disposed of in the ordinary course of business, the original cost of the asset is charged to accumulated depreciation. With respect to the retirement or disposal of all other assets the resulting gains or losses are recognized as a component of income. The Company is permitted to capitalize AFUDC on regulated construction projects and to include such amounts in rate base when the related facilities are placed in service. In addition, the Company capitalizes interest, when applicable, on certain construction projects associated with its other operations. The amount of AFUDC and interest capitalized for the years ended December 31 were as follows:

	2016	2015	2014
	(In thousands)		
Interest capitalized	\$ —	\$ 4,381	\$ 7,046
AFUDC - borrowed	\$ 914	\$ 4,907	\$ 3,023
AFUDC - equity	\$ 565	\$ 7,971	\$ 5,803

Generally, property, plant and equipment are depreciated on a straight-line basis over the average useful lives of the assets, except for depletable aggregate reserves, which are depleted based on the units-of-production method. The Company collects removal costs for plant assets in regulated utility rates. These amounts are recorded as regulatory liabilities, which are included in other liabilities.

Part II

Property, plant and equipment at December 31 was as follows:

	2016	2015	Weighted Average Depreciable Life in Years
(Dollars in thousands, where applicable)			
Regulated:			
Electric:			
Generation	\$ 1,036,373	\$ 1,003,173	39
Distribution	398,382	375,612	44
Transmission	284,048	255,842	57
Construction in progress	62,212	42,436	-
Other	107,598	109,085	14
Natural gas distribution:			
Distribution	1,718,633	1,624,645	46
Construction in progress	19,934	20,530	-
Other	440,846	431,406	18
Pipeline and midstream:			
Transmission	490,143	460,305	54
Gathering	37,831	37,831	20
Storage	45,350	44,011	62
Construction in progress	16,507	7,549	-
Other	40,873	40,168	33
Nonregulated:			
Pipeline and midstream:			
Gathering and processing	31,682	158,949	19
Construction in progress	13	89	-
Other	9,800	9,827	10
Construction materials and contracting:			
Land	94,625	95,870	-
Buildings and improvements	102,347	96,864	19
Machinery, vehicles and equipment	930,471	937,084	12
Construction in progress	16,181	18,615	-
Aggregate reserves	405,751	404,995	*
Construction services:			
Land	5,346	5,025	-
Buildings and improvements	26,693	25,259	26
Machinery, vehicles and equipment	132,217	121,940	6
Other	7,105	11,055	4
Other:			
Land	2,837	2,837	-
Other	46,431	46,700	23
Less accumulated depreciation, depletion and amortization	2,578,902	2,489,322	
Net property, plant and equipment	\$ 3,931,327	\$ 3,898,380	

* Depleted on the units-of-production method based on recoverable aggregate reserves.

Impairment of long-lived assets

The Company reviews the carrying values of its long-lived assets, excluding goodwill and assets held for sale, whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, compared to the carrying value of the assets. If impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. In the third quarter of 2015, the Company recognized an impairment of \$14.1 million (before tax), largely related to the sale of certain non-strategic natural gas gathering assets that were written down to their estimated fair value that was determined using the market approach. In the second quarter of 2015, the Company recognized an impairment of \$3.0 million (before tax) related to coalbed natural gas gathering assets located in Wyoming where there had been continued decline in natural gas development and production activity due to low natural gas prices. The coalbed natural gas gathering assets were

written down to their estimated fair value that was determined using the income approach. The impairments are recorded in operation and maintenance expense on the Consolidated Statements of Income. For more information on these nonrecurring fair value measurements, see Note 5.

No significant impairment losses were recorded in 2016, other than those related to the Company's assets held for sale and discontinued operations. For more information regarding these impairments, see Note 2.

Unforeseen events and changes in circumstances could require the recognition of impairment losses at some future date.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net tangible and intangible assets acquired in a business combination. Goodwill is required to be tested for impairment annually, which is completed in the fourth quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired.

The goodwill impairment test is a two-step process performed at the reporting unit level. The Company has determined that the reporting units for its goodwill impairment test are its operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results. For more information on the Company's operating segments, see Note 13. The first step of the impairment test involves comparing the fair value of each reporting unit to its carrying value. If the fair value of a reporting unit exceeds its carrying value, the test is complete and no impairment is recorded. If the fair value of a reporting unit is less than its carrying value, step two of the test is performed to determine the amount of impairment loss, if any. The impairment is computed by comparing the implied fair value of the reporting unit's goodwill to the carrying value of that goodwill. If the carrying value is greater than the implied fair value, an impairment loss must be recorded. For the years ended December 31, 2016, 2015 and 2014, there were no significant impairment losses recorded. At December 31, 2016, the fair value substantially exceeded the carrying value at all reporting units.

Determining the fair value of a reporting unit requires judgment and the use of significant estimates which include assumptions about the Company's future revenue, profitability and cash flows, amount and timing of estimated capital expenditures, inflation rates, weighted average cost of capital, operational plans, and current and future economic conditions, among others. The fair value of each reporting unit is determined using a weighted combination of income and market approaches. The Company uses a discounted cash flow methodology for its income approach. Under the income approach, the discounted cash flow model determines fair value based on the present value of projected cash flows over a specified period and a residual value related to future cash flows beyond the projection period. Both values are discounted using a rate which reflects the best estimate of the weighted average cost of capital at each reporting unit. The weighted average cost of capital, which varies by reporting unit and is in the range of 5 percent to 9 percent, and a long-term growth rate projection of approximately 3 percent were utilized in the goodwill impairment test performed in the fourth quarter of 2016. Under the market approach, the Company estimates fair value using multiples derived from comparable sales transactions and enterprise value to EBITDA for comparative peer companies for each respective reporting unit. These multiples are applied to operating data for each reporting unit to arrive at an indication of fair value. In addition, the Company adds a reasonable control premium when calculating the fair value utilizing the peer multiples, which is estimated as the premium that would be received in a sale in an orderly transaction between market participants. The Company believes that the estimates and assumptions used in its impairment assessments are reasonable and based on available market information, but variations in any of the assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated.

Revenue recognition

Revenue is recognized when the earnings process is complete, as evidenced by an agreement between the customer and the Company, when delivery has occurred or services have been rendered, when the fee is fixed or determinable and when collection is reasonably assured. The Company recognizes utility revenue each month based on the services provided to all utility customers during the month. Accrued unbilled revenue which is included in receivables, net, represents revenues recognized in excess of amounts billed. Accrued unbilled revenue at Montana-Dakota, Cascade and Intermountain was \$117.7 million and \$102.1 million at December 31, 2016 and 2015, respectively. The Company recognizes construction contract revenue at its construction businesses using the percentage-of-completion method as discussed later. The Company recognizes all other revenues when services are rendered or goods are delivered. The Company presents revenues net of taxes collected from customers at the time of sale to be remitted to governmental authorities, including sales and use taxes.

Percentage-of-completion method

The Company recognizes construction contract revenue from fixed-price and modified fixed-price construction contracts at its construction businesses using the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. If a loss is anticipated on a contract, the loss is immediately recognized.

Part II

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenues recognized in excess of amounts billed and were included in receivables, net. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized and were included in accounts payable. Costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings on uncompleted contracts at December 31 were as follows:

	2016	2015
	(In thousands)	
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 64,558	\$ 64,369
Billings in excess of costs and estimated earnings on uncompleted contracts	\$ 64,832	\$ 68,048

Amounts representing balances billed but not paid by customers under retainage provisions in contracts at December 31 were as follows:

	2016	2015
	(In thousands)	
Short-term retainage*	\$ 45,109	\$ 46,207
Long-term retainage**	1,506	1,605
Total retainage	\$ 46,615	\$ 47,812

* Expected to be paid within one year or less and included in receivables, net.

** Included in deferred charges and other assets - other.

Asset retirement obligations

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for the recorded amount or incurs a gain or loss at its nonregulated operations or incurs a regulatory asset or liability at its regulated operations. For more information on asset retirement obligations, see Note 7.

Legal costs

The Company expenses external legal fees as they are incurred.

Natural gas costs recoverable or refundable through rate adjustments

Under the terms of certain orders of the applicable state public service commissions, the Company is deferring natural gas commodity, transportation and storage costs that are greater or less than amounts presently being recovered through its existing rate schedules. Such orders generally provide that these amounts are recoverable or refundable through rate adjustments which are filed annually. Natural gas costs refundable through rate adjustments were \$25.6 million and \$20.9 million at December 31, 2016 and 2015, respectively, which is included in other accrued liabilities. Natural gas costs recoverable through rate adjustments were \$2.2 million and \$547,000 at December 31, 2016 and 2015, respectively, which is included in prepayments and other current assets.

Income taxes

The Company provides deferred federal and state income taxes on all temporary differences between the book and tax basis of the Company's assets and liabilities. Excess deferred income tax balances associated with the Company's rate-regulated activities have been recorded as a regulatory liability and are included in other liabilities. These regulatory liabilities are expected to be reflected as a reduction in future rates charged to customers in accordance with applicable regulatory procedures.

The Company uses the deferral method of accounting for investment tax credits and amortizes the credits on regulated electric and natural gas distribution plant over various periods that conform to the ratemaking treatment prescribed by the applicable state public service commissions.

Tax positions taken or expected to be taken in an income tax return are evaluated for recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income taxes.

Earnings (loss) per common share

Basic earnings (loss) per common share were computed by dividing earnings (loss) on common stock by the weighted average number of shares of common stock outstanding during the year. Diluted earnings (loss) per common share were computed by dividing earnings (loss) on common stock by the total of the weighted average number of shares of common stock outstanding during the year, plus the effect of outstanding performance share awards. In 2016, 2015 and 2014, there were no shares excluded from the calculation of diluted earnings per share. Common stock outstanding includes issued shares less shares held in treasury. Net income (loss) was the same for both the basic and diluted earnings (loss) per share calculations. A reconciliation of the weighted average common shares outstanding used in the basic and diluted earnings (loss) per share calculation was as follows:

	2016	2015	2014
		(In thousands)	
Weighted average common shares outstanding - basic	195,299	194,928	192,507
Effect of dilutive performance share awards	319	58	80
Weighted average common shares outstanding - diluted	195,618	194,986	192,587
Shares excluded from the calculation of diluted earnings per share	—	—	—

Use of estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates are used for items such as impairment testing of assets held for sale, long-lived assets and goodwill; fair values of acquired assets and liabilities under the acquisition method of accounting; aggregate reserves; property depreciable lives; tax provisions; uncollectible accounts; environmental and other loss contingencies; accumulated provision for revenues subject to refund; costs on construction contracts; unbilled revenues; actuarially determined benefit costs; asset retirement obligations; and the valuation of stock-based compensation. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

New accounting standards

Revenue from Contracts with Customers In May 2014, the FASB issued guidance on accounting for revenue from contracts with customers. The guidance provides for a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. This guidance was to be effective for the Company on January 1, 2017. In August 2015, the FASB issued guidance deferring the effective date of the revenue guidance one year and allowing entities to early adopt. With this decision, the guidance will be effective for the Company on January 1, 2018. Entities will have the option of using either a full retrospective or modified retrospective approach to adopting the guidance. Under the modified approach, an entity would recognize the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the period of adoption. In addition, the modified approach will require additional disclosures. The Company is planning to adopt the guidance using the modified retrospective approach and continues to evaluate the effects it will have on its results of operations, financial position, cash flows and disclosures.

Simplifying the Presentation of Debt Issuance Costs In April 2015, the FASB issued guidance on simplifying the presentation of debt issuance costs in the financial statements. This guidance requires entities to present debt issuance costs as a direct deduction to the related debt liability. The amortization of these costs will be reported as interest expense. The guidance was effective for the Company on January 1, 2016, and was to be applied retrospectively. Early adoption of this guidance was permitted, however the Company did not elect to do so. The guidance required a reclassification of the debt issuance costs on the Consolidated Balance Sheets, but did not impact the Company's results of operations or cash flows. As a result of the retrospective application of this change in accounting principle, the Company reclassified debt issuance costs of \$100,000 from prepayments and other current assets and \$6.0 million from deferred charges and other assets - other to long-term debt on its Consolidated Balance Sheets at December 31, 2015.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) In May 2015, the FASB issued guidance on fair value measurement and disclosure requirements removing the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient. The new guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at net asset value using the practical expedient, and rather limits those disclosures to investments for which the practical expedient has been elected. This guidance was effective for the Company on January 1, 2016, with early adoption permitted. The application of this guidance affected the Company's disclosures; however, it did not impact the Company's results of operations, financial position or cash flows.

Part II

Simplifying the Measurement of Inventory In July 2015, the FASB issued guidance regarding inventory that is measured using the first-in, first-out or average cost method. The guidance does not apply to inventory measured using the last-in, first-out or the retail inventory method. The guidance requires inventory within its scope to be measured at the lower of cost or net realizable value, which is the estimated selling price in the normal course of business less reasonably predictable costs of completion, disposal and transportation. These amendments more closely align GAAP with IFRS. This guidance was effective for the Company on January 1, 2017, on a prospective basis. The Company does not anticipate the guidance will have a material effect on its results of operations, financial position or cash flows.

Balance Sheet Classification of Deferred Taxes In November 2015, the FASB issued guidance regarding the classification of deferred taxes on the balance sheet. The guidance will require all deferred tax assets and liabilities to be classified as noncurrent. These amendments will align GAAP with IFRS. Entities had the option to apply the guidance prospectively, for all deferred tax assets and liabilities, or retrospectively. The Company adopted the guidance in the fourth quarter of 2016 and applied the retrospective method of adoption. The guidance required a reclassification of current deferred income taxes to noncurrent deferred income taxes on the Consolidated Balance Sheets, but did not impact the Company's results of operations or cash flows. As a result of the retrospective application of this change in accounting principle, the Company reclassified deferred income taxes of \$33.1 million from current assets - deferred income taxes to deferred credits and other liabilities - deferred income taxes on its Consolidated Balance Sheets at December 31, 2015.

Recognition and Measurement of Financial Assets and Financial Liabilities In January 2016, the FASB issued guidance regarding the classification and measurement of financial instruments. The guidance revises the way an entity classifies and measures investments in equity securities, the presentation of certain fair value changes for financial liabilities measured at fair value and amends certain disclosure requirements related to the fair value of financial instruments. This guidance will be effective for the Company on January 1, 2018, with early adoption of certain amendments permitted. The guidance should be applied using a modified retrospective approach with the exception of equity securities without readily determinable fair values which will be applied prospectively. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

Leases In February 2016, the FASB issued guidance regarding leases. The guidance requires lessees to recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the statement of financial position for leases with terms of more than 12 months. This guidance also requires additional disclosures. This guidance will be effective for the Company on January 1, 2019, and should be applied using a modified retrospective approach with early adoption permitted. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

Improvements to Employee Share-Based Payment Accounting In March 2016, the FASB issued guidance regarding simplification of several aspects of the accounting for share-based payment transactions. The guidance will affect the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and calculation of dilutive shares. Certain amendments of this guidance are to be applied retrospectively and others prospectively. The Company adopted the guidance on January 1, 2017. All amendments in the guidance that apply to the Company were adopted on a prospective basis resulting in no adjustments being made to retained earnings. The Company anticipates the guidance will impact the Consolidated Statements of Income and the Consolidated Balance Sheets, as well as the dilutive earnings per share calculation, on a prospective basis with all taxes related to share-based payments recognized as income tax expense or benefit and no longer recognized in additional paid-in capital. The Company anticipates the guidance will not have a material impact on its cash flows.

Classification of Certain Cash Receipts and Cash Payments In August 2016, the FASB issued guidance to clarify the classification of certain cash receipts and payments in the statement of cash flows. The guidance is intended to standardize the presentation and classification of certain transactions, including cash payments for debt prepayment or extinguishment, proceeds from insurance claim settlements and distributions from equity method investments. In addition, the guidance clarifies how to classify transactions that have characteristics of more than one class of cash flows. This guidance will be effective for the Company on January 1, 2018, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period and apply any adjustments as of the beginning of the fiscal year. Entities must apply the guidance retrospectively unless it is impracticable to do so, in which case they may apply it prospectively as of the earliest date practicable. The Company is evaluating the effects the adoption of the new guidance will have on its cash flows and disclosures.

Clarifying the Definition of a Business In January 2017, the FASB issued guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities is not a business. The guidance will also affect other aspects of accounting, such as determining reporting units for goodwill testing. The guidance will be effective for the Company on January 1, 2018, and should be applied on a prospective basis with early adoption permitted for transactions that occur before the issuance or effective date of the amendments and only when the transactions have not been reported in the financial statements or made available for issuance. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

Simplifying the Test for Goodwill Impairment In January 2017, the FASB issued guidance on simplifying the test for goodwill impairment by eliminating Step 2, which required an entity to measure the amount of impairment loss by comparing the implied fair value of reporting unit goodwill with the carrying amount of such goodwill. This guidance requires entities to perform a quantitative impairment test, previously Step 1, to identify both the existence of impairment and the amount of impairment loss by comparing the fair value of a reporting unit to its carrying amount. Entities will continue to have the option of performing a qualitative assessment to determine if the quantitative impairment test is necessary. The guidance also requires additional disclosures if an entity has one or more reporting units with zero or negative carrying amounts of net assets. The guidance will be effective for the Company on January 1, 2020, and should be applied on a prospective basis with early adoption permitted. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

Variable interest entities

The Company evaluates its arrangements and contracts with other entities to determine if they are VIEs and if so, if the Company is the primary beneficiary. GAAP provides a framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interest and results of activities of a VIE in its consolidated financial statements.

A VIE should be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated.

The Company's evaluation of whether it qualifies as the primary beneficiary of a VIE involves significant judgments, estimates and assumptions and includes a qualitative analysis of the activities that most significantly impact the VIE's economic performance and whether the Company has the power to direct those activities, the design of the entity, the rights of the parties and the purpose of the arrangement.

Comprehensive income (loss)

Comprehensive income (loss) is the sum of net income (loss) as reported and other comprehensive income (loss). The Company's other comprehensive income (loss) resulted from gains (losses) on derivative instruments qualifying as hedges, postretirement liability adjustments, foreign currency translation adjustments and gains (losses) on available-for-sale investments.

The after-tax changes in the components of accumulated other comprehensive loss as of December 31, 2016, 2015 and 2014, were as follows:

	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges	Post- retirement Liability Adjustment	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available- for-sale Investments	Total Accumulated Other Comprehensive Loss
	(In thousands)				
Balance at December 31, 2014	\$ (3,071)	\$ (38,218)	\$ (829)	\$ 15	\$ (42,103)
Other comprehensive income (loss) before reclassifications	—	(88)	(173)	(170)	(431)
Amounts reclassified from accumulated other comprehensive loss	404	1,794	802	131	3,131
Amounts reclassified from accumulated other comprehensive loss to a regulatory asset	—	2,255	—	—	2,255
Net current-period other comprehensive income (loss)	404	3,961	629	(39)	4,955
Balance at December 31, 2015	(2,667)	(34,257)	(200)	(24)	(37,148)
Other comprehensive income (loss) before reclassifications	—	(1,470)	51	(182)	(1,601)
Amounts reclassified from accumulated other comprehensive loss	367	2,506	—	143	3,016
Net current-period other comprehensive income (loss)	367	1,036	51	(39)	1,415
Balance at December 31, 2016	\$ (2,300)	\$ (33,221)	\$ (149)	\$ (63)	\$ (35,733)

Part II

Reclassifications out of accumulated other comprehensive loss for the years ended December 31 were as follows:

	2016	2015	Location on Consolidated Statements of Income
	(In thousands)		
Reclassification adjustment for loss on derivative instruments included in net income (loss):			
Interest rate derivative instruments	\$ (593)	\$ (637)	Interest expense
	226	233	Income taxes
	(367)	(404)	
Amortization of postretirement liability losses included in net periodic benefit cost (credit)	(3,931)	(2,922)	(a)
	1,425	1,128	Income taxes
	(2,506)	(1,794)	
Reclassification adjustment for loss on foreign currency translation adjustment included in net income (loss)	—	(1,292)	Other income
	—	490	Income taxes
	—	(802)	
Reclassification adjustment for loss on available-for-sale investments included in net income (loss)	(220)	(201)	Other income
	77	70	Income taxes
	(143)	(131)	
Total reclassifications	\$ (3,016)	\$ (3,131)	

(a) Included in net periodic benefit cost (credit). For more information, see Note 14.

Note 2 - Assets Held for Sale and Discontinued Operations

Assets held for sale

The assets and liabilities of Pronghorn have been classified as held for sale. Pronghorn's results of operations are included in the pipeline and midstream segment. The Company's consolidated financial statements and accompanying notes for the current period reflect Pronghorn classified as held for sale.

Pronghorn On November 21, 2016, WBI Energy Midstream announced it had entered into a purchase and sale agreement to sell its 50 percent non-operating ownership interest in Pronghorn to Tesoro Logistics. The transaction closed on January 1, 2017. The sale of Pronghorn further reduces the Company's risk exposure to commodity prices.

The carrying amounts of the major classes of assets and liabilities that are classified as held for sale associated with Pronghorn on the Company's Consolidated Balance Sheets at December 31 were as follows:

	2016
	(In thousands)
Assets	
Current assets:	
Prepayments and other current assets	\$ 68
Total current assets held for sale	68
Noncurrent assets:	
Net property, plant and equipment	93,424
Goodwill	9,737
Less allowance for impairment of assets held for sale	2,311
Total noncurrent assets held for sale	100,850
Total assets held for sale	\$ 100,918

The Company performed a fair value assessment of the assets and liabilities classified as held for sale. In the fourth quarter of 2016, the fair value assessment was determined using the market approach based on the purchase and sale agreement with Tesoro Logistics. The fair value assessment indicated an impairment based on the carrying value exceeding the fair value, which resulted in the Company recording an impairment of \$2.3 million (\$1.4 million after tax) in the quarter ended December 31, 2016. The fair value of Pronghorn's assets has been

categorized as Level 3 in the fair value hierarchy. The impairment was recorded in operation and maintenance expense on the Consolidated Statement of Income.

Discontinued operations

The assets and liabilities of the Company's discontinued operations have been classified as held for sale and the results of operations are shown in income (loss) from discontinued operations, other than certain general and administrative costs and interest expense which do not meet the criteria for income (loss) from discontinued operations. The Company's consolidated financial statements and accompanying notes for current and prior periods have been restated. At the time the assets were classified as held for sale, depreciation, depletion and amortization expense was no longer recorded.

Dakota Prairie Refining On June 24, 2016, WBI Energy entered into a membership interest purchase agreement with Tesoro to sell all of the outstanding membership interests in Dakota Prairie Refining to Tesoro. WBI Energy and Calumet each previously owned 50 percent of the Dakota Prairie Refining membership interests and were equal members in building and operating Dakota Prairie Refinery. To effectuate the sale, WBI Energy acquired Calumet's 50 percent membership interest in Dakota Prairie Refining on June 27, 2016. The sale of the membership interests to Tesoro closed on June 27, 2016. The sale of Dakota Prairie Refining reduces the Company's risk by decreasing exposure to commodity prices.

The Company retained certain liabilities of Dakota Prairie Refining which are reflected in current liabilities held for sale on the Consolidated Balance Sheet at December 31, 2016. Centennial continues to guarantee certain debt obligations of Dakota Prairie Refining; however, Tesoro has agreed to indemnify Centennial for any losses and litigation expenses arising for the guarantee. For more information related to the guarantee, see Note 17.

Part II

The carrying amounts of the major classes of assets and liabilities that are classified as held for sale related to the operations of and activity associated with Dakota Prairie Refining on the Company's Consolidated Balance Sheets at December 31 were as follows:

	2016	2015
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ —	\$ 688
Receivables, net	—	7,693
Inventories	—	13,176
Income taxes receivable	13,987	2,495
Prepayments and other current assets	—	6,214
Total current assets held for sale	13,987	30,266
Noncurrent assets:		
Net property, plant and equipment	—	412,717
Other	—	9,627
Total noncurrent assets held for sale	—	422,344
Total assets held for sale	\$ 13,987	\$ 452,610
Liabilities		
Current liabilities:		
Short-term borrowings	\$ —	\$ 45,500
Long-term debt due within one year	—	5,250
Accounts payable	7,425	24,468
Taxes payable	—	1,391
Accrued compensation	—	938
Other accrued liabilities	—	4,953
Total current liabilities held for sale	7,425	82,500
Noncurrent liabilities:		
Long-term debt	—	63,750
Deferred income taxes	14 (a)	23,841 (a)
Total noncurrent liabilities held for sale	14	87,591
Total liabilities held for sale	\$ 7,439	\$ 170,091

(a) On the Company's Consolidated Balance Sheets, these amounts were reclassified to noncurrent deferred income tax assets and are reflected in noncurrent assets held for sale.

The Company performed a fair value assessment of the assets and liabilities classified as held for sale. In the second quarter of 2016, the fair value assessment was determined using the market approach based on the sale transaction to Tesoro. The fair value assessment indicated an impairment based on the carrying value exceeding the fair value, which resulted in the Company recording an impairment of \$251.9 million (\$156.7 million after tax) in the quarter ended June 30, 2016. The impairment was included in operating expenses from discontinued operations. The fair value of Dakota Prairie Refining's assets have been categorized as Level 3 in the fair value hierarchy. At December 31, 2016, the Company has not incurred any material exit and disposal costs related to Dakota Prairie Refining, and does not expect to incur any material exit and disposal costs.

Fidelity In the second quarter of 2015, the Company began the marketing and sale process of Fidelity with an anticipated sale to occur within one year. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's oil and natural gas assets. The completion of the majority of these sales occurred between October 2015 and April 2016. The sale of Fidelity was part of the Company's strategic plan to grow its capital investments in the remaining business segments and to focus on creating a greater long-term value.

The carrying amounts of the major classes of assets and liabilities that are classified as held for sale related to the operations of Fidelity on the Company's Consolidated Balance Sheets at December 31 were as follows:

	2016		2015
	(In thousands)		
Assets			
Current assets:			
Receivables, net	\$ 355	\$	13,387
Inventories	—		1,308
Income taxes receivable	—		9,665
Prepayments and other current assets	—		221
Total current assets held for sale	355		24,581
Noncurrent assets:			
Investments	—		37
Net property, plant and equipment	5,507		793,422
Deferred income taxes	91,098		124,035
Other	161		161
Less allowance for impairment of assets held for sale	938		754,541
Total noncurrent assets held for sale	95,828		163,114
Total assets held for sale	\$ 96,183	\$	187,695
Liabilities			
Current liabilities:			
Accounts payable	\$ 141	\$	25,013
Taxes payable	19 (a)		1,052
Accrued compensation	—		13,080
Other accrued liabilities	2,358		4,838
Total current liabilities held for sale	2,518		43,983
Total liabilities held for sale	\$ 2,518	\$	43,983
(a) On the Company's Consolidated Balance Sheets, this amount was reclassified to prepayments and other current assets and is reflected in current assets held for sale.			

At December 31, 2016 and 2015, the Company's deferred tax assets included in assets held for sale were largely comprised of \$89.3 million and \$78.9 million, respectively, of federal and state net operating loss carryforwards.

The Company had federal income tax net operating loss carryforwards of \$297.2 million and \$208.2 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the Company had various state income tax net operating loss carryforwards of \$189.1 million and \$201.4 million, respectively. The federal net operating loss carryforwards expire in 2036 and 2037 if not utilized. The state net operating loss carryforwards are due to expire between 2023 and 2037. It is likely a portion of the benefit from the state carryforwards will not be realized; therefore, valuation allowances of \$500,000 and \$300,000 have been provided in 2016 and 2015, respectively.

The Company performed a fair value assessment of the assets and liabilities classified as held for sale. In the second quarter of 2016, the fair value assessment was determined using the income and market approaches. The income approach was determined by using the present value of future estimated cash flows. The market approach was based on market transactions of similar properties. The estimated carrying value exceeded the fair value and the Company recorded an impairment of \$900,000 (\$600,000 after tax) in the second quarter of 2016. In the first quarter of 2016, the fair value assessment was determined using the market approach largely based on a purchase and sale agreement. The estimated fair value exceeded the carrying value and the Company recorded an impairment reversal of \$1.4 million (\$900,000 after tax) in the first quarter of 2016. In the second quarter of 2015, the estimated fair value was determined using the income and the market approaches. The income approach was determined by using the present value of future estimated cash flows. The income approach considered management's views on current operating measures as well as assumptions pertaining to market forces in the oil and gas industry including estimated reserves, estimated prices, market differentials, estimates of well operating and future development costs and timing of operations. The estimated cash flows were discounted using a rate believed to be consistent with those used by principal market participants. The market approach was provided by a third party and based on market transactions involving similar interests in oil and natural gas properties. The fair value assessment indicated an impairment based on the carrying value exceeding the estimated fair value, which resulted in the Company writing down Fidelity's assets at June 30, 2015, and recording an impairment of \$400.0 million (\$252.0 million after tax) during the second quarter of 2015. In the third quarter of 2015, the estimated fair value of Fidelity was

Part II

determined by agreed upon pricing in the purchase and sale agreements for the assets subject to the agreements, the majority of which closed during the fourth quarter of 2015, including customary purchase price adjustments. The values received in the bid proposals were lower than originally anticipated due to lower commodity prices than those projected in the second quarter of 2015. For those assets for which a purchase and sale agreement had not been entered into at that time, the fair value was based on the market approach utilizing multiples based on similar interests in oil and natural gas properties. The fair value assessment indicated an impairment based on the carrying value exceeding the estimated fair value, which resulted in the Company writing down Fidelity's assets at September 30, 2015, and recording an impairment of \$356.1 million (\$224.4 million after tax). In the fourth quarter of 2015, the fair value assessment was determined using the market approach based on purchase and sale agreements. The estimated fair value exceeded the carrying value and the Company recorded an impairment reversal of \$1.6 million (\$1.0 million after tax) in the fourth quarter of 2015. The impairments were included in operating expenses from discontinued operations. The estimated fair value of Fidelity's assets have been categorized as Level 3 in the fair value hierarchy.

The Company incurred transaction costs of approximately \$300,000 in the first quarter of 2016 and \$2.5 million in 2015. In addition to the transaction costs, and due in part to the change in plans to sell the assets of Fidelity rather than sell Fidelity as a company, Fidelity incurred and expensed approximately \$5.6 million of exit and disposal costs in 2016, and has incurred \$10.5 million of exit and disposal costs to date. The Company does not expect to incur any additional material exit and disposal costs. The exit and disposal costs are associated with severance and other related matters and exclude the office lease expiration discussed in the following paragraph.

Fidelity vacated its office space in Denver, Colorado. The Company incurred lease payments of approximately \$900,000 in 2016. Lease termination payments of \$3.2 million and \$3.3 million were made during the second quarter of 2016 and fourth quarter of 2015, respectively. Existing office furniture and fixtures were relinquished to the lessor in the second quarter of 2016.

Historically, the Company used the full-cost method of accounting for its oil and natural gas production activities. Under this method, all costs incurred in the acquisition, exploration and development of oil and natural gas properties are capitalized and amortized on the units-of-production method based on total proved reserves.

Prior to the oil and natural gas properties being classified as held for sale, capitalized costs were subject to a "ceiling test" that limits such costs to the aggregate of the present value of future net cash flows from proved reserves discounted at 10 percent, as mandated under the rules of the SEC, plus the cost of unproved properties not subject to amortization, plus the effects of cash flow hedges, less applicable income taxes. Proved reserves and associated future cash flows are determined based on SEC Defined Prices and exclude cash outflows associated with asset retirement obligations that have been accrued on the balance sheet. If capitalized costs, less accumulated amortization and related deferred income taxes, exceed the full-cost ceiling at the end of any quarter, a permanent noncash write-down is required to be charged to earnings in that quarter regardless of subsequent price changes.

The Company's capitalized cost under the full-cost method of accounting exceeded the full-cost ceiling at March 31, 2015. SEC Defined Prices, adjusted for market differentials, were used to calculate the ceiling test. Accordingly, the Company was required to write down its oil and natural gas producing properties. The Company recorded a \$500.4 million (\$315.3 million after tax) noncash write-down in operating expenses from discontinued operations in the first quarter of 2015.

Fidelity previously held commodity derivatives that were not designated as hedging instruments. The amount of gain (loss) recognized in discontinued operations, before tax, was \$(18.3) million and \$23.4 million in the years ended December 31, 2015 and 2014, respectively.

On February 10, 2014, the Company entered into agreements to purchase working interests and leasehold positions in oil and natural gas production assets in the southern Powder River Basin of Wyoming. The effective date of the acquisition was October 1, 2013, and the closing occurred on March 6, 2014. The total purchase price, including purchase price adjustments, for acquisitions in 2014 was approximately \$209.2 million, including the above acquisition which is reflected in discontinued operations. Pro forma financial amounts reflecting the effects of the acquisitions are not presented, as such acquisitions were not material to the Company's financial position or results of operations.

CEM In 2007, Centennial Resources sold CEM to Bicent. In connection with the sale, Centennial Resources agreed to indemnify Bicent and its affiliates from certain third party claims arising out of or in connection with Centennial Resources' ownership or operation of CEM prior to the sale. In addition, Centennial had previously guaranteed CEM's obligations under a construction contract. The Company incurred legal expenses and had a benefit related to the resolution of this matter in the second quarter of 2014, which are reflected in discontinued operations in the consolidated financial statements and accompanying notes.

Dakota Prairie Refining, Fidelity and CEM The reconciliation of the major classes of income and expense constituting pretax income (loss) from discontinued operations, which includes Dakota Prairie Refining, Fidelity and CEM, to the after-tax net income (loss) from discontinued operations on the Company's Consolidated Statements of Income at December 31 were as follows:

	2016	2015	2014
	(In thousands)		
Operating revenues	\$ 123,024	\$ 363,115	\$ 547,571
Operating expenses	513,813	1,666,941	386,651
Operating income (loss)	(390,789)	(1,303,826)	160,920
Other income	306	3,149	1,898
Interest expense	1,753	2,124	145
Income (loss) from discontinued operations before income taxes	(392,236)	(1,302,801)	162,673
Income taxes	(91,882)	(468,721)	53,362
Income (loss) from discontinued operations	(300,354)	(834,080)	109,311
Loss from discontinued operations attributable to noncontrolling interest	(131,691)	(35,256)	(3,895)
Income (loss) from discontinued operations attributable to the Company	\$ (168,663)	\$ (798,824)	\$ 113,206

The pretax loss from discontinued operations attributable to the Company, related to the operations of and activity associated with Dakota Prairie Refining, was \$253.5 million, \$31.5 million and \$3.2 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Note 3 - Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2016, were as follows:

	Balance at January 1, 2016 *	Goodwill Acquired During the Year	Held for Sale	Balance at December 31, 2016
	(In thousands)			
Natural gas distribution	\$ 345,736	\$ —	\$ —	\$ 345,736
Pipeline and midstream	9,737	—	(9,737)	—
Construction materials and contracting	176,290	—	—	176,290
Construction services	103,441	6,324	—	109,765
Total	\$ 635,204	\$ 6,324	\$ (9,737)	\$ 631,791

* Balance is presented net of accumulated impairment of \$12.3 million at the pipeline and midstream segment, which occurred in prior periods.

The changes in the carrying amount of goodwill for the year ended December 31, 2015, were as follows:

	Balance at January 1, 2015 *	Goodwill Acquired During the Year	Balance at December 31, 2015 *
	(In thousands)		
Natural gas distribution	\$ 345,736	\$ —	\$ 345,736
Pipeline and midstream	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,441	—	103,441
Total	\$ 635,204	\$ —	\$ 635,204

* Balance is presented net of accumulated impairment of \$12.3 million at the pipeline and midstream segment, which occurred in prior periods.

Part II

Other amortizable intangible assets at December 31 were as follows:

	2016	2015
	(In thousands)	
Customer relationships	\$ 17,145	\$ 20,975
Less accumulated amortization	13,917	16,845
	3,228	4,130
Noncompete agreements	2,430	4,409
Less accumulated amortization	1,658	3,655
	772	754
Other	7,768	8,304
Less accumulated amortization	5,843	5,846
	1,925	2,458
Total	\$ 5,925	\$ 7,342

Amortization expense for amortizable intangible assets for the years ended December 31, 2016, 2015 and 2014, was \$2.5 million, \$2.5 million and \$3.2 million, respectively. Estimated amortization expense for intangible assets is \$2.2 million in 2017, \$1.2 million in 2018, \$1.0 million in 2019, \$500,000 in 2020, \$200,000 in 2021 and \$800,000 thereafter.

Note 4 - Regulatory Assets and Liabilities

The following table summarizes the individual components of unamortized regulatory assets and liabilities as of December 31:

	Estimated Recovery Period *	2016	2015
		(In thousands)	
Regulatory assets:			
Pension and postretirement benefits (a)	(e)	\$ 176,025	\$ 185,832
Taxes recoverable from customers (a)	Over plant lives	28,278	27,682
Manufactured gas plant sites remediation (a)	—	18,259	18,617
Asset retirement obligations (a)	—	42,580	8,000
Natural gas costs recoverable through rate adjustments (b)	Up to 1 year	2,242	547
Long-term debt refinancing costs (a)	Up to 21 years	6,248	7,031
Costs related to identifying generation development (a)	Up to 10 years	3,407	3,808
Other (a) (b)	Largely within 1- 4 years	30,281	11,741
Total regulatory assets		307,320	263,258
Regulatory liabilities:			
Plant removal and decommissioning costs (c)		176,972	182,981
Taxes refundable to customers (c)		11,010	17,060
Pension and postretirement benefits (c)		9,099	4,764
Natural gas costs refundable through rate adjustments (d)		25,580	20,884
Other (c) (d)		19,191	17,429
Total regulatory liabilities		241,852	243,118
Net regulatory position		\$ 65,468	\$ 20,140

* Estimated recovery period for regulatory assets currently being recovered in rates charged to customers.

(a) Included in deferred charges and other assets - other on the Consolidated Balance Sheets.

(b) Included in prepayments and other current assets on the Consolidated Balance Sheets.

(c) Included in deferred credits and other liabilities - other on the Consolidated Balance Sheets.

(d) Included in other accrued liabilities on the Consolidated Balance Sheets.

(e) Recovered as expense is incurred or cash contributions are made.

The regulatory assets are expected to be recovered in rates charged to customers. A portion of the Company's regulatory assets are not earning a return; however, these regulatory assets are expected to be recovered from customers in future rates. As of December 31, 2016 and 2015, approximately \$255.4 million and \$224.7 million, respectively, of regulatory assets were not earning a rate of return.

If, for any reason, the Company's regulated businesses cease to meet the criteria for application of regulatory accounting for all or part of their operations, the regulatory assets and liabilities relating to those portions ceasing to meet such criteria would be removed from the

balance sheet and included in the statement of income or accumulated other comprehensive income (loss) in the period in which the discontinuance of regulatory accounting occurs.

Note 5 - Fair Value Measurements

The Company measures its investments in certain fixed-income and equity securities at fair value with changes in fair value recognized in income. The Company anticipates using these investments, which consist of an insurance contract, to satisfy its obligations under its unfunded, nonqualified benefit plans for executive officers and certain key management employees, and invests in these fixed-income and equity securities for the purpose of earning investment returns and capital appreciation. These investments, which totaled \$70.9 million and \$67.5 million at December 31, 2016 and 2015, respectively, are classified as investments on the Consolidated Balance Sheets. The net unrealized gains on these investments for the years ended December 31, 2016, 2015 and 2014, were \$3.4 million, \$1.7 million and \$3.4 million, respectively. The change in fair value, which is considered part of the cost of the plan, is classified in operation and maintenance expense on the Consolidated Statements of Income.

The Company did not elect the fair value option, which records gains and losses in income, for its available-for-sale securities, which include mortgage-backed securities and U.S. Treasury securities. These available-for-sale securities are recorded at fair value and are classified as investments on the Consolidated Balance Sheets. Unrealized gains or losses are recorded in accumulated other comprehensive income (loss). Details of available-for-sale securities were as follows:

December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Mortgage-backed securities	\$ 10,546	\$ 8	\$ (105)	\$ 10,449
Total	\$ 10,546	\$ 8	\$ (105)	\$ 10,449
December 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Mortgage-backed securities	\$ 9,128	\$ 19	\$ (49)	\$ 9,098
U.S. Treasury securities	1,315	—	(6)	1,309
Total	\$ 10,443	\$ 19	\$ (55)	\$ 10,407

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's assets and liabilities measured on a recurring basis are determined using the market approach.

The Company's Level 2 money market funds are valued at the net asset value of shares held at the end of the period, based on published market quotations on active markets, or using other known sources including pricing from outside sources.

The estimated fair value of the Company's Level 2 mortgage-backed securities and U.S. Treasury securities are based on comparable market transactions, other observable inputs or other sources, including pricing from outside sources.

The estimated fair value of the Company's Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

Part II

The Company's assets and liabilities measured at fair value on a recurring basis were as follows:

	Fair Value Measurements at December 31, 2016, Using			Balance at December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Money market funds	\$ —	\$ 1,602	\$ —	1,602
Insurance contract*	—	70,921	—	70,921
Available-for-sale securities:				
Mortgage-backed securities	—	10,449	—	10,449
Total assets measured at fair value	\$ —	\$ 82,972	\$ —	82,972

* The insurance contract invests approximately 52 percent in fixed-income investments, 22 percent in common stock of large-cap companies, 13 percent in common stock of mid-cap companies, 10 percent in common stock of small-cap companies, 1 percent in target date investments and 2 percent in cash equivalents.

	Fair Value Measurements at December 31, 2015, Using			Balance at December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Money market funds	\$ —	\$ 1,420	\$ —	1,420
Insurance contract*	—	67,459	—	67,459
Available-for-sale securities:				
Mortgage-backed securities	—	9,098	—	9,098
U.S. Treasury securities	—	1,309	—	1,309
Total assets measured at fair value	\$ —	\$ 79,286	\$ —	79,286

* The insurance contract invests approximately 63 percent in fixed-income investments, 19 percent in common stock of large-cap companies, 9 percent in common stock of mid-cap companies, 7 percent in common stock of small-cap companies, 1 percent in target date investments and 1 percent in cash equivalents.

The Company applies the provisions of the fair value measurement standard to its nonrecurring, non-financial measurements, including long-lived asset impairments. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. The Company reviews the carrying value of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable.

During the second quarter of 2015, coalbed natural gas gathering assets at the pipeline and midstream segment were reviewed for impairment and found to be impaired and were written down to their estimated fair value using the income approach. Under this approach, fair value is determined by using the present value of future estimated cash flows. The factors used to determine the estimated future cash flows include, but are not limited to, internal estimates of gathering revenue, future commodity prices and operating costs and equipment salvage values. The estimated cash flows are discounted using a rate that approximates the weighted average cost of capital of a market participant. These fair value inputs are not typically observable. At June 30, 2015, natural gas gathering assets were written down to the nonrecurring fair value measurement of \$1.1 million.

During the third quarter of 2015, the Company was negotiating the sale of certain non-strategic natural gas gathering assets at the pipeline and midstream segment and as a result these assets were found to be impaired and were written down to their estimated fair value using the market approach. The estimated fair value of natural gas gathering assets that were impaired at September 30, 2015, was largely determined by agreed upon pricing in a purchase and sale agreement that the Company was negotiating, and these assets were sold in the fourth quarter of 2015. At September 30, 2015, natural gas gathering assets were written down to the nonrecurring fair value measurement of \$10.8 million.

The fair value of these natural gas gathering assets have been categorized as Level 3 in the fair value hierarchy.

The Company performed a fair value assessment of the assets and liabilities classified as held for sale. For more information on these Level 3 nonrecurring fair value measurements, see Note 2.

The Company's long-term debt is not measured at fair value on the Consolidated Balance Sheets and the fair value is being provided for disclosure purposes only. The fair value was based on discounted future cash flows using current market interest rates. The estimated fair value of the Company's Level 2 long-term debt at December 31 was as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Long-term debt	\$ 1,790,159	\$ 1,841,885	\$ 1,796,163	\$ 1,819,828

The carrying amounts of the Company's remaining financial instruments included in current assets and current liabilities approximate their fair values.

Note 6 - Debt

Certain debt instruments of the Company and its subsidiaries, including those discussed later, contain restrictive covenants and cross-default provisions. In order to borrow under the respective credit agreements, the Company and its subsidiaries must be in compliance with the applicable covenants and certain other conditions. In the event the Company and its subsidiaries do not comply with the applicable covenants and other conditions, alternative sources of funding may need to be pursued.

The following table summarizes the outstanding revolving credit facilities of the Company and its subsidiaries:

Company	Facility	Facility Limit	Amount Outstanding at December 31, 2016	Amount Outstanding at December 31, 2015	Letters of Credit at December 31, 2016	Expiration Date
			(In millions)			
MDU Resources Group, Inc.	Commercial paper/Revolving credit agreement	(a) \$ 175.0	\$ 111.0	(b) \$ 44.5	(b) \$ —	5/8/19
Cascade Natural Gas Corporation	Revolving credit agreement	\$ 50.0	(c) \$ —	\$ —	\$ 2.2	(d) 7/9/18
Intermountain Gas Company	Revolving credit agreement	\$ 65.0	(e) \$ 20.9	\$ 47.9	\$ —	7/13/18
Centennial Energy Holdings, Inc.	Commercial paper/Revolving credit agreement	(f) \$ 500.0	\$ 151.0	(b) \$ 18.0	(b) \$ —	9/23/21

(a) The commercial paper program is supported by a revolving credit agreement with various banks (provisions allow for increased borrowings, at the option of the Company on stated conditions, up to a maximum of \$225.0 million). There were no amounts outstanding under the credit agreement.

(b) Amount outstanding under commercial paper program.

(c) Certain provisions allow for increased borrowings, up to a maximum of \$75.0 million.

(d) Outstanding letter(s) of credit reduce the amount available under the credit agreement.

(e) Certain provisions allow for increased borrowings, up to a maximum of \$90.0 million.

(f) The commercial paper program is supported by a revolving credit agreement with various banks (provisions allow for increased borrowings, at the option of Centennial on stated conditions, up to a maximum of \$600.0 million). There were no amounts outstanding under the credit agreement.

The Company's and Centennial's respective commercial paper programs are supported by revolving credit agreements. While the amount of commercial paper outstanding does not reduce available capacity under the respective revolving credit agreements, the Company and Centennial do not issue commercial paper in an aggregate amount exceeding the available capacity under their credit agreements. The commercial paper borrowings may vary during the period, largely the result of fluctuations in working capital requirements due to the seasonality of the construction businesses.

The following includes information related to the preceding table.

Long-term debt

MDU Resources Group, Inc. The Company's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings.

Part II

The credit agreement contains customary covenants and provisions, including covenants of the Company not to permit, as of the end of any fiscal quarter, (A) the ratio of funded debt to total capitalization (determined on a consolidated basis) to be greater than 65 percent or (B) the ratio of funded debt to capitalization (determined with respect to the Company alone, excluding its subsidiaries) to be greater than 65 percent. Other covenants include limitations on the sale of certain assets and on the making of certain loans and investments.

There are no credit facilities that contain cross-default provisions between the Company and any of its subsidiaries.

On November 21, 2016, the Company entered into a \$100.0 million note purchase agreement. The Company issued \$40.0 million of Senior Notes under the agreement on November 21, 2016, with a due date of November 21, 2046, at an interest rate of 4.15 percent. The Company contracted to issue an additional \$60.0 million of Senior Notes under the agreement on March 21, 2017, with due dates ranging from March 2032 to March 2037 at a weighted average interest rate of 3.61 percent.

MDU Energy Capital, LLC The ability to request additional borrowings under the master shelf agreement expired; however, there is debt outstanding that is reflected in the following table of long-term debt outstanding. The master shelf agreement contains customary covenants and provisions, including covenants of MDU Energy Capital not to permit (A) the ratio of its total debt (on a consolidated basis) to adjusted total capitalization to be greater than 70 percent, or (B) the ratio of subsidiary debt to subsidiary capitalization to be greater than 65 percent, or (C) the ratio of Intermountain's total debt (determined on a consolidated basis) to total capitalization to be greater than 65 percent. The agreement also includes a covenant requiring the ratio of MDU Energy Capital earnings before interest and taxes to interest expense (on a consolidated basis), for the 12-month period ended each fiscal quarter, to be greater than 1.5 to 1. In addition, payment obligations under the master shelf agreement may be accelerated upon the occurrence of an event of default (as described in the agreement).

Cascade Natural Gas Corporation Any borrowings under the revolving credit agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued borrowings.

The credit agreement contains customary covenants and provisions, including a covenant of Cascade not to permit, at any time, the ratio of total debt to total capitalization to be greater than 65 percent. Other covenants include restrictions on the sale of certain assets, limitations on indebtedness and the making of certain investments.

Cascade's credit agreement also contains cross-default provisions. These provisions state that if Cascade fails to make any payment with respect to any indebtedness or contingent obligation, in excess of a specified amount, under any agreement that causes such indebtedness to be due prior to its stated maturity or the contingent obligation to become payable, Cascade will be in default under the revolving credit agreement.

Intermountain Gas Company Any borrowings under the revolving credit agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued borrowings.

The credit agreement contains customary covenants and provisions, including a covenant of Intermountain not to permit, at any time, the ratio of total debt to total capitalization to be greater than 65 percent. Other covenants include restrictions on the sale of certain assets, limitations on indebtedness and the making of certain investments.

Intermountain's credit agreement also contains cross-default provisions. These provisions state that if Intermountain fails to make any payment with respect to any indebtedness or contingent obligation, in excess of a specified amount, under any agreement that causes such indebtedness to be due prior to its stated maturity or the contingent obligation to become payable, or certain conditions result in an early termination date under any swap contract that is in excess of a specified amount, then Intermountain will be in default under the revolving credit agreement.

On November 9, 2016, Intermountain issued \$30.0 million of Senior Notes with a due date of November 9, 2046, at an interest rate of 4.0 percent.

Centennial Energy Holdings, Inc. On September 23, 2016, Centennial amended its revolving credit agreement to decrease the borrowing limit by \$150.0 million to \$500.0 million and extend the termination date to September 23, 2021. Centennial's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings.

Centennial's revolving credit agreement and certain debt outstanding under an expired uncommitted long-term master shelf agreement contain customary covenants and provisions, including a covenant of Centennial, not to permit, as of the end of any fiscal quarter, the ratio of total consolidated debt to total consolidated capitalization to be greater than 65 percent (for the revolving credit agreement) and a

covenant of Centennial and certain of its subsidiaries, not to permit, as of the end of any fiscal quarter, the ratio of total debt to total capitalization to be greater than 60 percent (for the master shelf agreement). The master shelf agreement also includes a covenant that does not permit the ratio of Centennial's EBITDA to interest expense, for the 12-month period ended each fiscal quarter, to be less than 1.75 to 1. Other covenants include restricted payments, restrictions on the sale of certain assets, limitations on subsidiary indebtedness, minimum consolidated net worth, limitations on priority debt and the making of certain loans and investments.

Certain of Centennial's financing agreements contain cross-default provisions. These provisions state that if Centennial or any subsidiary of Centennial fails to make any payment with respect to any indebtedness or contingent obligation, in excess of a specified amount, under any agreement that causes such indebtedness to be due prior to its stated maturity or the contingent obligation to become payable, the applicable agreements will be in default.

WBI Energy Transmission, Inc. On May 17, 2016, WBI Energy Transmission entered into an amendment to its amended and restated uncommitted note purchase and private shelf agreement to increase the aggregate issuance capacity from \$175.0 million to \$200.0 million and extend the issuance period to May 16, 2019. WBI Energy Transmission had \$100.0 million of notes outstanding at December 31, 2016, which reduced the remaining capacity under this uncommitted private shelf agreement to \$100.0 million. This agreement contains customary covenants and provisions, including a covenant of WBI Energy Transmission not to permit, as of the end of any fiscal quarter, the ratio of total debt to total capitalization to be greater than 55 percent. Other covenants include a limitation on priority debt and restrictions on the sale of certain assets and the making of certain investments.

Long-term Debt Outstanding Long-term debt outstanding at December 31 was as follows:

	2016	2015
	(In thousands)	
Senior Notes at a weighted average rate of 4.87%, due on dates ranging from August 31, 2017 to January 15, 2055	\$ 1,437,831	\$ 1,616,246
Commercial paper at a weighted average rate of 1.27%, supported by revolving credit agreements	262,000	62,500
Medium-Term Notes at a weighted average rate of 6.68%, due on dates ranging from September 1, 2020 to March 16, 2029	50,000	50,000
Other notes at a weighted average rate of 5.25%, due on February 1, 2035	24,471	24,589
Credit agreements at a weighted average rate of 3.14%, due on dates ranging from July 13, 2018 to November 30, 2038	21,793	48,906
Unamortized debt issuance costs	(5,832)	(6,069)
Discount	(104)	(9)
Total long-term debt	1,790,159	1,796,163
Less current maturities	43,598	238,539
Net long-term debt	\$ 1,746,561	\$ 1,557,624

Schedule of Debt Maturities Long-term debt maturities for the five years and thereafter following December 31, 2016, were as follows:

	2017	2018	2019	2020	2021	Thereafter
	(In thousands)					
Long-term debt maturities	\$ 43,598	\$ 169,449	\$ 162,154	\$ 15,021	\$ 151,013	\$ 1,254,860

Note 7 - Asset Retirement Obligations

The Company records obligations related to retirement costs of natural gas distribution mains and lines, natural gas transmission lines, storage facilities, decommissioning of certain electric generating facilities, reclamation of certain aggregate properties, special handling and disposal of hazardous materials at certain electric generating facilities, natural gas distribution facilities and buildings, and certain other obligations as asset retirement obligations.

Part II

A reconciliation of the Company's liability, which is included in other accrued liabilities and deferred credits and other liabilities - other on the Consolidated Balance Sheets, for the years ended December 31 was as follows:

	2016	2015
	(In thousands)	
Balance at beginning of year	\$ 242,224	\$ 27,211
Liabilities incurred	15,114	2,751
Liabilities settled	(4,338)	(1,708)
Accretion expense	13,918	2,134
Revisions in estimates	48,052	211,836
Balance at end of year	\$ 314,970	\$ 242,224

The 2016 revisions in estimates consist principally of updated asset retirement obligation costs associated with natural gas transmission lines and storage facilities at the pipeline and midstream segment. The 2015 revisions in estimates consist principally of updated asset retirement obligation costs associated with natural gas distribution mains and lines at the natural gas distribution segment.

The Company believes that largely all expenses related to asset retirement obligations at the Company's regulated operations will be recovered in rates over time and, accordingly, defers such expenses as regulatory assets. For more information on the Company's regulatory assets and liabilities, see Note 4.

Note 8 - Preferred Stocks

Preferred stocks at December 31 were as follows:

	2016	2015
	(In thousands, except shares and per share amounts)	
Authorized:		
Preferred -		
500,000 shares, cumulative, par value \$100, issuable in series		
Preferred stock A -		
1,000,000 shares, cumulative, without par value, issuable in series (none outstanding)		
Preference -		
500,000 shares, cumulative, without par value, issuable in series (none outstanding)		
Outstanding:		
4.50% Series - 100,000 shares	\$ 10,000	\$ 10,000
4.70% Series - 50,000 shares	5,000	5,000
Total preferred stocks	\$ 15,000	\$ 15,000

For the years 2016, 2015 and 2014, dividends declared on the 4.50% Series and 4.70% Series preferred stocks were \$4.50 and \$4.70 per share, respectively. The 4.50% Series and 4.70% Series preferred stocks outstanding are subject to redemption, in whole or in part, at the option of the Company with certain limitations on 30 days notice on any quarterly dividend date at a redemption price, plus accrued dividends, of \$105 per share and \$102 per share, respectively.

In the event of a voluntary or involuntary liquidation, all preferred stock series holders are entitled to \$100 per share, plus accrued dividends.

The affirmative vote of two-thirds of a series of the Company's outstanding preferred stock is necessary for amendments to the Company's charter or bylaws that adversely affect that series; creation of or increase in the amount of authorized stock ranking senior to that series (or an affirmative majority vote where the authorization relates to a new class of stock that ranks on parity with such series); a voluntary liquidation or sale of substantially all of the Company's assets; a merger or consolidation, with certain exceptions; or the partial retirement of that series of preferred stock when all dividends on that series of preferred stock have not been paid. The consent of the holders of a particular series is not required for such corporate actions if the equivalent vote of all outstanding series of preferred stock voting together has consented to the given action and no particular series is affected differently than any other series.

Subject to the foregoing, the holders of common stock exclusively possess all voting power. However, if cumulative dividends on preferred stock are in arrears, in whole or in part, for one year, the holders of preferred stock would obtain the right to one vote per share until all dividends in arrears have been paid and current dividends have been declared and set aside.

Note 9 - Common Stock

For the years 2016, 2015 and 2014, dividends declared on common stock were \$.7550, \$.7350 and \$.7150 per common share, respectively.

The Stock Purchase Plan provided interested investors the opportunity to make optional cash investments and to reinvest all or a percentage of their cash dividends in shares of the Company's common stock. The K-Plan provides participants the option to invest in the Company's common stock. From January 2014 through August 2015, the Stock Purchase Plan and K-Plan, with respect to Company stock, purchased shares of authorized but unissued common stock from the Company. From September 2015 through December 2016, the K-Plan purchased shares of common stock on the open market. At December 31, 2016, there were 7.8 million shares of common stock reserved for original issuance under the K-Plan. From September 2015 through December 4, 2016, the Stock Purchase Plan purchased shares of common stock on the open market. On December 5, 2016, the Stock Purchase Plan was terminated and all remaining shares reserved for original issuance under the plan have been de-registered.

The Company depends on earnings from its divisions and dividends from its subsidiaries to pay dividends on common stock. The declaration and payment of dividends is at the sole discretion of the board of directors, subject to limitations imposed by the Company's credit agreements, federal and state laws, and applicable regulatory limitations. In addition, the Company and Centennial are generally restricted to paying dividends out of capital accounts or net assets. The following discusses the most restrictive limitations.

Pursuant to a covenant under a credit agreement, Centennial may only declare or pay distributions if as of the last day of any fiscal quarter, the ratio of Centennial's average consolidated indebtedness as of the last day of such fiscal quarter and each of the preceding three fiscal quarters to Centennial's Consolidated EBITDA does not exceed 3 to 1; and after giving effect to such distribution, all distributions made during the 12-month period ending on the last day of the fiscal quarter in which such distribution is made will not exceed the remainder of Centennial's Consolidated EBITDA minus Centennial's capital expenditures less the net cash proceeds from all sales of capital assets from continuing operations, for the immediately preceding 12-month period. Intermountain and Cascade have regulatory limitations on the amount of dividends each can pay. Based on these limitations, approximately \$1.3 billion of the net assets of the Company's subsidiaries were restricted from being used to transfer funds to the Company at December 31, 2016. In addition, the Company's credit agreement also contains restrictions on dividend payments. The most restrictive limitation requires the Company not to permit the ratio of funded debt to capitalization (determined with respect to the Company alone, excluding its subsidiaries) to be greater than 65 percent. Based on this limitation, approximately \$351 million of the Company's (excluding its subsidiaries) net assets, which represents common stockholders' equity including retained earnings, would be restricted from use for dividend payments at December 31, 2016. In addition, state regulatory commissions may require the Company to maintain certain capitalization ratios. These requirements are not expected to affect the Company's ability to pay dividends in the near term.

Note 10 - Stock-Based Compensation

The Company has several stock-based compensation plans under which it is currently authorized to grant restricted stock and stock. As of December 31, 2016, there are 5.5 million remaining shares available to grant under these plans. The Company generally issues new shares of common stock to satisfy employee performance share awards and purchases shares on the open market for nonemployee director stock awards.

Total stock-based compensation expense (after tax) was \$3.3 million, \$2.9 million and \$4.4 million in 2016, 2015 and 2014, respectively.

As of December 31, 2016, total remaining unrecognized compensation expense related to stock-based compensation was approximately \$4.9 million (before income taxes) which will be amortized over a weighted average period of 1.5 years.

Stock awards

Nonemployee directors may receive shares of common stock instead of cash in payment for directors' fees under the nonemployee director stock compensation plan. There were 37,218 shares with a fair value of \$1.1 million, 58,181 shares with a fair value of \$1.1 million and 43,088 shares with a fair value of \$1.1 million issued under this plan during the years ended December 31, 2016, 2015 and 2014, respectively.

Part II

Performance share awards

Since 2003, key employees of the Company have been awarded performance share awards each year. Entitlement to performance shares is based on the Company's total shareholder return over designated performance periods as measured against a selected peer group.

Target grants of performance shares outstanding at December 31, 2016, were as follows:

Grant Date	Performance Period	Target Grant of Shares
February 2014	2014-2016	136,901
February 2015	2015-2017	200,112
June 2015	2015-2017	14,441
February 2016	2016-2018	310,583
March 2016	2016-2018	2,151

Participants may earn from zero to 200 percent of the target grant of shares based on the Company's total shareholder return relative to that of the selected peer group. Compensation expense is based on the grant-date fair value as determined by Monte Carlo simulation. The blended volatility term structure ranges are comprised of 50 percent historical volatility and 50 percent implied volatility. Risk-free interest rates were based on U.S. Treasury security rates in effect as of the grant date. Assumptions used for grants of performance shares issued in 2016, 2015 and 2014 were:

	2016		2015		2014	
Weighted average grant-date fair value		\$14.60		\$18.98		\$41.13
Blended volatility range	29.25%	– 32.51%	22.86%	– 24.61%	18.94%	– 20.43%
Risk-free interest rate range	.47%	– .92%	.05%	– 1.07%	.03%	– .74%
Weighted average discounted dividends per share		\$1.56		\$1.57		\$2.15

The fair value of the performance shares that vested during the years ended December 31, 2016 and 2014, was \$953,000 and \$16.6 million, respectively. There were no performance shares that vested in 2015.

A summary of the status of the performance share awards for the year ended December 31, 2016, was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	565,896	\$ 27.90
Granted	324,205	14.60
Less:		
Vested	58,401	29.01
Forfeited	167,512	27.30
Nonvested at end of period	664,188	\$ 21.47

Note 11 - Income Taxes

The components of income before income taxes from continuing operations for each of the years ended December 31 were as follows:

	2016		2015		2014
			(In thousands)		
United States	\$	326,252	\$	248,379	\$ 249,501
Foreign		(24)		(1,326)	(52)
Income before income taxes from continuing operations	\$	326,228	\$	247,053	\$ 249,449

Income tax expense from continuing operations for the years ended December 31 was as follows:

	2016	2015	2014
	(In thousands)		
Current:			
Federal	\$ 81,989	\$ 85,897	\$ 8,837
State	13,190	10,093	622
Foreign	2	30	—
	95,181	96,020	9,459
Deferred:			
Income taxes:			
Federal	(2,102)	(19,632)	52,041
State	1,184	(5,304)	1,913
Investment tax credit - net	(1,131)	(420)	1,009
	(2,049)	(25,356)	54,963
Total income tax expense	\$ 93,132	\$ 70,664	\$ 64,422

Components of deferred tax assets and deferred tax liabilities at December 31 were as follows:

	2016	2015
	(In thousands)	
Deferred tax assets:		
Postretirement	\$ 87,872	\$ 97,666
Compensation-related	44,995	33,714
Alternative minimum tax credit carryforward	29,338	28,169
Federal renewable energy credit	16,944	3,400
Customer advances	13,524	12,623
Legal and environmental contingencies	9,895	6,377
Asset retirement obligations	8,867	8,694
Other	46,957	43,306
Total deferred tax assets	258,392	233,949
Deferred tax liabilities:		
Depreciation and basis differences on property, plant and equipment	774,838	756,444
Postretirement	70,670	71,835
Intangible asset amortization	26,413	23,950
Other	45,580	36,359
Total deferred tax liabilities	917,501	888,588
Valuation allowance	9,117	8,990
Net deferred income tax liability	\$ 668,226	\$ 663,629

As of December 31, 2016 and 2015, the Company had various state income tax net operating loss carryforwards of \$114.7 million and \$116.2 million, respectively, and federal and state income tax credit carryforwards, excluding alternative minimum tax credit carryforwards, of \$43.3 million and \$21.3 million, respectively. Included in the state credits are various regulatory investment tax credits of approximately \$20.7 million and \$13.9 million at December 31, 2016 and 2015, respectively. The federal income tax credit carryforwards expire in 2036 and 2037 if not utilized and state income tax credit carryforwards are due to expire between 2019 and 2042. It is likely that a portion of the benefit from the state carryforwards will not be realized; therefore, valuation allowances have been provided. Changes in tax regulations or assumptions regarding current and future taxable income could require additional valuation allowances in the future. The alternative minimum tax credit carryforwards do not expire. For information regarding net operating loss carryforwards and valuation allowances related to discontinued operations, see Note 2.

Part II

The following table reconciles the change in the net deferred income tax liability from December 31, 2015, to December 31, 2016, to deferred income tax expense:

	2016	
	(In thousands)	
Change in net deferred income tax liability from the preceding table	\$	4,597
Deferred taxes associated with other comprehensive income		(825)
Other		(5,821)
Deferred income tax benefit for the period	\$	(2,049)

Total income tax expense differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for this difference were as follows:

Years ended December 31,	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)					
Computed tax at federal statutory rate	\$ 114,179	35.0	\$ 86,468	35.0	\$ 87,308	35.0
Increases (reductions) resulting from:						
State income taxes, net of federal income tax	9,027	2.8	8,208	3.3	7,019	2.8
Federal renewable energy credit	(13,544)	(4.2)	(3,400)	(1.4)	(3,655)	(1.5)
Tax compliance and uncertain tax positions	(3,028)	(.9)	(2,607)	(1.0)	(8,568)	(3.4)
Domestic production activities	(6,251)	(1.9)	(6,842)	(2.8)	(3,993)	(1.6)
Other	(7,251)	(2.3)	(11,163)	(4.5)	(13,689)	(5.5)
Total income tax expense	\$ 93,132	28.5	\$ 70,664	28.6	\$ 64,422	25.8

Deferred income taxes have been accrued with respect to temporary differences related to the Company's foreign operations. The amount of cumulative undistributed earnings for which there are temporary differences is approximately \$2.4 million at December 31, 2016. The amount of deferred tax liability, net of allowable foreign tax credits, associated with the undistributed earnings at December 31, 2016, was approximately \$889,000.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. The Company is no longer subject to U.S. federal or non-U.S. income tax examinations by tax authorities for years ending prior to 2012. With few exceptions, as of December 31, 2016, the Company is no longer subject to state and local income tax examinations by tax authorities for years ending prior to 2011.

A reconciliation of the unrecognized tax benefits (excluding interest) for the years ended December 31 was as follows:

	2016		2015		2014	
	(In thousands)					
Balance at beginning of year	\$	—	\$	105	\$	7,845
Settlements		—		—		(7,740)
Lapse of statute of limitations		—		(105)		—
Balance at end of year	\$	—	\$	—	\$	105

Included in income tax expense is interest on uncertain tax positions. For the years ended December 31, 2016, 2015 and 2014, the Company recognized approximately \$(92,000), \$122,000 and \$387,000, respectively, of interest (income) expense in income tax expense. At December 31, 2016 and 2015, the Company had accrued receivables of approximately \$54,000 and interest payable of \$94,000, respectively, for the receipt or payment of interest.

Note 12 - Cash Flow Information

Cash expenditures for interest and income taxes for the years ended December 31 were as follows:

	2016	2015	2014
	(In thousands)		
Interest, net of amount capitalized and AFUDC - borrowed of \$914, \$9,288 and \$10,069 in 2016, 2015 and 2014, respectively	\$ 87,920	\$ 88,775	\$ 81,195
Income taxes paid, net*	\$ 105,908	\$ 61,405	\$ 80,090

* Income taxes paid, net of discontinued operations, were \$1.3 million, \$2.4 million and \$69.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Noncash investing transactions at December 31 were as follows:

	2016	2015	2014
	(In thousands)		
Property, plant and equipment additions in accounts payable	\$ 22,712	\$ 39,754	\$ 12,791

Note 13 - Business Segment Data

The Company's reportable segments are those that are based on the Company's method of internal reporting, which generally segregates the strategic business units due to differences in products, services and regulation. The internal reporting of these operating segments is defined based on the reporting and review process used by the Company's chief executive officer. The vast majority of the Company's operations are located within the United States.

The electric segment generates, transmits and distributes electricity in Montana, North Dakota, South Dakota and Wyoming. The natural gas distribution segment distributes natural gas in those states as well as in Idaho, Minnesota, Oregon and Washington. These operations also supply related value-added services.

The pipeline and midstream segment provides natural gas transportation, underground storage, gathering and processing services, as well as oil gathering, through regulated and nonregulated pipeline systems and processing facilities primarily in the Rocky Mountain and northern Great Plains regions of the United States. This segment also provides cathodic protection and other energy-related services.

The construction materials and contracting segment mines aggregates and markets crushed stone, sand, gravel and related construction materials, including ready-mixed concrete, cement, asphalt, liquid asphalt and other value-added products. It also performs integrated contracting services. This segment operates in the central, southern and western United States and Alaska and Hawaii.

The construction services segment provides utility construction services specializing in constructing and maintaining electric and communication lines, gas pipelines, fire suppression systems, and external lighting and traffic signalization. This segment also provides utility excavation and inside electrical and mechanical services, and manufactures and distributes transmission line construction equipment and other supplies.

The Other category includes the activities of Centennial Capital, which insures various types of risks as a captive insurer for certain of the Company's subsidiaries. The function of the captive insurer is to fund the deductible layers of the insured companies' general liability, automobile liability and pollution liability coverages. Centennial Capital also owns certain real and personal property. The Other category also includes certain general and administrative costs (reflected in operation and maintenance expense) and interest expense which were previously allocated to the refining business and Fidelity and do not meet the criteria for income (loss) from discontinued operations. The Other category also includes Centennial Resources' former investment in the Brazilian Transmission Lines.

Discontinued operations includes the results of Dakota Prairie Refining and Fidelity other than certain general and administrative costs and interest expense as described above. Dakota Prairie Refining refined crude oil and produced and sold diesel fuel, naphtha, ATBs and other by-products of the production process. In the second quarter of 2016, the Company sold all of the outstanding membership interests in Dakota Prairie Refining. Fidelity engaged in oil and natural gas development and production activities in the Rocky Mountain and Mid-Continent/Gulf States regions of the United States. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. Discontinued operations also includes legal expenses and a benefit related to the vacation of an arbitration award in 2014 related to Centennial Resources. For more information on discontinued operations, see Note 2.

Part II

The information below follows the same accounting policies as described in the Summary of Significant Accounting Policies. Information on the Company's businesses as of December 31 and for the years then ended was as follows:

	2016		2015		2014
	(In thousands)				
External operating revenues:					
Regulated operations:					
Electric	\$ 322,356		\$ 280,615		\$ 277,874
Natural gas distribution	766,115		817,419		921,986
Pipeline and midstream	52,983		51,004		47,043
	1,141,454		1,149,038		1,246,903
Nonregulated operations:					
Pipeline and midstream	39,602		54,281		64,494
Construction materials and contracting	1,873,696		1,901,530		1,740,089
Construction services	1,072,663		907,767		1,062,055
Other	1,413		1,436		1,532
	2,987,374		2,865,014		2,868,170
Total external operating revenues	\$ 4,128,828		\$ 4,014,052		\$ 4,115,073
Intersegment operating revenues:					
Regulated operations:					
Electric	\$ —		\$ —		\$ —
Natural gas distribution	—		—		—
Pipeline and midstream	48,794		49,065		45,013
	48,794		49,065		45,013
Nonregulated operations:					
Pipeline and midstream	223		554		742
Construction materials and contracting	574		2,752		25,241
Construction services	609		18,660		57,474
Other	7,230		7,755		7,832
	8,636		29,721		91,289
Intersegment eliminations	(57,430)		(78,786)		(136,302)
Total intersegment operating revenues	\$ —		\$ —		\$ —
Depreciation, depletion and amortization:					
Electric	\$ 50,220		\$ 37,583		\$ 35,008
Natural gas distribution	65,426		64,756		54,700
Pipeline and midstream	24,885		27,981		29,749
Construction materials and contracting	58,413		65,937		68,557
Construction services	15,307		13,420		12,874
Other	2,067		2,070		2,196
Total depreciation, depletion and amortization	\$ 216,318		\$ 211,747		\$ 203,084
Interest expense:					
Electric	\$ 24,982		\$ 17,421		\$ 15,595
Natural gas distribution	30,405		29,471		27,217
Pipeline and midstream	7,903		9,895		9,946
Construction materials and contracting	15,265		15,183		16,368
Construction services	4,059		3,959		4,176
Other	5,854		15,853		13,823
Intersegment eliminations	(620)		(603)		(254)
Total interest expense	\$ 87,848		\$ 91,179		\$ 86,871

Part II

	2016	2015	2014
	(In thousands)		
Income taxes:			
Electric	\$ 1,449	\$ 11,523	\$ 12,442
Natural gas distribution	9,181	11,377	11,350
Pipeline and midstream	12,408	7,505	12,232
Construction materials and contracting	60,625	41,619	18,586
Construction services	17,748	16,432	24,753
Other	(2,028)	(9,834)	(11,136)
Intersegment eliminations	(6,251)	(7,958)	(3,805)
Total income taxes	\$ 93,132	\$ 70,664	\$ 64,422
Earnings (loss) on common stock:			
Regulated operations:			
Electric	\$ 42,222	\$ 35,914	\$ 36,731
Natural gas distribution	27,102	23,607	30,484
Pipeline and midstream	22,060	20,680	15,440
	91,384	80,201	82,655
Nonregulated operations:			
Pipeline and midstream	1,375	(7,430)	9,226
Construction materials and contracting	102,687	89,096	51,510
Construction services	33,945	23,762	54,432
Other	(3,231)	(14,941)	(7,386)
	134,776	90,487	107,782
Intersegment eliminations (a)	6,251	5,016	(6,095)
Earnings on common stock before income (loss) from discontinued operations	232,411	175,704	184,342
Income (loss) from discontinued operations, net of tax (a)	(300,354)	(834,080)	109,311
Loss from discontinued operations attributable to noncontrolling interest	(131,691)	(35,256)	(3,895)
Total earnings (loss) on common stock	\$ 63,748	\$ (623,120)	\$ 297,548
Capital expenditures:			
Electric	\$ 111,134	\$ 332,876	\$ 185,121
Natural gas distribution	126,272	130,793	120,613
Pipeline and midstream	34,467	18,315	61,754
Construction materials and contracting	37,845	48,126	37,896
Construction services	60,344	38,269	26,942
Other	2,358	3,755	2,131
Total capital expenditures (b)	\$ 372,420	\$ 572,134	\$ 434,457
Assets:			
Electric (c)	\$ 1,406,694	\$ 1,325,858	\$ 1,028,001
Natural gas distribution (c)	2,099,296	2,038,433	1,935,271
Pipeline and midstream	550,615	591,651	651,925
Construction materials and contracting	1,220,459	1,261,963	1,260,534
Construction services	513,093	442,845	437,322
Other (d)	283,255	287,940	315,495
Assets held for sale	211,055	616,464	2,176,857
Total assets	\$ 6,284,467	\$ 6,565,154	\$ 7,805,405

Part II

	2016	2015	2014
	(In thousands)		
Property, plant and equipment:			
Electric (c)	\$ 1,888,613	\$ 1,786,148	\$ 1,457,101
Natural gas distribution (c)	2,179,413	2,076,581	1,904,759
Pipeline and midstream	672,199	758,729	818,388
Construction materials and contracting	1,549,375	1,553,428	1,529,942
Construction services	171,361	163,279	144,395
Other	49,268	49,537	50,937
Less accumulated depreciation, depletion and amortization	2,578,902	2,489,322	2,385,202
Net property, plant and equipment	\$ 3,931,327	\$ 3,898,380	\$ 3,520,320

(a) Includes eliminations for the presentation of income tax adjustments between continuing and discontinued operations.

(b) Capital expenditures for 2016, 2015 and 2014 include noncash capital expenditure-related accounts payable and AFUDC, totaling \$(15.8) million, \$35.3 million and \$5.1 million, respectively.

(c) Includes allocations of common utility property.

(d) Includes assets not directly assignable to a business (i.e. cash and cash equivalents, certain accounts receivable, certain investments and other miscellaneous current and deferred assets).

Note 14 - Employee Benefit Plans

Pension and other postretirement benefit plans

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. The Company uses a measurement date of December 31 for all of its pension and postretirement benefit plans.

Prior to 2013, defined pension plan benefits and accruals for all nonunion and certain union plans were frozen. On June 30, 2015, an additional union plan was frozen. As of June 30, 2015, all of the Company's defined pension plans were frozen. These employees were eligible to receive additional defined contribution plan benefits.

Effective January 1, 2010, eligibility to receive retiree medical benefits was modified at certain of the Company's businesses. Employees who had attained age 55 with 10 years of continuous service by December 31, 2010, will be provided the current retiree medical insurance benefits or can elect the new benefit, if desired, regardless of when they retire. All other current employees must meet the new eligibility criteria of age 60 and 10 years of continuous service at the time they retire. These employees will be eligible for a specified company funded Retiree Reimbursement Account. Employees hired after December 31, 2009, will not be eligible for retiree medical benefits at certain of the Company's businesses.

In 2012, the Company modified health care coverage for certain retirees. Effective January 1, 2013, post-65 coverage was replaced by a fixed-dollar subsidy for retirees and spouses to be used to purchase individual insurance through an exchange.

Changes in benefit obligation and plan assets for the years ended December 31, 2016 and 2015, and amounts recognized in the Consolidated Balance Sheets at December 31, 2016 and 2015, were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 442,960	\$ 475,337	\$ 92,734	\$ 99,012
Service cost	—	86	1,647	1,816
Interest cost	17,218	17,141	3,688	3,607
Plan participants' contributions	—	—	1,405	1,408
Actuarial (gain) loss	1,882	(24,875)	(3,872)	(5,873)
Benefits paid	(25,753)	(24,729)	(6,298)	(7,236)
Benefit obligation at end of year	436,307	442,960	89,304	92,734
Change in net plan assets:				
Fair value of plan assets at beginning of year	332,667	354,363	82,593	87,586
Actual gain (loss) on plan assets	26,595	(10,879)	4,184	258
Employer contribution	—	13,912	962	577
Plan participants' contributions	—	—	1,405	1,408
Benefits paid	(25,753)	(24,729)	(6,298)	(7,236)
Fair value of net plan assets at end of year	333,509	332,667	82,846	82,593
Funded status - under	\$ (102,798)	\$ (110,293)	\$ (6,458)	\$ (10,141)
Amounts recognized in the Consolidated Balance Sheets at December 31:				
Other assets (noncurrent)	\$ —	\$ —	\$ 13,131	\$ 5,095
Other accrued liabilities (current)	—	—	(538)	(421)
Other liabilities (noncurrent)	(102,798)	(110,293)	(19,051)	(14,815)
Net amount recognized	\$ (102,798)	\$ (110,293)	\$ (6,458)	\$ (10,141)
Amounts recognized in accumulated other comprehensive (income) loss consist of:				
Actuarial loss	\$ 198,668	\$ 208,671	\$ 17,470	\$ 22,484
Prior service cost (credit)	—	—	(13,003)	(14,374)
Total	\$ 198,668	\$ 208,671	\$ 4,467	\$ 8,110

Employer contributions and benefits paid in the preceding table include only those amounts contributed directly to, or paid directly from, plan assets. Accumulated other comprehensive (income) loss in the above table includes amounts related to regulated operations, which are recorded as regulatory assets (liabilities) and are expected to be reflected in rates charged to customers over time. For more information on regulatory assets (liabilities), see Note 4.

Unrecognized pension actuarial losses in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized over the average life expectancy of plan participants for frozen plans. The market-related value of assets is determined using a five-year average of assets.

The pension plans all have accumulated benefit obligations in excess of plan assets. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans at December 31 were as follows:

	2016	2015
	(In thousands)	
Projected benefit obligation	\$ 436,307	\$ 442,960
Accumulated benefit obligation	\$ 436,307	\$ 442,960
Fair value of plan assets	\$ 333,509	\$ 332,667

Part II

Components of net periodic benefit cost (credit) for the Company's pension and other postretirement benefit plans for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2016	2015	2014	2016	2015	2014
(In thousands)						
Components of net periodic benefit cost (credit):						
Service cost	\$ —	\$ 86	\$ 129	\$ 1,647	\$ 1,816	\$ 1,518
Interest cost	17,218	17,141	17,682	3,688	3,607	3,521
Expected return on assets	(20,924)	(22,254)	(21,218)	(4,533)	(4,795)	(4,617)
Amortization of prior service cost (credit)	—	36	71	(1,371)	(1,371)	(1,393)
Recognized net actuarial loss	6,215	7,016	4,869	1,491	1,960	649
Curtailment loss	—	258	—	—	—	—
Net periodic benefit cost (credit), including amount capitalized	2,509	2,283	1,533	922	1,217	(322)
Less amount capitalized	381	316	388	(52)	120	(21)
Net periodic benefit cost (credit)	2,128	1,967	1,145	974	1,097	(301)
Other changes in plan assets and benefit obligations recognized in accumulated other comprehensive (income) loss:						
Net (gain) loss	(3,789)	8,257	77,238	(3,523)	(1,336)	15,114
Amortization of actuarial loss	(6,215)	(7,016)	(4,869)	(1,491)	(1,960)	(649)
Amortization of prior service (cost) credit	—	(294)	(71)	1,371	1,371	1,393
Total recognized in accumulated other comprehensive (income) loss	(10,004)	947	72,298	(3,643)	(1,925)	15,858
Total recognized in net periodic benefit cost (credit) and accumulated other comprehensive (income) loss	\$ (7,876)	\$ 2,914	\$ 73,443	\$ (2,669)	\$ (828)	\$ 15,557

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2017 is \$6.4 million. The estimated net loss and prior service credit for the other postretirement benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2017 are \$900,000 and \$1.4 million, respectively. Prior service cost is amortized on a straight line basis over the average remaining service period of active participants.

Weighted average assumptions used to determine benefit obligations at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Discount rate	3.83%	4.00%	3.86%	4.06%
Expected return on plan assets	6.75%	6.75%	5.75%	5.75%
Rate of compensation increase	N/A	N/A	3.00%	3.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Discount rate	4.00%	3.70%	4.06%	3.74%
Expected return on plan assets	6.75%	7.00%	5.75%	6.00%
Rate of compensation increase	N/A	N/A	3.00%	3.00%

The expected rate of return on pension plan assets is based on a targeted asset allocation range determined by the funded ratio of the plan. As of December 31, 2016, the expected rate of return on pension plan assets is based on the targeted asset allocation range of 40 percent to 50 percent equity securities and 50 percent to 60 percent fixed-income securities and the expected rate of return from these asset categories. The expected rate of return on other postretirement plan assets is based on the targeted asset allocation range of 30 percent to 40 percent equity securities and 60 percent to 70 percent fixed-income securities and the expected rate of return from these asset categories. The expected return on plan assets for other postretirement benefits reflects insurance-related investment costs.

Health care rate assumptions for the Company's other postretirement benefit plans as of December 31 were as follows:

	2016	2015
Health care trend rate assumed for next year	8.6% – 10.7%	4.0% – 8.0%
Health care cost trend rate - ultimate	4.5%	5.0% – 6.0%
Year in which ultimate trend rate achieved	2024	2021

The Company's other postretirement benefit plans include health care and life insurance benefits for certain retirees. The plans underlying these benefits may require contributions by the retiree depending on such retiree's age and years of service at retirement or the date of retirement. The accounting for the health care plans anticipates future cost-sharing changes that are consistent with the Company's expressed intent to generally increase retiree contributions each year by the excess of the expected health care cost trend rate over six percent.

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have had the following effects at December 31, 2016:

	1 Percentage Point Increase	1 Percentage Point Decrease
	(In thousands)	
Effect on total of service and interest cost components	\$ 255	\$ (210)
Effect on postretirement benefit obligation	\$ 5,741	\$ (4,834)

Outside investment managers manage the Company's pension and postretirement assets. The Company's investment policy with respect to pension and other postretirement assets is to make investments solely in the interest of the participants and beneficiaries of the plans and for the exclusive purpose of providing benefits accrued and defraying the reasonable expenses of administration. The Company strives to maintain investment diversification to assist in minimizing the risk of large losses. The Company's policy guidelines allow for investment of funds in cash equivalents, fixed-income securities and equity securities. The guidelines prohibit investment in commodities and futures contracts, equity private placement, employer securities, leveraged or derivative securities, options, direct real estate investments, precious metals, venture capital and limited partnerships. The guidelines also prohibit short selling and margin transactions. The Company's practice is to periodically review and rebalance asset categories based on its targeted asset allocation percentage policy.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's pension plans' assets are determined using the market approach.

The carrying value of the pension plans' Level 2 cash equivalents approximates fair value and is determined using observable inputs in active markets or the net asset value of shares held at year end, which is determined using other observable inputs including pricing from outside sources.

The estimated fair value of the pension plans' Level 1 equity securities is based on the closing price reported on the active market on which the individual securities are traded.

The estimated fair value of the pension plans' Level 1 and Level 2 collective and mutual funds are based on the net asset value of shares held at year end, based on either published market quotations on active markets or other known sources including pricing from outside sources.

The estimated fair value of the pension plans' Level 2 corporate and municipal bonds is determined using other observable inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers, future cash flows and other reference data.

The estimated fair value of the pension plans' Level 1 U.S. Government securities are valued based on quoted prices on an active market.

The estimated fair value of the pension plans' Level 2 U.S. Government securities are valued mainly using other observable inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers, to be announced prices, future cash flows and other reference data. Some of these securities are valued using pricing from outside sources.

Part II

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

The fair value of the Company's pension plans' assets (excluding cash) by class were as follows:

	Fair Value Measurements at December 31, 2016, Using			Balance at December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
Assets:				
Cash equivalents	\$ —	\$ 6,347	\$ —	\$ 6,347
Equity securities:				
U.S. companies	11,348	—	—	11,348
International companies	1,584	—	—	1,584
Collective and mutual funds*	162,055	64,052	—	226,107
Corporate bonds	—	68,677	—	68,677
Municipal bonds	—	11,002	—	11,002
U.S. Government securities	4,352	2,044	—	6,396
Total assets measured at fair value	\$ 179,339	\$ 152,122	\$ —	\$ 331,461

* Collective and mutual funds invest approximately 29 percent in common stock of international companies, 21 percent in corporate bonds, 20 percent in common stock of large-cap U.S. companies, 8 percent in cash equivalents, 7 percent in U.S. Government securities and 15 percent in other investments.

	Fair Value Measurements at December 31, 2015, Using			Balance at December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
Assets:				
Cash equivalents	\$ —	\$ 8,379	\$ —	\$ 8,379
Equity securities:				
U.S. companies	15,135	—	—	15,135
International companies	2,332	—	—	2,332
Collective and mutual funds*	154,400	63,568	—	217,968
Corporate bonds	—	62,145	—	62,145
Municipal bonds	—	11,680	—	11,680
U.S. Government securities	5,288	6,823	—	12,111
Total assets measured at fair value	\$ 177,155	\$ 152,595	\$ —	\$ 329,750

* Collective and mutual funds invest approximately 29 percent in common stock of international companies, 19 percent in common stock of large-cap U.S. companies, 16 percent in corporate bonds, 16 percent in cash equivalents, 6 percent in common stock of mid-cap U.S. companies and 14 percent in other investments.

The estimated fair values of the Company's other postretirement benefit plans' assets are determined using the market approach.

The estimated fair value of the other postretirement benefit plans' Level 2 cash equivalents is valued at the net asset value of shares held at year end, based on published market quotations on active markets, or using other known sources including pricing from outside sources.

The estimated fair value of the other postretirement benefit plans' Level 1 equity securities is based on the closing price reported on the active market on which the individual securities are traded.

The estimated fair value of the other postretirement benefit plans' Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the years ended December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

The fair value of the Company's other postretirement benefit plans' assets (excluding cash) by asset class were as follows:

	Fair Value Measurements at December 31, 2016, Using			Balance at December 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Cash equivalents	\$ —	\$ 250	\$ —	\$ 250
Equity securities:				
U.S. companies	2,328	—	—	2,328
International companies	5	—	—	5
Insurance contract*	—	80,263	—	80,263
Total assets measured at fair value	\$ 2,333	\$ 80,513	\$ —	\$ 82,846

* The insurance contract invests approximately 38 percent in corporate bonds, 25 percent in common stock of large-cap U.S. companies, 20 percent in U.S. Government securities, 9 percent in mortgage-backed securities and 8 percent in other investments.

	Fair Value Measurements at December 31, 2015, Using			Balance at December 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Cash equivalents	\$ —	\$ 3,261	\$ —	\$ 3,261
Equity securities:				
U.S. companies	2,274	—	—	2,274
International companies	9	—	—	9
Insurance contract*	—	77,044	—	77,044
Total assets measured at fair value	\$ 2,283	\$ 80,305	\$ —	\$ 82,588

* The insurance contract invests approximately 36 percent in corporate bonds, 22 percent in U.S. Government securities, 19 percent in common stock of large-cap U.S. companies, 10 percent in mortgage-backed securities and 13 percent in other investments.

The Company expects to contribute approximately \$2.0 million to its defined benefit pension plans and approximately \$900,000 to its postretirement benefit plans in 2017.

Part II

The following benefit payments, which reflect future service, as appropriate, and expected Medicare Part D subsidies are as follows:

Years	Pension Benefits	Other Postretirement Benefits	Expected Medicare Part D Subsidy
	(In thousands)		
2017	\$ 24,798	\$ 5,410	\$ 168
2018	25,054	5,573	165
2019	25,271	5,603	160
2020	25,616	5,500	154
2021	25,987	5,511	146
2022 - 2026	132,224	27,956	568

Nonqualified benefit plans

In addition to the qualified plan defined pension benefits reflected in the table at the beginning of this note, the Company also has unfunded, nonqualified benefit plans for executive officers and certain key management employees that generally provide for defined benefit payments at age 65 following the employee's retirement or, upon death, to their beneficiaries for a 15-year period. In February 2016, the Company froze the unfunded, nonqualified defined benefit plans to new participants and eliminated benefit increases. Vesting for participants not fully vested was retained. The Company's net periodic benefit cost for these plans was \$1.8 million, \$7.1 million and \$6.6 million in 2016, 2015 and 2014, respectively, which reflects a curtailment gain of \$3.3 million in the first quarter of 2016. The total projected benefit obligation for these plans was \$101.8 million and \$110.8 million at December 31, 2016 and 2015, respectively. The accumulated benefit obligation for these plans was \$101.8 million and \$104.6 million at December 31, 2016 and 2015, respectively. A weighted average discount rate of 3.56 percent and 3.77 percent at December 31, 2016 and 2015, respectively, and a rate of compensation increase of 4.00 percent at December 31, 2015, were used to determine benefit obligations. No rate of compensation increase was used to determine the benefit obligation at December 31, 2016, due to the plans being frozen. A discount rate of 3.77 percent and 3.51 percent for the years ended December 31, 2016 and 2015, respectively, and a rate of compensation increase of 4.00 percent and 4.00 percent for the years ended December 31, 2016 and 2015, respectively, were used to determine net periodic benefit cost.

The amount of benefit payments for the unfunded, nonqualified benefit plans are expected to aggregate \$6.7 million in 2017; \$7.1 million in 2018; \$7.3 million in 2019; \$7.7 million in 2020; \$7.7 million in 2021 and \$36.4 million for the years 2022 through 2026.

In 2012, the Company established a nonqualified defined contribution plan for certain key management employees. Expenses incurred under this plan for 2016, 2015 and 2014 were \$395,000, \$207,000 and \$104,000, respectively.

The Company had investments of \$111.0 million and \$105.2 million at December 31, 2016 and 2015, respectively, consisting of equity securities of \$62.5 million and \$54.2 million, respectively, life insurance carried on plan participants (payable upon the employee's death) of \$35.5 million and \$34.3 million, respectively, and other investments of \$13.0 million and \$16.7 million, respectively. The Company anticipates using these investments to satisfy obligations under these plans.

Defined contribution plans

The Company sponsors various defined contribution plans for eligible employees and the costs incurred under these plans were \$40.9 million in 2016, \$36.8 million in 2015 and \$34.4 million in 2014.

Multiemployer plans

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the MEPP by one employer may be used to provide benefits to employees of other participating employers
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers
- If the Company chooses to stop participating in some of its MEPPs, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability

The Company's participation in these plans is outlined in the following table. Unless otherwise noted, the most recent Pension Protection Act zone status available in 2016 and 2015 is for the plan's year-end at December 31, 2015, and December 31, 2014, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors,

plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are between 65 percent and 80 percent funded, and plans in the green zone are at least 80 percent funded.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2016	2015		2016	2015	2014		
(In thousands)									
Alaska Laborers-Employers Retirement Fund	91-6028298-001	Yellow as of 6/30/2016	Yellow as of 6/30/2015	Implemented	\$ 766	\$ 917	\$ 666	No	12/31/2016
Edison Pension Plan	93-6061681-001	Green as of 12/31/2016	Green as of 12/31/2015	No	6,242	5,517	9,061	No	12/31/2017
IBEW Local No. 82 Pension Plan	31-6127268-001	Green as of 6/30/2016	Red as of 6/30/2015	Implemented	2,560	2,252	1,392	No	12/1/2019
IBEW Local No. 357 Pension Plan A	88-6023284-001	Green	Green	No	3,016	1,896	3,575	No	5/31/2018
IBEW Local 648 Pension Plan	31-6134845-001	Red as of 2/29/2016	Red as of 2/28/2015	Implemented	773	745	1,110	No	9/2/2018
Idaho Plumbers and Pipefitters Pension Plan	82-6010346-001	Green as of 5/31/2016	Green as of 5/31/2015	No	1,221	1,169	1,125	No	9/30/2019
Local Union 212 IBEW Pension Trust Fund	31-6127280-001	Yellow as of 4/30/2016	Yellow as of 4/30/2015	Implemented	1,146	937	568	No	6/2/2019
National Automatic Sprinkler Industry Pension Fund	52-6054620-001	Red as of 12/31/2016	Red as of 12/31/2015	Implemented	775	677	608	No	7/31/2018-3/31/2021
National Electrical Benefit Fund	53-0181657-001	Green	Green	No	6,366	5,271	6,476	No	1/1/2017-5/31/2020
Operating Engineers Local 800 & WY Contractors Association, Inc. Pension Plan for Wyoming**	83-6011320-001	Red as of 12/31/2016	Red as of 12/31/2015	Implemented	—	—	68	No	10/31/2005*
Sheet Metal Workers' Pension Plan of Southern CA, AZ and NV	95-6052257-001	Red as of 12/31/2016	Red as of 12/31/2015	Implemented	1,087	714	676	No	6/30/2017
Southwest Marine Pension Trust	95-6123404-001	Red	Red	Implemented	50	26	31	No	1/31/2019
Other funds					20,525	18,991	17,461		
Total contributions					\$ 44,527	\$ 39,112	\$ 42,817		

* Plan includes collective bargaining agreements which have expired. The agreements contain provisions that automatically renew the existing contracts in lieu of a new negotiated collective bargaining agreement.

** The Company withdrew from the plan as of October 26, 2014, as discussed later.

Part II

The Company was listed in the plans' Forms 5500 as providing more than 5 percent of the total contributions for the following plans and plan years:

Pension Fund	Year Contributions to Plan Exceeded More Than 5 Percent of Total Contributions (as of December 31 of the Plan's Year-End)
Edison Pension Plan	2015 and 2014
IBEW Local No. 82 Pension Plan	2015 and 2014
Local Union No. 124 IBEW Pension Trust Fund	2015 and 2014
Local Union 212 IBEW Pension Trust Fund	2015 and 2014
IBEW Local Union No. 357 Pension Plan A	2015 and 2014
IBEW Local 573 Pension Plan	2014
IBEW Local 648 Pension Plan	2015 and 2014
Idaho Plumbers and Pipefitters Pension Plan	2015 and 2014
Minnesota Teamsters Construction Division Pension Fund	2015 and 2014
Operating Engineers Local 800 & WY Contractors Association, Inc. Pension Plan for Wyoming*	2014
Pension and Retirement Plan of Plumbers and Pipefitters Union Local No. 525	2015 and 2014

* The Company withdrew from the plan as of October 26, 2014, as discussed later.

On September 24, 2014, Knife River provided notice to the Operating Engineers Local 800 & WY Contractors Association, Inc. Pension Plan for Wyoming that it was withdrawing from the plan effective October 26, 2014. In the fourth quarter of 2016, Knife River and the plan entered into a settlement agreement whereby the plan administrator assessed Knife River's final withdrawal liability with quarterly payments of approximately \$42,000 until all benefits are satisfied. Knife River discounted the expected future payments. Based on this calculation, Knife River adjusted its liability accrual from \$16.4 million to \$5.2 million.

The Company also contributes to a number of multiemployer other postretirement plans under the terms of collective-bargaining agreements that cover its union-represented employees. These plans provide benefits such as health insurance, disability insurance and life insurance to retired union employees. Many of the multiemployer other postretirement plans are combined with active multiemployer health and welfare plans. The Company's total contributions to its multiemployer other postretirement plans, which also includes contributions to active multiemployer health and welfare plans, were \$36.1 million, \$31.4 million and \$34.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Amounts contributed in 2016, 2015 and 2014 to defined contribution multiemployer plans were \$23.8 million, \$19.5 million and \$22.0 million, respectively.

Note 15 - Jointly Owned Facilities

The consolidated financial statements include the Company's ownership interests in the assets, liabilities and expenses of the Big Stone Station, Coyote Station and Wygen III. Each owner of the stations is responsible for financing its investment in the jointly owned facilities.

The Company's share of the stations operating expenses was reflected in the appropriate categories of operating expenses (fuel, operation and maintenance and taxes, other than income) in the Consolidated Statements of Income.

At December 31, the Company's share of the cost of utility plant in service and related accumulated depreciation for the stations was as follows:

	2016	2015
	(In thousands)	
Big Stone Station:		
Utility plant in service	\$ 157,144	\$ 157,761
Less accumulated depreciation	49,568	48,242
	\$ 107,576	\$ 109,519
Coyote Station:		
Utility plant in service	\$ 156,334	\$ 140,895
Less accumulated depreciation	105,928	94,755
	\$ 50,406	\$ 46,140
Wygen III:		
Utility plant in service	\$ 66,251	\$ 65,023
Less accumulated depreciation	7,550	6,788
	\$ 58,701	\$ 58,235

Note 16 - Regulatory Matters

On September 30, 2015, Great Plains filed an application for a natural gas rate increase with the MNPUC. Great Plains requested a total increase of approximately \$1.6 million annually or approximately 6.4 percent above current rates to recover increased operating expenses along with increased investment in facilities, including the related depreciation expense and taxes. An interim increase of approximately \$1.5 million or approximately 6.4 percent, subject to refund, was effective with service rendered on and after January 1, 2016. The MNPUC issued an order on September 6, 2016, authorizing an increase of approximately \$1.1 million annually or approximately 5.2 percent with the requirement that Great Plains submit a compliance filing within 30 days. On September 22, 2016, Great Plains submitted the required compliance filing which included a refund plan to return the amount of interim revenues collected above the final rates. On December 22, 2016, the MNPUC issued an order approving the rates to be implemented January 1, 2017. Great Plains will issue refunds for the difference with interest to customers no later than March 1, 2017.

On October 26, 2015, Montana-Dakota filed an application with the NDPSC requesting a renewable resource cost adjustment rider for the recovery of the Thunder Spirit Wind project. On January 5, 2016, the NDPSC approved the rider to be effective January 7, 2016, resulting in an annual increase on an interim basis, subject to refund, of \$15.1 million based upon a 10.5 percent return on equity. The interim rate is pending the determination of the return on equity in the general rate case application filed on October 14, 2016, as discussed in this note.

On October 26, 2015, Montana-Dakota filed an application with the NDPSC for an update to the electric generation resource recovery rider. On March 9, 2016, the NDPSC approved the rider to be effective with service rendered on and after March 15, 2016, which resulted in interim rates, subject to refund, of \$9.7 million based upon a 10.5 percent return on equity. The interim rates include recovery of Montana-Dakota's investment in the 88-MW simple-cycle natural gas turbine and associated facilities near Mandan, North Dakota, and the 19 MW of new generation from natural gas-fired internal combustion engines and associated facilities near Sidney, Montana. The net investment authorized for the natural gas-fired internal combustion engines and the return on equity on both investments are pending in the general rate case application filed October 14, 2016, as discussed in this note.

On November 25, 2015, Montana-Dakota filed an application with the NDPSC for an update of its transmission cost adjustment rider for recovery of MISO-related charges and two transmission projects in North Dakota. On February 10, 2016, the NDPSC approved the transmission cost adjustment effective with service rendered on and after February 12, 2016, resulting in an annual increase on an interim basis, subject to refund, of \$6.8 million based upon a 10.5 percent return on equity. The interim rate is pending the determination of the return on equity in the general rate case application filed October 14, 2016, as discussed in this note.

On April 29, 2016, Cascade filed an application with the OPUC for a natural gas rate increase of approximately \$1.9 million annually or approximately 2.8 percent above current rates. The request includes rate recovery associated with pipeline replacement and improvement projects to ensure the integrity of Cascade's system. On October 6, 2016, Cascade, staff of the OPUC and the interveners in the case filed a stipulation and settlement agreement reflecting an annual increase of approximately \$754,000 to be effective March 1, 2017. The OPUC issued an order approving the stipulation and settlement agreement on December 12, 2016.

Part II

On June 1, 2016, Cascade filed an application with the WUTC for an annual pipeline replacement cost recovery mechanism of \$4.6 million annually or approximately 2.0 percent of additional revenue. The requested increase includes \$2.4 million associated with incremental pipeline replacement investments and \$2.2 million for an alternative recovery request of incremental operation and maintenance costs associated with a maximum allowable operating pressure validation plan. On October 17, 2016, Cascade filed an update to the application that reduced the incremental pipeline replacement investment to \$1.9 million and removed the operation and maintenance costs associated with a maximum allowable operating pressure validation plan. On October 27, 2016, the WUTC allowed the pipeline replacement cost recovery mechanism which was effective November 1, 2016. On June 1, 2016, Cascade filed an accounting order to defer the costs related to the maximum allowable operating pressure validation plan and on November 10, 2016, the WUTC granted the order.

On June 10, 2016, Montana-Dakota filed an application for an increase in electric rates with the WYPSC. Montana-Dakota requested an increase of approximately \$3.2 million annually or approximately 13.1 percent above current rates to recover Montana-Dakota's increased investment in facilities along with additional depreciation, operation and maintenance expenses including increased fuel costs, and taxes associated with the increases in investment. On December 28, 2016, Montana-Dakota and the interveners of the case filed a stipulation and agreement reflecting an increase of approximately \$2.7 million annually or approximately 11.1 percent above current rates effective for service rendered on and after March 1, 2017. The WYPSC rendered a bench decision approving the stipulation and agreement on January 18, 2017.

On August 12, 2016, Intermountain filed an application with the IPUC for a natural gas rate increase of approximately \$10.2 million annually or approximately 4.1 percent above current rates. The request includes rate recovery associated with increased investment in facilities and increased operating expenses. On November 23, 2016, Intermountain provided the IPUC with an updated revenue request of approximately \$9.6 million. A hearing has been scheduled for March 1-2, 2017. This matter is pending before the IPUC.

On September 1, 2016, and as amended on January 10, 2017, Montana-Dakota submitted an update to its transmission formula rate under the MISO tariff including a revenue requirement for the Company's multivalued project along with a true-up of prior year expenditures of \$11.1 million, which was effective January 1, 2017.

On October 14, 2016, Montana-Dakota filed an application with the NDPSC for an electric rate increase of approximately \$13.4 million annually or 6.6 percent above current rates. The request includes rate recovery associated with increased investment in facilities, along with the related depreciation, operation and maintenance expenses and taxes associated with the increased investment. Montana-Dakota requested an interim increase of approximately \$13.0 million or approximately 6.5 percent, subject to refund, to be effective within 60 days of the filing. On November 21, 2016, Montana-Dakota filed a revised interim increase of approximately \$11.7 million, based on adjustments accepted by the NDPSC, or approximately 5.8 percent above current rates, subject to refund. The NDPSC approved the revised interim rates effective with service rendered on or after December 13, 2016. A technical hearing is scheduled for April 10, 2017. This matter is pending before the NDPSC.

On December 2, 2016, Montana-Dakota filed an application with the MTPSC requesting authority to implement gas and electric tax tracking adjustments for Montana state and local taxes and fees that reflect the changes in state and local property taxes applicable to gas and electric utilities pursuant to Montana law. The requested tax tracking adjustments would result in an increase in revenues of approximately \$814,000. On January 17, 2017, the MTPSC issued an order on the tax tracking adjustments. The gas tracking adjustment was approved as an increase to revenues of approximately \$474,000 effective January 1, 2017. The electric tax tracking adjustment was approved as an increase to revenues of approximately \$251,000 effective May 15, 2017. Montana-Dakota filed a motion for reconsideration of the electric tax tracking adjustment on January 27, 2017. The motion for reconsideration is pending before the MTPSC.

On December 21, 2016, Great Plains filed an application with the MNPUC requesting authority to implement a gas utility infrastructure cost tariff of approximately \$456,000 annually effective beginning with service rendered May 20, 2017. The tariff will allow Great Plains to recover infrastructure investments, not previously included in rates, mandated by federal or state agencies associated with Great Plains' pipeline integrity programs. This matter is pending before the MNPUC.

Note 17 - Commitments and Contingencies

The Company is party to claims and lawsuits arising out of its business and that of its consolidated subsidiaries. The Company accrues a liability for those contingencies when the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote. For contingencies where an unfavorable outcome is probable or reasonably possible and which are material, the Company discloses the nature of the contingency and, in some circumstances, an estimate of the possible loss. The Company had accrued liabilities of \$31.8 million and \$19.5 million, which include liabilities held for sale, for contingencies, including litigation, production taxes, royalty claims and environmental matters at

December 31, 2016 and 2015, respectively, including amounts that may have been accrued for matters discussed in Litigation and Environmental matters within this note.

Litigation

Natural Gas Gathering Operations Omimex filed a complaint against WBI Energy Midstream in Montana Seventeenth Judicial District Court in July 2010 alleging WBI Energy Midstream breached a gathering contract with Omimex as a result of the increased operating pressures demanded by a third party on a natural gas gathering system in Montana. In December 2011, Omimex filed an amended complaint alleging WBI Energy Midstream breached obligations to operate its gathering system as a common carrier under United States and Montana law. WBI Energy Midstream removed the action to the United States District Court for the District of Montana. The parties subsequently settled the breach of contract claim and, subject to final determination on liability, stipulated to the damages on the common carrier claim, for amounts that are not material. A trial on the common carrier claim was held during July 2013. On December 9, 2014, the United States District Court for the District of Montana issued an order determining WBI Energy Midstream breached its obligations as a common carrier and ordered judgment in favor of Omimex for the amount of the stipulated damages. WBI Energy Midstream filed an appeal from the United States District Court for the District of Montana's order and judgment.

The Company also is subject to other litigation, and actual and potential claims in the ordinary course of its business which may include, but are not limited to, matters involving property damage, personal injury, and environmental, contractual, statutory and regulatory obligations. Accruals are based on the best information available but actual losses in future periods are affected by various factors making them uncertain. After taking into account liabilities accrued for the foregoing matters, management believes that the outcomes with respect to the above issues and other probable and reasonably possible losses in excess of the amounts accrued, while uncertain, will not have a material effect upon the Company's financial position, results of operations or cash flows.

Environmental matters

Portland Harbor Site In December 2000, Knife River - Northwest was named by the EPA as a PRP in connection with the cleanup of a riverbed site adjacent to a commercial property site acquired by Knife River - Northwest from Georgia-Pacific West, Inc. in 1999. The riverbed site is part of the Portland, Oregon, Harbor Superfund Site. The EPA wants responsible parties to share in the cleanup of sediment contamination in the Willamette River. To date, costs of the overall remedial investigation and feasibility study of the harbor site are being recorded, and initially paid, through an administrative consent order by the LWG, a group of several entities, which does not include Knife River - Northwest or Georgia-Pacific West, Inc. Investigative costs are indicated to be in excess of \$100 million. On January 6, 2017, Region 10 of the EPA issued a ROD with its selected remedy for cleanup of the in-river portion of the site. Implementation of the remedy is expected to take up to 13 years with a present value cost estimate of approximately \$1 billion. Corrective action will not be taken until remedial design/remedial action plans are approved by the EPA. Knife River - Northwest also received notice in January 2008 that the Portland Harbor Natural Resource Trustee Council intends to perform an injury assessment to natural resources resulting from the release of hazardous substances at the Harbor Superfund Site. The Portland Harbor Natural Resource Trustee Council indicates the injury determination is appropriate to facilitate early settlement of damages and restoration for natural resource injuries. It is not possible to estimate the costs of natural resource damages until an assessment is completed and allocations are undertaken.

Based upon a review of the Portland Harbor sediment contamination evaluation by the Oregon DEQ and other information available, Knife River - Northwest does not believe it is a responsible party. In addition, Knife River - Northwest has notified Georgia-Pacific West, Inc., that it intends to seek indemnity for liabilities incurred in relation to the above matters pursuant to the terms of their sale agreement. Knife River - Northwest has entered into an agreement tolling the statute of limitations in connection with the LWG's potential claim for contribution to the costs of the remedial investigation and feasibility study. By letter in March 2009, LWG stated its intent to file suit against Knife River - Northwest and others to recover LWG's investigation costs to the extent Knife River - Northwest cannot demonstrate its non-liability for the contamination or is unwilling to participate in an alternative dispute resolution process that has been established to address the matter. At this time, Knife River - Northwest has agreed to participate in the alternative dispute resolution process.

The Company believes it is not probable that it will incur any material environmental remediation costs or damages in relation to the above referenced matter.

Manufactured Gas Plant Sites There are three claims against Cascade for cleanup of environmental contamination at manufactured gas plant sites operated by Cascade's predecessors.

The first claim is for contamination at a site in Eugene, Oregon which was received in 1995. There are PRPs in addition to Cascade that may be liable for cleanup of the contamination. Some of these PRPs have shared in the investigation costs. It is expected that these and other PRPs will share in the cleanup costs. Several alternatives for cleanup have been identified, with preliminary cost estimates ranging from approximately \$500,000 to \$11.0 million. The Oregon DEQ released a ROD in January 2015 that selected a remediation alternative for the site as recommended in an earlier staff report. It is not known at this time what share of the cleanup costs will actually be borne by

Part II

Cascade; however, Cascade anticipates its proportional share could be approximately 50 percent. Cascade has accrued \$1.6 million for remediation of this site. In January 2013, the OPUC approved Cascade's application to defer environmental remediation costs at the Eugene site for a period of 12 months starting November 30, 2012. Cascade received orders reauthorizing the deferred accounting for the 12-month periods starting November 30, 2013, December 1, 2014 and December 1, 2015. Cascade has requested authority to defer accounting for the 12-month period starting December 1, 2016, which is pending before the OPUC.

The second claim is for contamination at a site in Bremerton, Washington which was received in 1997. A preliminary investigation has found soil and groundwater at the site contain contaminants requiring further investigation and cleanup. The EPA conducted a Targeted Brownfields Assessment of the site and released a report summarizing the results of that assessment in August 2009. The assessment confirms that contaminants have affected soil and groundwater at the site, as well as sediments in the adjacent Port Washington Narrows. Alternative remediation options have been identified with preliminary cost estimates ranging from \$340,000 to \$6.4 million. Data developed through the assessment and previous investigations indicates the contamination likely derived from multiple, different sources and multiple current and former owners of properties and businesses in the vicinity of the site may be responsible for the contamination. In April 2010, the Washington DOE issued notice it considered Cascade a PRP for hazardous substances at the site. In May 2012, the EPA added the site to the National Priorities List of Superfund sites. Cascade has entered into an administrative settlement agreement and consent order with the EPA regarding the scope and schedule for a remedial investigation and feasibility study for the site. Cascade has accrued \$12.5 million for the remedial investigation, feasibility study and remediation of this site. In April 2010, Cascade filed a petition with the WUTC for authority to defer the costs, which are included in other noncurrent assets, incurred in relation to the environmental remediation of this site. The WUTC approved the petition in September 2010, subject to conditions set forth in the order.

The third claim is for contamination at a site in Bellingham, Washington. Cascade received notice from a party in May 2008 that Cascade may be a PRP, along with other parties, for contamination from a manufactured gas plant owned by Cascade and its predecessor from about 1946 to 1962. The notice indicates that current estimates to complete investigation and cleanup of the site exceed \$8.0 million. Other PRPs have reached an agreed order and work plan with the Washington DOE for completion of a remedial investigation and feasibility study for the site. A report documenting the initial phase of the remedial investigation was completed in June 2011. There is currently not enough information available to estimate the potential liability to Cascade associated with this claim although Cascade believes its proportional share of any liability will be relatively small in comparison to other PRPs. The plant manufactured gas from coal between approximately 1890 and 1946. In 1946, shortly after Cascade's predecessor acquired the plant, it converted the plant to a propane-air gas facility. There are no documented wastes or by-products resulting from the mixing or distribution of propane-air gas.

Cascade has received notices from and entered into agreement with certain of its insurance carriers that they will participate in defense of Cascade for these contamination claims subject to full and complete reservations of rights and defenses to insurance coverage. To the extent these claims are not covered by insurance, Cascade will seek recovery through the OPUC and WUTC of remediation costs in its natural gas rates charged to customers. The accruals related to these matters are reflected in regulatory assets. For more information, see Note 4.

Operating leases

The Company leases certain equipment, facilities and land under operating lease agreements. The amounts of annual minimum lease payments due under these leases as of December 31, 2016, were \$51.7 million in 2017, \$43.3 million in 2018, \$33.9 million in 2019, \$23.2 million in 2020, \$9.4 million in 2021 and \$42.0 million thereafter. Rent expense was \$65.0 million, \$53.9 million and \$46.9 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Purchase commitments

The Company has entered into various commitments, largely construction, natural gas and coal supply, purchased power, natural gas transportation and storage, and service, shipping and construction materials supply contracts, some of which are subject to variability in volume and price. These commitments range from one to 44 years. The commitments under these contracts as of December 31, 2016, were \$367.7 million in 2017, \$215.7 million in 2018, \$189.4 million in 2019, \$138.0 million in 2020, \$130.6 million in 2021 and \$859.5 million thereafter. These commitments were not reflected in the Company's consolidated financial statements. Amounts purchased under various commitments for the years ended December 31, 2016, 2015 and 2014, were \$539.3 million, \$842.1 million and \$759.0 million, respectively.

Guarantees

In June 2016, WBI Energy sold all of the outstanding membership interests in Dakota Prairie Refining. In connection with the sale, Centennial agreed to continue to guarantee certain debt obligations of Dakota Prairie Refining which totaled \$63.8 million at December 31, 2016, and are expected to mature by 2023. Tesoro agreed to indemnify Centennial for any losses and litigation expenses arising from the guarantee. The estimated fair values of the indemnity asset and guarantee liability are reflected in deferred charges and other assets - other and deferred credits and other liabilities - other, respectively, on the Consolidated Balance Sheets. Continuation of the guarantee was required as a condition to the sale of Dakota Prairie Refining.

In March 2016, a sale agreement was signed to sell Fidelity's assets in the Paradox Basin. In connection with the sale, Centennial agreed to guarantee Fidelity's indemnity obligations associated with the Paradox Basin assets. The guarantee was required by the buyer as a condition to the sale of the Paradox Basin assets.

In 2009, multiple sales agreements were signed to sell the Company's ownership interests in the Brazilian Transmission Lines. In connection with the sale, Centennial has agreed to guarantee payment of any indemnity obligations of certain of the Company's indirect wholly owned subsidiaries who are the sellers in three purchase and sale agreements for periods ranging up to 10 years from the date of sale. The guarantees were required by the buyers as a condition to the sale of the Brazilian Transmission Lines.

Certain subsidiaries of the Company have outstanding guarantees to third parties that guarantee the performance of other subsidiaries of the Company. These guarantees are related to construction contracts, insurance deductibles and loss limits, and certain other guarantees. At December 31, 2016, the fixed maximum amounts guaranteed under these agreements aggregated \$98.7 million. The amounts of scheduled expiration of the maximum amounts guaranteed under these agreements aggregate \$33.6 million in 2017; \$4.5 million in 2018; \$56.6 million in 2019; and \$4.0 million, which has no scheduled maturity date. There were no amounts outstanding under the above guarantees at December 31, 2016. In the event of default under these guarantee obligations, the subsidiary issuing the guarantee for that particular obligation would be required to make payments under its guarantee.

Certain subsidiaries have outstanding letters of credit to third parties related to insurance policies and other agreements, some of which are guaranteed by other subsidiaries of the Company. At December 31, 2016, the fixed maximum amounts guaranteed under these letters of credit aggregated \$30.8 million, all of which expire in 2017. There were no amounts outstanding under the above letters of credit at December 31, 2016. In the event of default under these letter of credit obligations, the subsidiary issuing the letter of credit for that particular obligation would be required to make payments under its letter of credit.

In addition, Centennial, Knife River and MDU Construction Services have issued guarantees to third parties related to the routine purchase of maintenance items, materials and lease obligations for which no fixed maximum amounts have been specified. These guarantees have no scheduled maturity date. In the event a subsidiary of the Company defaults under these obligations, Centennial, Knife River and MDU Construction Services would be required to make payments under these guarantees. Any amounts outstanding by subsidiaries of the Company for these guarantees were reflected on the Consolidated Balance Sheet at December 31, 2016.

In the normal course of business, Centennial has surety bonds related to construction contracts and reclamation obligations of its subsidiaries. In the event a subsidiary of Centennial does not fulfill a bonded obligation, Centennial would be responsible to the surety bond company for completion of the bonded contract or obligation. A large portion of the surety bonds is expected to expire within the next 12 months; however, Centennial will likely continue to enter into surety bonds for its subsidiaries in the future. As of December 31, 2016, approximately \$516.1 million of surety bonds were outstanding, which were not reflected on the Consolidated Balance Sheet.

Variable interest entities

The Company evaluates its arrangements and contracts with other entities to determine if they are VIEs and if so, if the Company is the primary beneficiary. For more information, see Note 1.

Dakota Prairie Refining, LLC On February 7, 2013, WBI Energy and Calumet formed a limited liability company, Dakota Prairie Refining, and entered into an operating agreement to develop, build and operate Dakota Prairie Refinery in southwestern North Dakota. WBI Energy and Calumet each had a 50 percent ownership interest in Dakota Prairie Refining. WBI Energy's and Calumet's capital commitments, based on a total project cost of \$300 million, under the agreement were \$150 million and \$75 million, respectively. Capital commitments in excess of \$300 million were shared equally between WBI Energy and Calumet. Dakota Prairie Refining entered into a term loan for project debt financing of \$75 million on April 22, 2013. The operating agreement provided for allocation of profits and losses consistent with ownership interests; however, deductions attributable to project financing debt was allocated to Calumet. Calumet's cash distributions from Dakota Prairie Refining were decreased by the principal and interest paid on the project debt, while the cash distributions to WBI Energy were not decreased. Pursuant to the operating agreement, Centennial agreed to guarantee Dakota Prairie Refining's obligation under the term loan. The net loss attributable to noncontrolling interest on the Consolidated Statements of Income is pretax as Dakota Prairie Refining was a limited liability company. For more information related to the guarantee, see Guarantees in this note.

Dakota Prairie Refining was determined to be a VIE, and the Company had determined that it was the primary beneficiary as it had an obligation to absorb losses that could have been potentially significant to the VIE through WBI Energy's equity investment and Centennial's guarantee of the third-party term loan. Accordingly, the Company consolidated Dakota Prairie Refining in its financial statements and recorded a noncontrolling interest for Calumet's ownership interest.

On June 24, 2016, WBI Energy entered into a membership interest purchase agreement with Tesoro to sell all of the outstanding membership interests in Dakota Prairie Refining to Tesoro. To effectuate the sale, WBI Energy acquired Calumet's 50 percent membership

Part II

interest in Dakota Prairie Refining on June 27, 2016. The sale of the membership interests to Tesoro closed on June 27, 2016. For more information on the Company's discontinued operations, see Note 2.

Dakota Prairie Refinery commenced operations in May 2015. The assets of Dakota Prairie Refining were used solely for the benefit of Dakota Prairie Refining. The total assets and liabilities of Dakota Prairie Refining at December 31 were as follows:

	2015
	(In thousands)
Assets	
Current assets:	
Cash and cash equivalents	\$ 851
Accounts receivable	7,693
Inventories	13,176
Other current assets	6,215
Total current assets	27,935
Net property, plant and equipment	425,123
Deferred charges and other assets:	
Other	9,626
Total deferred charges and other assets	9,626
Total assets	\$ 462,684
Liabilities	
Current liabilities:	
Short-term borrowings	\$ 45,500
Long-term debt due within one year	5,250
Accounts payable	24,766
Taxes payable	1,391
Accrued compensation	938
Other accrued liabilities	4,953
Total current liabilities	82,798
Long-term debt	63,750
Total liabilities	\$ 146,548

Fuel Contract Coyote Station entered into a coal supply agreement with Coyote Creek that provides for the purchase of coal necessary to supply the coal requirements of the Coyote Station for the period May 2016 through December 2040. Coal purchased under the coal supply agreement is reflected in inventories on the Company's Consolidated Balance Sheets and is recovered from customers as a component of fuel and purchased power.

The coal supply agreement creates a variable interest in Coyote Creek due to the transfer of all operating and economic risk to the Coyote Station owners, as the agreement is structured so that the price of the coal will cover all costs of operations as well as future reclamation costs. The Coyote Station owners are also providing a guarantee of the value of the assets of Coyote Creek as they would be required to buy the assets at book value should they terminate the contract prior to the end of the contract term and are providing a guarantee of the value of the equity of Coyote Creek in that they are required to buy the entity at the end of the contract term at equity value. Although the Company has determined that Coyote Creek is a VIE, the Company has concluded that it is not the primary beneficiary of Coyote Creek because the authority to direct the activities of the entity is shared by the four unrelated owners of the Coyote Station, with no primary beneficiary existing. As a result, Coyote Creek is not required to be consolidated in the Company's financial statements.

At December 31, 2016, the Company's exposure to loss as a result of the Company's involvement with the VIE, based on the Company's ownership percentage was \$43.3 million.

Supplementary Financial Information

Quarterly Data (Unaudited)

The following unaudited information shows selected items by quarter for the years 2016 and 2015:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands, except per share amounts)				
2016				
Operating revenues	\$ 860,214	\$ 1,043,948	\$ 1,208,567	\$ 1,016,099
Operating expenses	798,229	954,983	1,061,883	904,613
Operating income	61,985	88,965	146,684	111,486
Income from continuing operations	31,865	46,298	88,386	66,547
Loss from discontinued operations attributable to the Company, net of tax	(6,996)	(155,451)	(5,400)	(816)
Net income (loss) attributable to the Company	24,869	(109,153)	82,986	65,731
Earnings (loss) per common share - basic:				
Earnings before discontinued operations	.16	.24	.45	.34
Discontinued operations attributable to the Company, net of tax	(.03)	(.80)	(.03)	—
Earnings (loss) per common share - basic	.13	(.56)	.42	.34
Earnings (loss) per common share - diluted:				
Earnings before discontinued operations	.16	.24	.45	.33
Discontinued operations attributable to the Company, net of tax	(.03)	(.80)	(.03)	—
Earnings (loss) per common share - diluted	.13	(.56)	.42	.33
Weighted average common shares outstanding:				
Basic	195,284	195,304	195,304	195,304
Diluted	195,284	195,699	195,811	195,889
2015				
Operating revenues	\$ 860,845	\$ 938,039	\$ 1,198,342	\$ 1,016,826
Operating expenses	810,537	878,330	1,070,514	934,896
Operating income	50,308	59,709	127,828	81,930
Income from continuing operations	20,540	26,061	73,886	55,902
Loss from discontinued operations attributable to the Company, net of tax	(326,457)	(255,665)	(213,334)	(3,368)
Net income (loss) attributable to the Company	(305,917)	(229,604)	(139,448)	52,534
Earnings (loss) per common share - basic:				
Earnings before discontinued operations	.10	.13	.38	.29
Discontinued operations attributable to the Company, net of tax	(1.67)	(1.31)	(1.10)	(.02)
Earnings (loss) per common share - basic	(1.57)	(1.18)	(.72)	.27
Earnings (loss) per common share - diluted:				
Earnings before discontinued operations	.10	.13	.38	.29
Discontinued operations attributable to the Company, net of tax	(1.67)	(1.31)	(1.10)	(.02)
Earnings (loss) per common share - diluted	(1.57)	(1.18)	(.72)	.27
Weighted average common shares outstanding:				
Basic	194,479	194,805	195,151	195,266
Diluted	194,566	194,838	195,169	195,324

Notes:

- Fourth quarter 2016 reflects a reduction to a previously recorded MEPP withdrawal liability of \$11.1 million (before tax). For more information, see Note 14.
- 2015 and first quarter 2016 have been recast to present the results of operations of Dakota Prairie Refining as discontinued operations, other than certain general and administrative costs and interest expense which were previously allocated to the former refining segment and do not meet the criteria for income (loss) from discontinued operations.
- First quarter 2015 has been recast to present the results of operations of Fidelity as discontinued operations, other than certain general and administrative costs and interest expense which were previously allocated to the former exploration and production segment and do not meet the criteria for income (loss) from discontinued operations.
- First quarter 2015 reflects a MEPP withdrawal liability of \$2.4 million (before tax). For more information, see Note 14.
- Second quarter 2015 reflects an impairment of coalbed natural gas gathering assets of \$3.0 million (before tax). For more information, see Note 1.
- Third quarter 2015 reflects an impairment of coalbed natural gas gathering assets of \$14.1 million (before tax). For more information, see Note 1.

Certain Company operations are highly seasonal and revenues from and certain expenses for such operations may fluctuate significantly among quarterly periods. Accordingly, quarterly financial information may not be indicative of results for a full year.

Part II

Exploration and Production Activities (Unaudited)

In the second quarter of 2015, the Company began the marketing and sale process of Fidelity with an anticipated sale to occur within one year. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. At the time the Company committed to a plan to sell Fidelity, the Company stopped the use of the full-cost method of accounting for its oil and natural gas production activities. The assets and liabilities have been classified as held for sale and the results of operations included in income (loss) from discontinued operations, other than certain general and administrative costs and interest expense which do not meet the criteria for income (loss) from discontinued operations. Prior to the asset sales, Fidelity was significantly involved in the development and production of oil and natural gas resources. For more information, see Note 2.

Previously, Fidelity shared revenues and expenses from the development of specified properties in proportion to its ownership interests. The information that follows includes Fidelity's proportionate share of all its previously owned oil and natural gas interests.

The following table sets forth capitalized costs and accumulated depreciation, depletion and amortization related to oil and natural gas producing activities, prior to Fidelity's assets being held for sale, at December 31:

	2014
	(In thousands)
Subject to amortization	\$ 3,205,036
Not subject to amortization	132,141
Total capitalized costs	3,337,177
Less accumulated depreciation, depletion and amortization	1,752,566
Net capitalized costs	\$ 1,584,611

Capital expenditures, including those not subject to amortization, related to oil and natural gas producing activities prior to Fidelity's assets being held for sale, excluding the years ended December 31, 2016 and 2015, due to no wells being drilled during that time, were as follows:

Year ended December 31,	2014 *
	(In thousands)
Acquisitions:	
Proved properties	\$ 87,919
Unproved properties	138,683
Exploration	16,879
Development	331,400
Total capital expenditures	\$ 574,881

* Excludes net reductions to property, plant and equipment related to the recognition of future liabilities for asset retirement obligations associated with the plugging and abandonment of oil and natural gas wells of \$9.0 million for the year ended December 31, 2014.

Estimates of proved reserves were prepared in accordance with guidelines established by the industry and the SEC. The estimates are arrived at using actual historical wellhead production trends and/or standard reservoir engineering methods utilizing available geological, geophysical, engineering and economic data. The proved reserve estimates as of December 31, 2015 and 2014, were calculated using SEC Defined Prices. Other factors used in the proved reserve estimates were current estimates of well operating and future development costs (which include asset retirement costs), taxes, timing of operations, and the interests owned by the Company in the properties. These estimates are refined as new information becomes available.

The reserve estimates were prepared by internal engineers assigned to an asset team by geographic area. Senior management reviewed and approved the reserve estimates to ensure they were materially accurate.

Estimates of economically recoverable oil, NGL and natural gas reserves and future net revenues therefrom are based upon a number of variable factors and assumptions. For these reasons, estimates of economically recoverable reserves and future net revenues may vary from actual results.

The changes in the Company's estimated quantities of proved oil, NGL and natural gas reserves for the year ended December 31, 2016, were as follows:

	Oil (MBbls)	NGL (MBbls)	Natural Gas (MMcf)	Total (MBOE)
Proved developed and undeveloped reserves:				
Balance at beginning of year	12,687	211	2,531	13,321
Production	—	—	—	—
Extensions and discoveries	—	—	—	—
Improved recovery	—	—	—	—
Purchases of proved reserves	—	—	—	—
Sales of proved reserves	(12,687)	(211)	(2,531)	(13,321)
Revisions of previous estimates	—	—	—	—
Balance at end of year	—	—	—	—

Significant changes in proved reserves for the year ended December 31, 2016, include:

- Sales of proved reserves of (13.3) MMBOE, due to the Company's decision to sell Fidelity and exit the exploration and production business

The changes in the Company's estimated quantities of proved oil, NGL and natural gas reserves for the year ended December 31, 2015, were as follows:

	Oil (MBbls)	NGL (MBbls)	Natural Gas (MMcf)	Total (MBOE)
Proved developed and undeveloped reserves:				
Balance at beginning of year	43,918	7,187	245,011	91,940
Production	(3,286)	(393)	(16,747)	(6,471)
Extensions and discoveries	744	29	681	888
Improved recovery	—	—	—	—
Purchases of proved reserves	—	—	—	—
Sales of proved reserves	(16,474)	(6,864)	(202,560)	(57,097)
Revisions of previous estimates	(12,215)	252	(23,854)	(15,939)
Balance at end of year	12,687	211	2,531	13,321

Significant changes in proved reserves for the year ended December 31, 2015, include:

- Sales of proved reserves of (57.1) MMBOE, primarily due to the Company's decision to sell Fidelity and exit the exploration and production business
- Revisions of previous estimates of (15.9) MMBOE, largely the result of lower commodity prices

The changes in the Company's estimated quantities of proved oil, NGL and natural gas reserves for the year ended December 31, 2014, were as follows:

	Oil (MBbls)	NGL (MBbls)	Natural Gas (MMcf)	Total (MBOE)
Proved developed and undeveloped reserves:				
Balance at beginning of year	41,019	6,602	198,445	80,695
Production	(4,919)	(609)	(20,822)	(8,998)
Extensions and discoveries	9,654	3,634	64,420	24,025
Improved recovery	—	—	—	—
Purchases of proved reserves	5,463	—	7,711	6,748
Sales of proved reserves	(4,945)	(3,109)	(40,451)	(14,796)
Revisions of previous estimates	(2,354)	669	35,708	4,266
Balance at end of year	43,918	7,187	245,011	91,940

Significant changes in proved reserves for the year ended December 31, 2014, include:

- Extensions and discoveries of 24.0 MMBOE, primarily due to drilling activity at the Company's East Texas, Bakken and Powder River Basin properties

Part II

- Purchases of proved reserves of 6.7 MMBOE, primarily due to the purchase of working interests and leasehold positions in the Powder River Basin
- Sales of proved reserves of (14.8) MMBOE, primarily at the Company's South Texas and Bakken properties
- Revisions of previous estimates of 4.3 MMBOE, largely the result of higher natural gas prices and well performance revisions

The following table summarizes the breakdown of the Company's proved reserves between proved developed and PUD reserves at December 31:

	2016	2015	2014
Proved developed reserves:			
Oil (MBbls)	—	11,380	30,130
NGL (MBbls)	—	144	4,217
Natural Gas (MMcf)	—	2,033	184,437
Total (MBOE)	—	11,865	65,086
PUD reserves:			
Oil (MBbls)	—	1,307	13,788
NGL (MBbls)	—	67	2,970
Natural Gas (MMcf)	—	498	60,574
Total (MBOE)	—	1,456	26,854
Total proved reserves:			
Oil (MBbls)	—	12,687	43,918
NGL (MBbls)	—	211	7,187
Natural Gas (MMcf)	—	2,531	245,011
Total (MBOE)	—	13,321	91,940

As of December 31, 2016, the Company had no PUD reserves, which is a decrease of 1.5 MMBOE from December 31, 2015. The decrease relates to the asset sales during 2016.

Definitions

The following abbreviations and acronyms used in Notes to Consolidated Financial Statements are defined below:

Abbreviation or Acronym

AFUDC	Allowance for funds used during construction
ASC	FASB Accounting Standards Codification
ATBs	Atmospheric tower bottoms
Bicent	Bicent Power LLC
Big Stone Station	475-MW coal-fired electric generating facility near Big Stone City, South Dakota (22.7 percent ownership)
BOE	One barrel of oil equivalent - determined using the ratio of one barrel of crude oil, condensate or natural gas liquids to six Mcf of natural gas
Brazilian Transmission Lines	Company's former investment in companies owning three electric transmission lines
Calumet	Calumet Specialty Products Partners, L.P.
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
CEM	Colorado Energy Management, LLC, a former direct wholly owned subsidiary of Centennial Resources (sold in the third quarter of 2007)
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Centennial Capital	Centennial Holdings Capital LLC, a direct wholly owned subsidiary of Centennial
Centennial's Consolidated EBITDA	Centennial's consolidated net income from continuing operations plus the related interest expense, taxes, depreciation, depletion, amortization of intangibles and any non-cash charge relating to asset impairment for the preceding 12-month period
Centennial Resources Company	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial MDU Resources Group, Inc.
Coyote Creek	Coyote Creek Mining Company, LLC, a subsidiary of The North American Coal Corporation
Coyote Station	427-MW coal-fired electric generating facility near Beulah, North Dakota (25 percent ownership)
Dakota Prairie Refinery	20,000-barrel-per-day diesel topping plant built by Dakota Prairie Refining in southwestern North Dakota
Dakota Prairie Refining	Dakota Prairie Refining, LLC, a limited liability company previously owned by WBI Energy and Calumet (previously included in the Company's refining segment)
EBITDA	Earnings before interest, taxes, depreciation, depletion and amortization
EIN	Employer Identification Number
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelity	Fidelity Exploration & Production Company, a direct wholly owned subsidiary of WBI Holdings (previously referred to as the Company's exploration and production segment)
FIP	Funding improvement plan
GAAP	Accounting principles generally accepted in the United States of America
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
IBEW	International Brotherhood of Electrical Workers
IFRS	International Financial Reporting Standards
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
IPUC	Idaho Public Utilities Commission
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
Knife River - Northwest	Knife River Corporation - Northwest, an indirect wholly owned subsidiary of Knife River
K-Plan	Company's 401(k) Retirement Plan
LWG	Lower Willamette Group
MBbls	Thousands of barrels
MBOE	Thousands of BOE
Mcf	Thousand cubic feet
MDU Construction Services	MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MEPP	Multiemployer pension plan

Part II

MISO	Midcontinent Independent System Operator, Inc.
MMBOE	Millions of BOE
MMcf	Million cubic feet
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
Montana Seventeenth Judicial District Court	Montana Seventeenth Judicial District Court, Phillips County
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
NGL	Natural gas liquids
Oil	Includes crude oil and condensate
Omimex	Omimex Canada, Ltd.
OPUC	Oregon Public Utility Commission
Oregon DEQ	Oregon State Department of Environmental Quality
Pronghorn	Natural gas processing plant located near Belfield, North Dakota (WBI Energy Midstream previously held a 50 percent non-operating ownership interest)
PRP	Potentially Responsible Party
PUD	Proved undeveloped
ROD	Record of Decision
RP	Rehabilitation plan
SEC	United States Securities and Exchange Commission
SEC Defined Prices	The average price of oil and natural gas during the applicable 12-month period, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions
Stock Purchase Plan	Company's Dividend Reinvestment and Direct Stock Purchase Plan which was terminated effective December 5, 2016
Tesoro	Tesoro Refining & Marketing Company LLC
Tesoro Logistics	QEP Field Services, LLC doing business as Tesoro Logistics Rockies LLC
United States District Court for the District of Montana	United States District Court for the District of Montana, Great Falls Division
VIE	Variable interest entity
WBI Energy	WBI Energy, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Midstream	WBI Energy Midstream, LLC, an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Transmission	WBI Energy Transmission, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
WUTC	Washington Utilities and Transportation Commission
Wygen III	100-MW coal-fired electric generating facility near Gillette, Wyoming (25 percent ownership)
WYPSC	Wyoming Public Service Commission

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The following information includes the evaluation of disclosure controls and procedures by the Company's chief executive officer and the chief financial officer, along with any significant changes in internal controls of the Company.

Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. The Company's disclosure controls and other procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the chief executive officer and the chief financial officer have concluded that, as of the end of the period covered by this report, such controls and procedures were effective at a reasonable assurance level.

Changes in Internal Controls

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

The information required by this item is included in this Form 10-K at Item 8 - Management's Report on Internal Control Over Financial Reporting.

Attestation Report of the Registered Public Accounting Firm

The information required by this item is included in this Form 10-K at Item 8 - Report of Independent Registered Public Accounting Firm.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is included in the Company's Proxy Statement, which is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item is included in the Company's Proxy Statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table includes information as of December 31, 2016, with respect to the Company's equity compensation plans:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders (1)	664,188 (2) \$	— (3)	4,824,267 (4)(5)
Equity compensation plans not approved by stockholders	N/A	N/A	N/A

(1) Consists of the Non-Employee Director Long-Term Incentive Compensation Plan, the Long-Term Performance-Based Incentive Plan and the Non-Employee Director Stock Compensation Plan.

(2) Consists of performance shares.

(3) No weighted average exercise price is shown for the performance shares.

(4) 357,757 shares remain available for future issuance under the Non-Employee Director Long-Term Incentive Compensation Plan in connection with grants of restricted stock, performance units, performance shares or other equity-based awards. 4,429,239 shares under the Long-Term Performance-Based Incentive Plan remain available for future issuance in connection with grants of restricted stock, performance units, performance shares or other equity-based awards.

(5) This amount also includes 37,271 shares available for issuance under the Non-Employee Director Stock Compensation Plan. Under this plan, in addition to a cash retainer, non-employee directors are awarded shares equal in value to \$110,000 annually. A non-employee director may acquire additional shares under the plan in lieu of receiving the cash portion of the director's retainer or fees.

The remaining information required by this item is included in the Company's Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is included in the Company's Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this item is included in the Company's Proxy Statement, which is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules and Exhibits

Index to Financial Statements and Financial Statement Schedules

1. Financial Statements

The following consolidated financial statements required under this item are included under Item 8 - Financial Statements and Supplementary Data.	<u>Page</u>
Consolidated Statements of Income for each of the three years in the period ended December 31, 2016	49
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2016	50
Consolidated Balance Sheets at December 31, 2016 and 2015	51
Consolidated Statements of Equity for each of the three years in the period ended December 31, 2016	52
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2016	53
Notes to Consolidated Financial Statements	54

2. Financial Statement Schedules

The following financial statement schedules are included in Part IV of this report.	<u>Page</u>
Schedule I - Condensed Financial Information of Registrant (Unconsolidated)	
Condensed Statements of Income and Comprehensive Income for each of the three years in the period ended December 31, 2016	105
Condensed Balance Sheets at December 31, 2016 and 2015	106
Condensed Statements of Cash Flows for each of the three years in the period ended December 31, 2016	107
Notes to Condensed Financial Statements	107
Schedule II - Consolidated Valuation and Qualifying Accounts	108

MDU RESOURCES GROUP, INC.

Schedule I - Condensed Financial Information of Registrant (Unconsolidated)

Condensed Statements of Income and Comprehensive Income

Years ended December 31,	2016	2015	2014
	(In thousands)		
Operating revenues	\$ 561,266	\$ 556,112	\$ 628,578
Operating expenses	469,062	478,198	547,820
Operating income	92,204	77,914	80,758
Other income	1,491	8,318	5,271
Interest expense	31,519	23,562	21,055
Income before income taxes	62,176	62,670	64,974
Income taxes	6,355	15,882	16,819
Equity in earnings of subsidiaries from continuing operations	177,275	129,601	136,872
Net income from continuing operations	233,096	176,389	185,027
Equity in earnings (loss) of subsidiaries from discontinued operations attributable to the Company	(168,663)	(798,824)	113,206
Dividends declared on preferred stocks	685	685	685
Earnings (loss) on common stock	\$ 63,748	\$ (623,120)	\$ 297,548
Comprehensive income (loss)	\$ 65,848	\$ (617,480)	\$ 294,335

The accompanying notes are an integral part of these condensed financial statements.

Part IV

MDU RESOURCES GROUP, INC. Schedule I - Condensed Financial Information of Registrant (Unconsolidated) Condensed Balance Sheets

December 31,	2016	2015
	(In thousands, except shares and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,159	\$ 2,921
Receivables, net	80,467	70,511
Accounts receivable from subsidiaries	34,424	33,129
Inventories	17,352	16,883
Prepayments and other current assets	24,531	7,876
Total current assets	160,933	131,320
Investments	70,370	66,784
Investment in subsidiaries	1,603,874	1,722,351
Property, plant and equipment	2,502,264	2,378,994
Less accumulated depreciation, depletion and amortization	756,191	711,209
Net property, plant and equipment	1,746,073	1,667,785
Deferred charges and other assets:		
Goodwill	4,812	4,812
Other	183,654	184,080
Total deferred charges and other assets	188,466	188,892
Total assets	\$ 3,769,716	\$ 3,777,132
Liabilities and Stockholders' Equity		
Current liabilities:		
Long-term debt due within one year	\$ 110	\$ 109
Accounts payable	37,697	54,275
Accounts payable to subsidiaries	5,592	6,622
Taxes payable	14,992	10,995
Dividends payable	37,767	36,784
Accrued compensation	16,086	7,539
Other accrued liabilities	34,929	40,931
Total current liabilities	147,173	157,255
Long-term debt	679,667	623,048
Deferred credits and other liabilities:		
Deferred income taxes	270,126	255,069
Other	356,506	345,255
Total deferred credits and other liabilities	626,632	600,324
Commitments and contingencies		
Stockholders' equity:		
Preferred stocks	15,000	15,000
Common stockholders' equity:		
Common stock		
Authorized - 500,000,000 shares, \$1.00 par value		
Issued - 195,843,297 shares in 2016 and 195,804,665 shares in 2015	195,843	195,805
Other paid-in capital	1,232,478	1,230,119
Retained earnings	912,282	996,355
Accumulated other comprehensive loss	(35,733)	(37,148)
Treasury stock at cost - 538,921 shares	(3,626)	(3,626)
Total common stockholders' equity	2,301,244	2,381,505
Total stockholders' equity	2,316,244	2,396,505
Total liabilities and stockholders' equity	\$ 3,769,716	\$ 3,777,132

The accompanying notes are an integral part of these condensed financial statements.

MDU RESOURCES GROUP, INC.
 Schedule I - Condensed Financial Information of Registrant (Unconsolidated)
 Condensed Statements of Cash Flows

Years ended December 31,	2016		2015		2014	
	(In thousands)					
Net cash provided by operating activities	\$	238,125	\$	255,273	\$	208,208
Investing activities:						
Capital expenditures		(159,570)		(349,985)		(223,251)
Net proceeds from sale or disposition of property and other		3,784		3,268		1,552
Investments in and advances to subsidiaries		(5,000)		(7,000)		(134,451)
Advances from subsidiaries		15,000		100,000		64,500
Investments		(129)		5		(794)
Net cash used in investing activities		(145,915)		(253,712)		(292,444)
Financing activities:						
Issuance of long-term debt		106,420		224,185		148,959
Repayment of long-term debt		(50,010)		(108,008)		(76,432)
Proceeds from issuance of common stock		—		21,898		150,060
Dividends paid		(147,156)		(142,835)		(136,712)
Excess tax benefit on stock-based compensation		—		—		3,326
Tax withholding on stock-based compensation		(226)		—		(3,896)
Net cash provided by (used in) financing activities		(90,972)		(4,760)		85,305
Increase (decrease) in cash and cash equivalents		1,238		(3,199)		1,069
Cash and cash equivalents - beginning of year		2,921		6,120		5,051
Cash and cash equivalents - end of year	\$	4,159	\$	2,921	\$	6,120

The accompanying notes are an integral part of these condensed financial statements.

Notes to Condensed Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of presentation The condensed financial information reported in Schedule I is being presented to comply with Rule 12-04 of Regulation S-X. The information is unconsolidated and is presented for the parent company only, which is comprised of MDU Resources Group, Inc. (the Company) and Montana-Dakota and Great Plains, public utility divisions of the Company. In Schedule I, investments in subsidiaries are presented under the equity method of accounting where the assets and liabilities of the subsidiaries are not consolidated. The investments in net assets of the subsidiaries are recorded on the Condensed Balance Sheets. The income (loss) from subsidiaries is reported as equity in earnings (loss) of subsidiaries on the Condensed Statements of Income. The consolidated financial statements of MDU Resources Group, Inc. reflect certain businesses as discontinued operations. These statements should be read in conjunction with the consolidated financial statements and notes thereto of MDU Resources Group, Inc.

Earnings (loss) per common share Please refer to the Consolidated Statements of Income of the registrant for earnings (loss) per common share. In addition, see Item 8 - Note 1 for information on the computation of earnings (loss) per common share.

Note 2 - Debt The Company has long-term debt obligations outstanding of \$681.8 million at December 31, 2016, with annual maturities of \$100,000 in 2017, \$100.1 million in 2018, \$111.1 million in 2019, \$100,000 in 2020 and \$470.4 million scheduled to mature in years after 2021.

For more information on debt, see Item 8 - Note 6.

Note 3 - Dividends The Company depends on earnings from its divisions and dividends from its subsidiaries to pay dividends on common stock. Cash dividends paid to the Company by subsidiaries were \$115.8 million, \$110.6 million and \$105.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Part IV

MDU RESOURCES GROUP, INC.

Schedule II - Consolidated Valuation and Qualifying Accounts

For the years ended December 31, 2016, 2015 and 2014

Description	Balance at Beginning of Year	Additions		Deductions **	Balance at End of Year
		Charged to Costs and Expenses	Other *		
(In thousands)					
Allowance for doubtful accounts:					
2016	\$ 9,835	\$ 8,302	\$ 851	\$ 8,509	\$ 10,479
2015	9,511	11,343	1,012	12,031	9,835
2014	10,085	8,548	1,335	10,457	9,511

* Recoveries.

** Uncollectible accounts written off.

All other schedules are omitted because of the absence of the conditions under which they are required, or because the information required is included in the Company's Consolidated Financial Statements and Notes thereto.

3. Exhibits

- 2(a) Membership Interest Purchase Agreement, dated as of June 24, 2016, between WBI Energy, Inc. and Tesoro Refining & Marketing Company LLC, filed as Exhibit 2.1 to Form 8-K/A dated June 24, 2016, filed on July 21, 2016, in File No. 1-3480*
- 2(b) Purchase and Sale Agreement, dated as of June 9, 2016, by and among Calumet North Dakota, LLC, WBI Energy, Inc., and as applicable, MDU Resources Group, Inc., Centennial Energy Holdings, Inc., and Calumet Specialty Products Partners, L.P., filed as Exhibit 2.2 to Form 8-K/A dated June 24, 2016, filed on July 21, 2016, in File No. 1-3480*
- 2(c) Amendment No. 1 to Purchase and Sale Agreement, dated as of June 9, 2016, by and among Calumet North Dakota, LLC, WBI Energy, Inc., and as applicable, MDU Resources Group, Inc., Centennial Energy Holdings, Inc., and Calumet Specialty Products Partners, L.P., filed as Exhibit 2.3 to Form 8-K/A dated June 24, 2016, filed on July 21, 2016, in File No. 1-3480*
- 3(a) Restated Certificate of Incorporation of MDU Resources Group, Inc., as amended, dated May 13, 2010, filed as Exhibit 3(a) to Form 10-Q for the quarter ended September 30, 2010, filed on November 3, 2010, in File No. 1-3480*
- 3(b) Bylaws of MDU Resources Group, Inc., as amended and restated on February 16, 2017, filed as Exhibit 3.1 to Form 8-K dated February 16, 2017, filed on February 21, 2017, in File No. 1-3480*
- 4(a) Indenture, dated as of December 15, 2003, between MDU Resources Group, Inc. and The Bank of New York, as trustee, filed as Exhibit 4(f) to Form S-8 on January 21, 2004, in Registration No. 333-112035*
- 4(b) First Supplemental Indenture, dated as of November 17, 2009, between MDU Resources Group, Inc. and The Bank of New York Mellon, as trustee, filed as Exhibit 4(c) to Form 10-K for the year ended December 31, 2009, filed on February 17, 2010, in File No. 1-3480*
- 4(c) Centennial Energy Holdings, Inc. Amended and Restated Master Shelf Agreement, effective as of April 29, 2005, among Centennial Energy Holdings, Inc., the Prudential Insurance Company of America and certain investors described therein, filed as Exhibit 4(a) to Form 10-Q for the quarter ended June 30, 2005, filed on August 3, 2005, in File No. 1-3480*
- 4(d) Letter Amendment No. 1 to Amended and Restated Master Shelf Agreement, dated May 17, 2006, among Centennial Energy Holdings, Inc., the Prudential Insurance Company of America, and certain investors described in the Letter Amendment, filed as Exhibit 4(a) to Form 10-Q for the quarter ended June 30, 2006, filed on August 4, 2006, in File No. 1-3480*
- 4(e) Letter Amendment No. 2 to Amended and Restated Master Shelf Agreement, dated December 19, 2007, among Centennial Energy Holdings, Inc., the Prudential Insurance Company of America, and certain investors described in the Letter Amendment, filed as Exhibit 4(e) to Form 10-K for the year ended December 31, 2015, filed on February 19, 2016, in File No. 1-3480*
- 4(f) Letter Amendment No. 3 to Amended and Restated Master Shelf Agreement, dated December 18, 2015, among Centennial Energy Holdings, Inc., the Prudential Insurance Company of America, and certain investors described in the Letter Amendment, filed as Exhibit 4(f) to Form 10-K for the year ended December 31, 2015, filed on February 19, 2016, in File No. 1-3480*
- 4(g) MDU Resources Group, Inc. Credit Agreement, dated May 26, 2011, among MDU Resources Group, Inc., Various Lenders, and Wells Fargo Bank, National Association, as Administrative Agent, filed as Exhibit 4(e) to Form 10-K for the year ended December 31, 2011, filed on February 24, 2012, in File No. 1-3480*

-
- 4(h) First Amendment to Credit Agreement, dated October 4, 2012, among MDU Resources Group, Inc., Various Lenders, and Wells Fargo Bank, National Association, as Administrative Agent, filed as Exhibit 4 to Form 10-Q for the quarter ended September 30, 2012, filed on November 7, 2012, in File No. 1-3480*
 - 4(i) Second Amendment to Credit Agreement, dated May 8, 2014, among MDU Resources Group, Inc., Various Lenders, and Wells Fargo Bank, National Association, as Administrative Agent, filed as Exhibit 4(a) to Form 10-Q for the quarter ended June 30, 2014, filed on August 8, 2014, in File No. 1-3480*
 - 4(j) Third Amended and Restated Credit Agreement, dated May 8, 2014, among Centennial Energy Holdings, Inc., U.S. Bank National Association, as Administrative Agent, and The Several Financial Institutions party thereto, filed as Exhibit 4(b) to Form 10-Q for the quarter ended June 30, 2014, filed on August 8, 2014, in File No. 1-3480*
 - 4(k) Fourth Amended and Restated Credit Agreement, dated as of September 23, 2016, among Centennial Energy Holdings, Inc., U.S. Bank National Association, as Administrative Agent, and The Several Financial Institutions party thereto, filed as Exhibit 4 to Form 10-Q for the quarter ended September 30, 2016, filed on November 7, 2016, in File No. 1-3480*
 - 4(l) MDU Energy Capital, LLC Master Shelf Agreement, dated as of August 9, 2007, among MDU Energy Capital, LLC, Prudential Investment Management, Inc., the Prudential Insurance Company of America and the holders of the notes thereunder, filed as Exhibit 4 to Form 8-K dated August 16, 2007, filed on August 16, 2007, in File No. 1-3480*
 - 4(m) Amendment No. 1 to Master Shelf Agreement, dated October 1, 2008, among MDU Energy Capital, LLC, Prudential Investment Management, Inc., the Prudential Insurance Company of America, and the holders of the notes thereunder, filed as Exhibit 4(b) to Form 10-Q for the quarter ended September 30, 2008, filed on November 5, 2008, in File No. 1-3480*
 - 4(n) Indenture dated as of August 1, 1992, between Cascade Natural Gas Corporation and The Bank of New York relating to Medium-Term Notes, filed by Cascade Natural Gas Corporation as Exhibit 4 to Form 8-K dated August 12, 1992, in File No. 1-7196*
 - 4(o) First Supplemental Indenture dated as of October 25, 1993, between Cascade Natural Gas Corporation and The Bank of New York relating to Medium-Term Notes and the 7.5% Notes due November 15, 2031, filed by Cascade Natural Gas Corporation as Exhibit 4 to Form 10-Q for the quarter ended June 30, 1993, in File No. 1-7196*
 - 4(p) Second Supplemental Indenture, dated January 25, 2005, between Cascade Natural Gas Corporation and The Bank of New York, as trustee, filed by Cascade Natural Gas Corporation as Exhibit 4.1 to Form 8-K dated January 25, 2005, filed on January 26, 2005, in File No. 1-7196*
 - 4(q) Third Supplemental Indenture dated as of March 8, 2007, between Cascade Natural Gas Corporation and The Bank of New York Trust Company, N.A., as Successor Trustee, filed by Cascade Natural Gas Corporation as Exhibit 4.1 to Form 8-K dated March 8, 2007, filed on March 8, 2007, in File No. 1-7196*
 - +10(a) MDU Resources Group, Inc. Supplemental Income Security Plan, as amended and restated February 11, 2016, filed as Exhibit 10(a) to Form 10-Q for the quarter ended March 31, 2016, filed on May 6, 2016, in File No. 1-3480*
 - +10(b) Director Compensation Policy, as amended May 15, 2014, filed as Exhibit 10(b) to Form 10-Q for the quarter ended June 30, 2014, filed on August 8, 2014, in File No. 1-3480*
 - +10(c) Deferred Compensation Plan for Directors, as amended May 15, 2008, filed as Exhibit 10(a) to Form 10-Q for the quarter ended June 30, 2008, filed on August 7, 2008, in File No. 1-3480*
 - +10(d) Non-Employee Director Stock Compensation Plan, as amended May 12, 2011, filed as Exhibit 10(a) to Form 10-Q for the quarter ended June 30, 2011, filed on August 5, 2011, in File No. 1-3480*
 - +10(e) MDU Resources Group, Inc. Non-Employee Director Long-Term Incentive Compensation Plan, as amended May 17, 2012, filed as Exhibit 10(a) to Form 10-Q for the quarter ended June 30, 2012, filed on August 7, 2012, in File No. 1-3480*
 - +10(f) MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan, as amended February 11, 2016, filed as Exhibit 10(f) to Form 10-K for the year ended December 31, 2015, filed on February 19, 2016, in File No. 1-3480*
 - +10(g) MDU Resources Group, Inc. Executive Incentive Compensation Plan, as amended February 11, 2016, and Rules and Regulations, as amended March 4, 2013, filed as Exhibit 10(b) to Form 10-Q for the quarter ended March 31, 2016, filed on May 6, 2016, in File No. 1-3480*
 - +10(h) Form of Performance Share Award Agreement under the Long-Term Performance-Based Incentive Plan, as amended February 12, 2014, filed as Exhibit 10(a) to Form 10-Q for the quarter ended March 31, 2014, filed on May 7, 2014, in File No. 1-3480*
 - +10(i) Form of Performance Share Award Agreement under the Long-Term Performance-Based Incentive Plan, as amended February 11, 2015, filed as Exhibit 10.3 to Form 8-K dated February 11, 2015, filed on February 18, 2015, in File No. 1-3480*
 - +10(j) Form of Performance Share Award Agreement under the Long-Term Performance-Based Incentive Plan, as amended February 10, 2016, filed as Exhibit 10.3 to Form 8-K dated February 10, 2016, filed on February 18, 2016, in File No. 1-3480*
 - +10(k) Form of Annual Incentive Award Agreement under the Long-Term Performance-Based Incentive Plan, as amended February 10, 2016, filed as Exhibit 10.2 to Form 8-K dated February 10, 2016, filed on February 18, 2016, in File No. 1-3480*

Part IV

- +10(l) Form of MDU Resources Group, Inc. Indemnification Agreement for Section 16 Officers and Directors, filed as Exhibit 10.1 to Form 8-K dated May 15, 2014, filed on May 15, 2014, in File No. 1-3480*
- +10(m) Form of Amendment No. 1 to Indemnification Agreement, filed as Exhibit 10.2 to Form 8-K dated May 15, 2014, filed on May 15, 2014, in File No. 1-3480*
- +10(n) MDU Resources Group, Inc. Section 16 Officers and Directors with Indemnification Agreements Chart, as of January 27, 2017**
- +10(o) MDU Resources Group, Inc. Nonqualified Defined Contribution Plan, as amended and restated November 17, 2016, filed as Exhibit 10.1 to Form 8-K dated November 17, 2016, filed on November 21, 2016, in File No. 1-3480*
- +10(p) MDU Resources Group, Inc. 401(k) Retirement Plan, as restated March 1, 2011, filed as Exhibit 10(a) to Form 10-Q for the quarter ended September 30, 2011, filed on November 4, 2011, in File No. 1-3480*
- +10(q) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated March 29, 2011, filed as Exhibit 10(b) to Form 10-Q for the quarter ended March 31, 2011, filed on May 5, 2011, in File No. 1-3480*
- +10(r) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated June 30, 2011, filed as Exhibit 10(d) to Form 10-Q for the quarter ended June 30, 2011, filed on August 5, 2011, in File No. 1-3480*
- +10(s) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated September 9, 2011, filed as Exhibit 10(b) to Form 10-Q for the quarter ended September 30, 2011, filed on November 4, 2011, in File No. 1-3480*
- +10(t) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 29, 2011, filed as Exhibit 10(ac) to Form 10-K for the year ended December 31, 2011, filed on February 24, 2012, in File No. 1-3480*
- +10(u) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated May 24, 2012, filed as Exhibit 10(b) to Form 10-Q for the quarter ended June 30, 2012, filed on August 7, 2012, in File No. 1-3480*
- +10(v) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated August 29, 2012, filed as Exhibit 10(a) to Form 10-Q for the quarter ended September 30, 2012, filed on November 7, 2012, in File No. 1-3480*
- +10(w) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated August 29, 2012, filed as Exhibit 10(b) to Form 10-Q for the quarter ended September 30, 2012, filed on November 7, 2012, in File No. 1-3480*
- +10(x) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 19, 2012, filed as Exhibit 10(z) to Form 10-K for the year ended December 31, 2012, filed on February 28, 2013, in File No. 1-3480*
- +10(y) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated September 9, 2013, filed as Exhibit 10(b) to Form 10-Q for the quarter ended September 30, 2013, filed on November 7, 2013, in File No. 1-3480*
- +10(z) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated September 9, 2013, filed as Exhibit 10(c) to Form 10-Q for the quarter ended September 30, 2013, filed on November 7, 2013, in File No. 1-3480*
- +10(aa) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated September 23, 2013, filed as Exhibit 10(d) to Form 10-Q for the quarter ended September 30, 2013, filed on November 7, 2013, in File No. 1-3480*
- +10(ab) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 31, 2013, filed as Exhibit 10(aa) to Form 10-K for the year ended December 31, 2013, filed on February 21, 2014, in File No. 1-3480*
- +10(ac) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated March 13, 2014, filed as Exhibit 10(b) to Form 10-Q for the quarter ended March 31, 2014, filed on May 7, 2014, in File No. 1-3480*
- +10(ad) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated June 5, 2014, filed as Exhibit 10(a) to Form 10-Q for the quarter ended June 30, 2014, filed on August 8, 2014, in File No. 1-3480*
- +10(ae) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated July 7, 2014, filed as Exhibit 4.20 to Form S-8, filed on August 26, 2014, in Registration No. 333-198364*
- +10(af) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated August 18, 2014, filed as Exhibit 4.21 to Form S-8, filed on August 26, 2014, in Registration No. 333-198364*
- +10(ag) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated September 30, 2014, filed as Exhibit 10(b) to Form 10-Q for the quarter ended September 30, 2014, filed on November 7, 2014, in File No. 1-3480*
- +10(ah) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated November 25, 2014, filed as Exhibit 10(ah) to Form 10-K for the year ended December 31, 2014, filed on February 20, 2015, in File No. 1-3480*
- +10(ai) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 11, 2014, filed as Exhibit 10(ai) to Form 10-K for the year ended December 31, 2014, filed on February 20, 2015, in File No. 1-3480*
- +10(aj) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 11, 2014, filed as Exhibit 10(aj) to Form 10-K for the year ended December 31, 2014, filed on February 20, 2015, in File No. 1-3480*
- +10(ak) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 30, 2014, filed as Exhibit 10(ak) to Form 10-K for the year ended December 31, 2014, filed on February 20, 2015, in File No. 1-3480*
- +10(al) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated February 17, 2015, filed as Exhibit 10(a) to Form 10-Q for the quarter ended March 31, 2015, filed on May 8, 2015, in File No. 1-3480*

- +10(am) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated March 13, 2015, filed as Exhibit 10(b) to Form 10-Q for the quarter ended March 31, 2015, filed on May 8, 2015, in File No. 1-3480*
- +10(an) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated June 30, 2015, filed as Exhibit 10(a) to Form 10-Q for the quarter ended June 30, 2015, filed on August 4, 2015, in File No. 1-3480*
- +10(ao) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated November 19, 2015, filed as Exhibit 10(ap) to Form 10-K for the year ended December 31, 2015, filed on February 19, 2016, in File No. 1-3480*
- +10(ap) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated January 22, 2016, filed as Exhibit 10(c) to Form 10-Q for the quarter ended March 31, 2016, filed on May 6, 2016, in File No. 1-3480*
- +10(aq) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated March 10, 2016, filed as Exhibit 10(d) to Form 10-Q for the quarter ended March 31, 2016, filed on May 6, 2016, in File No. 1-3480*
- +10(ar) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated September 19, 2016, filed as Exhibit 10(a) to Form 10-Q for the quarter ended September 30, 2016, filed on November 7, 2016, in File No. 1-3480*
- +10(as) Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated December 29, 2016**
- +10(at) Employment Letter for Jeffrey S. Thiede, dated May 16, 2013, filed as Exhibit 10(ab) to Form 10-K for the year ended December 31, 2013, filed on February 21, 2014, in File No. 1-3480*
- +10(au) Martin A. Fritz Offer Letter, dated July 1, 2015, filed as Exhibit 10.2 to Form 8-K dated June 30, 2015, filed on July 2, 2015, in File No. 1-3480*
- +10(av) Jason L. Vollmer Offer Letter, dated March 7, 2016, filed as Exhibit 10.2 to Form 8-K dated March 2, 2016, file on March 8, 2016, in file No. 1-3480*
- 12 Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends**
- 21 Subsidiaries of MDU Resources Group, Inc.**
- 23 Consent of Independent Registered Public Accounting Firm**
- 31(a) Certification of Chief Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
- 31(b) Certification of Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
- 32 Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
- 95 Mine Safety Disclosures**
- 99(a) Equity Distribution Agreement entered into between MDU Resources Group, Inc. and Wells Fargo Securities, LLC, filed as Exhibit 1 to Form 8-K dated May 20, 2013, filed on May 20, 2013, in File No. 1-3480*
- 99(b) First Amendment to Equity Distribution Agreement, dated December 2, 2013, entered into between MDU Resources Group, Inc. and Wells Fargo Securities, LLC, filed as Exhibit 99(c) to Form 10-K for the year ended December 31, 2013, filed on February 21, 2014, in File No. 1-3480*
- 101 The following materials from MDU Resources Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements, tagged in summary and detail, (vii) Schedule I - Condensed Financial Information of Registrant, tagged in summary and detail and (viii) Schedule II - Consolidated Valuation and Qualifying Accounts, tagged in summary and detail

* Incorporated herein by reference as indicated.

** Filed herewith.

+ Management contract, compensatory plan or arrangement.

MDU Resources Group, Inc. agrees to furnish to the SEC upon request any instrument with respect to long-term debt that MDU Resources Group, Inc. has not filed as an exhibit pursuant to the exemption provided by Item 601(b)(4)(iii)(A) of Regulation S-K.

Part IV

Signatures

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

MDU Resources Group, Inc.

Date: February 24, 2017

By: /s/ David L. Goodin

David L. Goodin
(President and Chief Executive Officer)

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

Signature	Title	Date
<u>/s/ David L. Goodin</u> David L. Goodin (President and Chief Executive Officer)	Chief Executive Officer and Director	February 24, 2017
<u>/s/ Doran N. Schwartz</u> Doran N. Schwartz (Vice President and Chief Financial Officer)	Chief Financial Officer	February 24, 2017
<u>/s/ Jason L. Vollmer</u> Jason L. Vollmer (Vice President, Chief Accounting Officer and Treasurer)	Chief Accounting Officer	February 24, 2017
<u>/s/ Harry J. Pearce</u> Harry J. Pearce (Chairman of the Board)	Director	February 24, 2017
<u>/s/ Thomas Everist</u> Thomas Everist	Director	February 24, 2017
<u>/s/ Karen B. Fagg</u> Karen B. Fagg	Director	February 24, 2017
<u>/s/ Mark A. Hellerstein</u> Mark A. Hellerstein	Director	February 24, 2017
<u>/s/ A. Bart Holaday</u> A. Bart Holaday	Director	February 24, 2017
<u>/s/ Dennis W. Johnson</u> Dennis W. Johnson	Director	February 24, 2017
<u>/s/ William E. McCracken</u> William E. McCracken	Director	February 24, 2017
<u>/s/ Patricia L. Moss</u> Patricia L. Moss	Director	February 24, 2017
<u>/s/ John K. Wilson</u> John K. Wilson	Director	February 24, 2017



1200 W. Century Ave.
Bismarck, ND 58503
Mailing address:
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000
www.MDU.com

David L. Goodin
President and
Chief Executive Officer

March 24, 2017

Fellow Stockholders:

I invite you to join me, our board of directors, and members of our senior management team at our Annual Meeting of Stockholders at 11 a.m., Central Daylight Saving Time, on May 9, 2017, at 909 Airport Road in Bismarck, North Dakota.

In addition to the business that will be conducted at the meeting, I will explain some of the significant, positive changes we made at MDU Resources Group in 2016. During the year, we streamlined our operations into two lines of business: regulated energy delivery and construction materials and services. We reduced our exposure to commodity price volatility by completing the sale of our oil and natural gas exploration and production assets and by selling our interests in a diesel refinery and in a natural gas processing plant both located in North Dakota.

With a business presence in 48 states, we remain committed to Building a Strong America.[®] Our continuing businesses performed well in 2016, providing a 32 percent increase in earnings per share. We delivered a total stockholder return of 62 percent for the year, including increasing our dividend for the 26th consecutive year.

Another positive change we made this year is to our proxy statement. We simplified the proxy statement to what we believe is an easier-to-read format, while still adhering to regulations that outline what information we must provide to stockholders. Our goal is to make it easier for you to understand MDU Resources Group's governance and how we tie the company's results to executive compensation. We also hope the proxy statement more clearly describes the business we will conduct at our annual meeting.

We have streamlined our annual report and proxy statement delivery process this year as well, moving to a notice-and-access model of providing the report. You likely received notice in the mail that you can vote your shares and view our annual report and proxy statement online, along with instructions on how to request a printed copy if you would like one.

I look forward to you joining us on May 9. Even if you are not able to attend the annual meeting, your vote is important to us. Please follow the instructions on your proxy card to vote and make sure your shares are represented.

We appreciate your continued investment in MDU Resources Group.

Sincerely yours,

David L. Goodin
President and Chief Executive Officer

MDU RESOURCES GROUP, INC.

1200 West Century Avenue

Mailing Address:

P.O. Box 5650

Bismarck, North Dakota 58506-5650

(701) 530-1000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 9, 2017

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 9, 2017

The 2017 Notice of Annual Meeting and Proxy Statement and 2016 Annual Report
to Stockholders are available at www.mdu.com/proxymaterials.

March 24, 2017

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, May 9, 2017, at 11:00 a.m., Central Daylight Saving Time, for the following purposes:

- (1) Election of directors;
- (2) Advisory vote to approve the frequency of the vote to approve the compensation paid to the company's named executive officers;
- (3) Advisory vote to approve the compensation paid to the company's named executive officers;
- (4) Ratification of the appointment of Deloitte & Touche LLP as the company's independent registered public accounting firm for 2017;
- (5) Advisory vote to approve an amendment to the company's bylaws to adopt an exclusive forum for internal corporate claims; and
- (6) Transaction of any other business that may properly come before the meeting or any adjournment(s) thereof.

The board of directors has set the close of business on March 10, 2017, as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting and any adjournment(s) thereof. We expect to begin mailing the Notice of Availability of Proxy Materials (Notice) on or about March 24, 2017. The Notice will contain basic information about the annual meeting and instructions on how to view our proxy materials, and vote electronically, on the Internet. Stockholders who do not receive the Notice will receive a paper copy of our proxy materials, which will be sent on or about March 30, 2017.

All stockholders as of the record date of March 10, 2017, are cordially invited and urged to attend the meeting in person. Registered stockholders who receive a full set of proxy materials will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Registered stockholders who receive a notice regarding the availability of proxy materials and 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) if shares are held in the name of a bank or broker, obtain a statement from their bank or broker showing proof of stock ownership as of March 10, 2017; and (3) present their admission ticket(s), the stock ownership statement, and photo identification, such as a driver's license, at the annual meeting.

By order of the Board of Directors,



Daniel S. Kuntz
Secretary

TABLE OF CONTENTS

	Page		Page
PROXY STATEMENT SUMMARY	1		
BOARD OF DIRECTORS		EXECUTIVE COMPENSATION (continued)	
Item 1. Election of Directors	6	Executive Compensation Tables	38
Director Nominees	6	Summary Compensation Table	38
CORPORATE GOVERNANCE		Grants of Plan-Based Awards	39
Director Independence	12	Outstanding Equity Awards at Fiscal Year-End	41
Stockholder Engagement	12	Option Exercises and Stock Vested	41
Board Leadership Structure	12	Pension Benefits	42
Board's Role in Risk Oversight	13	Nonqualified Deferred Compensation	44
Board Meetings and Committees	13	Potential Payments Upon Termination or	
Narrative Disclosure of our Compensation		Change of Control	45
Policies and Practices	16	AUDIT MATTERS	
Stockholder Communications with the Board	17	Item 4. Ratification of the Appointment of	
Additional Governance Features	17	Deloitte & Touche LLP as the Company's Independent	
Corporate Governance Materials	18	Registered Public Accounting Firm for 2017	48
Related Person Transaction Disclosure	18	Annual Evaluation and Selection of Deloitte &	
COMPENSATION OF NON-EMPLOYEE DIRECTORS		Touche LLP	48
Director Compensation	19	Audit Fees and Non-Audit Fees	49
SECURITY OWNERSHIP		Policy on Audit Committee Pre-Approval of Audit	
Security Ownership Table	20	and Permissible Non-Audit Services of the	
Section 16 Compliance	21	Independent Registered Public Accounting Firm ..	49
EXECUTIVE COMPENSATION		Audit Committee Report	50
Item 2. Advisory Vote to Approve the Frequency of the		OTHER MATTERS	
Vote to Approve the Compensation Paid to the		Item 5. Advisory Vote to Approve an Amendment to	
Company's Named Executive Officers	22	the Company's Bylaws to Adopt an Exclusive Forum for	
Item 3. Advisory Vote to Approve the Compensation		Internal Corporate Claims	51
Paid to the Company's Named Executive Officers	23	INFORMATION ABOUT THE ANNUAL MEETING	
Information Concerning Executive Officers	24	Who Can Vote	53
Compensation Discussion and Analysis	25	Notice and Access	53
Executive Summary	25	How to Vote	53
2016 Compensation Framework	29	Revoking Your Proxy	53
2016 Compensation for our Named		Discretionary Voting Authority	54
Executive Officers	30	Voting Standards	54
Other Benefits	35	Proxy Solicitation	55
Compensation Governance	36	Electronic Delivery of Proxy Statement	55
Compensation Committee Report	37	Householding of Proxy Materials	55
		MDU Resources Group, Inc. 401(k) Plan	55
		Annual Meeting Admission	55
		Conduct of the Meeting	56
		Stockholder Proposals, Director Nominations, and	
		Other Items of Business	56
		EXHIBIT A	
		Amendment to the Bylaws	A-1

PROXY STATEMENT SUMMARY

To assist you in reviewing the company’s 2016 performance and voting your shares, we call your attention to key elements of our 2017 Proxy Statement and our 2016 Annual Report to Stockholders. The following is only a summary and does not contain all of the information you should consider. You should read the entire Proxy Statement carefully before voting. For more complete information about these topics, please review the complete Proxy Statement and our 2016 Annual Report to Stockholders.

Meeting Information

Time and Date:
11:00 a.m. Central Daylight Saving Time (CDT) Tuesday, May 9, 2017
Place:
MDU Service Center 909 Airport Road Bismarck, ND

Summary of Stockholder Voting Matters

Voting Matters	Board Vote Recommendation	See Page
Item 1 - Election of Directors	FOR each nominee	6
Item 2 - Advisory Vote to Approve the Frequency of the Vote to Approve the Compensation Paid to the Company’s Named Executive Officers	FOR ONE YEAR	22
Item 3 - Advisory Vote to Approve the Compensation Paid to the Company’s Named Executive Officers	FOR	23
Item 4 - Ratification of the Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for 2017	FOR	48
Item 5 - Advisory Vote to Approve an Amendment to the Company’s Bylaws to Adopt an Exclusive Forum for Internal Corporate Claims	FOR	51

Corporate Governance Highlights

MDU Resources Group, Inc. is committed to strong corporate governance practices. The following highlights our corporate governance practices and policies. See the sections entitled “[Corporate Governance](#)” and “[Executive Compensation](#)” for more information on the following:

✓ Annual Election of All Directors
✓ Majority Voting for Directors
✓ Separate Chairman and CEO
✓ Executive Sessions of Independent Directors at Every Regularly Scheduled Meeting
✓ Annual Board and Committee Self-Evaluations
✓ Risk Oversight by Full Board and Committees
✓ All Directors are Independent Other Than our CEO

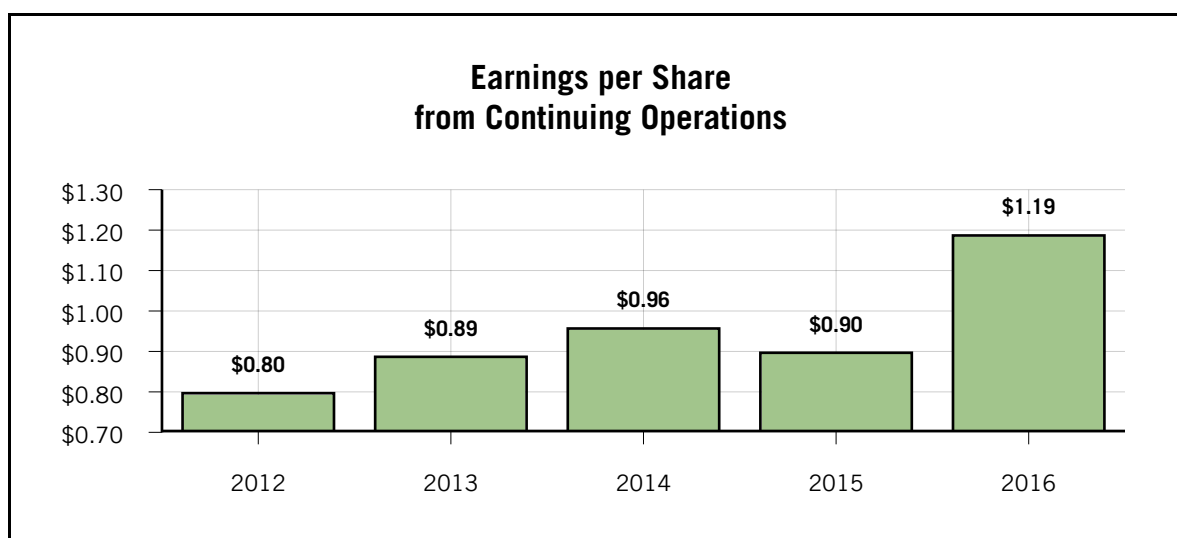
✓ All Three Standing Committees Consist of Independent Directors
✓ Active Investor Outreach Program
✓ Stock Ownership Requirements for Directors and Executives
✓ Anti-Hedging and Anti-Pledging Policies
✓ Compensation Recovery/Clawback Policy
✓ Code of Business Conduct and Ethics for Directors, Officers, and Employees
✓ Annual Advisory Approval on Executive Compensation

Business Performance Highlights

Our overall performance in 2016 was consistent with our long-term strategy as we executed on priorities to reduce our risk to oil and natural gas commodity price fluctuations and focus on our regulated energy delivery and construction materials and services business segments. In 2016, we accomplished:

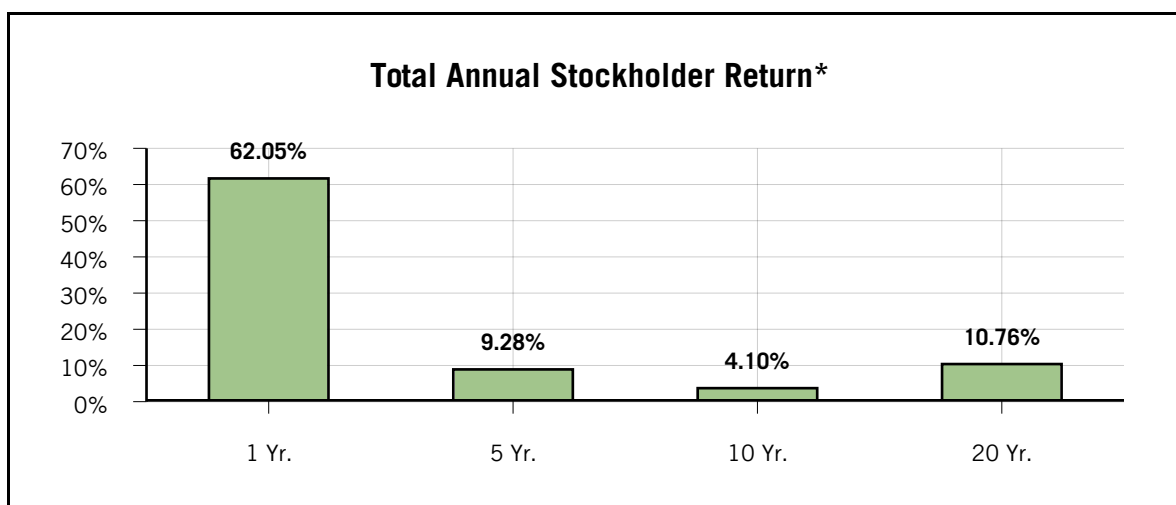
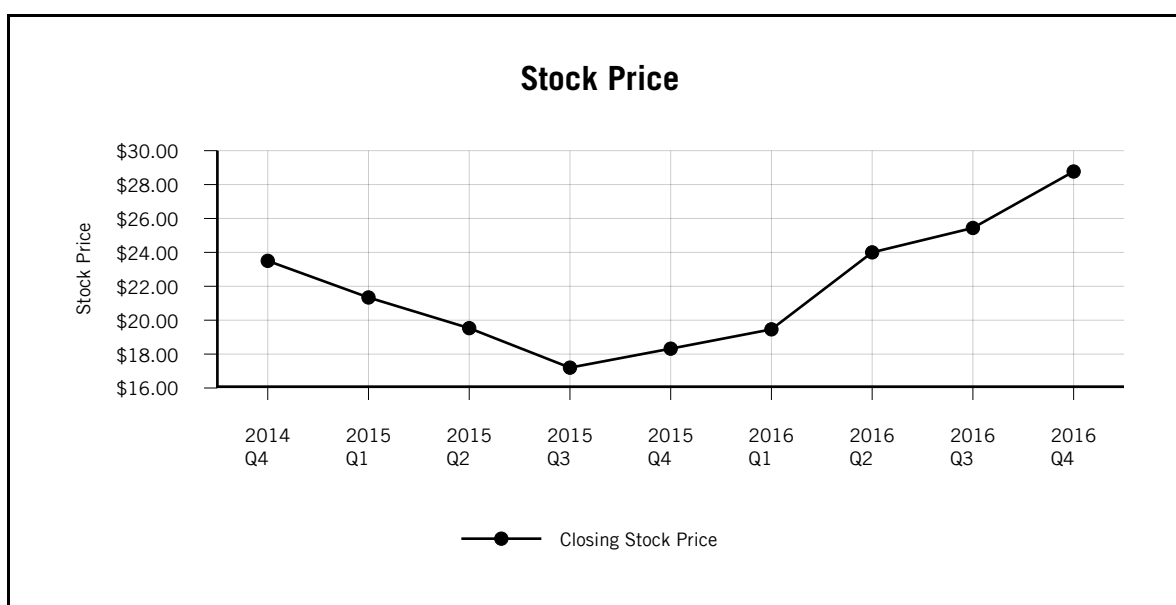
- The sale of Dakota Prairie Refining, LLC in June, the completion of the sale of our oil and gas exploration and production business assets in April, and the sale of our interest in the Pronghorn natural gas processing plant in January 2017 reduced the company's risk by decreasing its exposure to commodity price fluctuations.
- Our construction materials & contracting segment achieved record earnings, and its backlog at December 31, 2016, was \$538 million compared to \$491 million a year earlier.
- Earnings from our construction services segment were up 43%, to \$33.9 million, on 16% revenue growth.
- We acquired the Thunder Spirit wind farm providing an additional 107.5 megawatts of renewable generation. We also signed an agreement in 2016 to purchase power from an expansion of the Thunder Spirit wind farm which includes an option to buy the expansion at the completion of construction. This will bring the total capacity of the Thunder Spirit wind farm to 150 megawatts which will increase the company's nameplate electric renewable generation portfolio to 27%.
- Our electric & natural gas distribution segment achieved regulatory relief of an additional \$32.7 million in final implemented rates in 2016 through February 2017.
- We, along with a partner, began construction of approximately 160-miles of 345 kilovolt electric transmission line which will facilitate delivery of renewable wind energy from North Dakota to eastern markets.
- Our pipeline & midstream segment secured sufficient capacity commitments and started survey work on a 38-mile transmission pipeline that will deliver natural gas supply to eastern North Dakota and far western Minnesota. Following receipt of necessary permits and regulatory approvals, construction is expected to start in early 2018 and be complete late that year. This segment also signed agreements for and completed construction of other natural gas transmission pipeline projects.
- Our construction services segment constructed and sold a large scale solar project in Nevada. This segment also completed a 135-mile 345-kilovolt electric transmission line project which was the largest transmission construction project ever completed by the construction services segment.
- Our pipeline & midstream segment experienced a 59% increase in natural gas storage levels.

With our accomplishments in 2016, we are optimistic about the company's future financial performance. The charts below show our progress over the last five years.



2016 Financial Performance Highlights

- Strong year-over-year performance from continuing operations resulted in an increase in earnings per share from continuing operations to \$1.19 per share compared to \$0.90 per share in 2015, an increase of 32%
 - Electric & natural gas distribution segment earnings increased by 16%
 - Pipeline & midstream segment earnings increased by 77%
 - Construction materials & contracting segment earnings increased by 15%
 - Construction services segment earnings increased by 43%
- Return of stockholder value through the dividend
 - Increased dividend for 26th straight year
 - Paid uninterrupted dividend for 79th straight year
- Improved credit rating outlook from Standard & Poor's (S&P) from negative to stable
 - BBB+ credit ratings with stable outlooks from both S&P and Fitch Ratings
- Stock price increased from \$18.32 per share on December 31, 2015, to \$28.77 per share on December 31, 2016, reflecting appreciation of 57%
- One year total stockholder return of 62% including our dividends



* The calculation of Total Annual Stockholder Return assumes the reinvestment of dividends in additional shares of common stock.

26 Years
of Consecutive
Dividend Increases

Dividends Paid
\$692 Million
Over the Last 5 Years

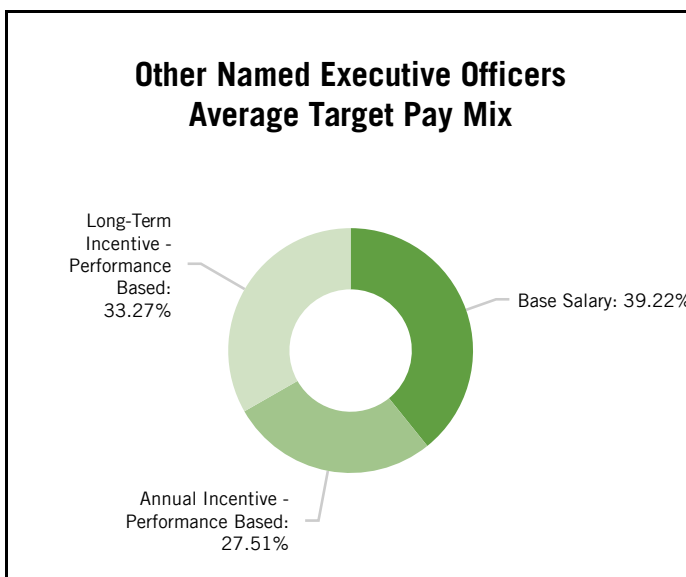
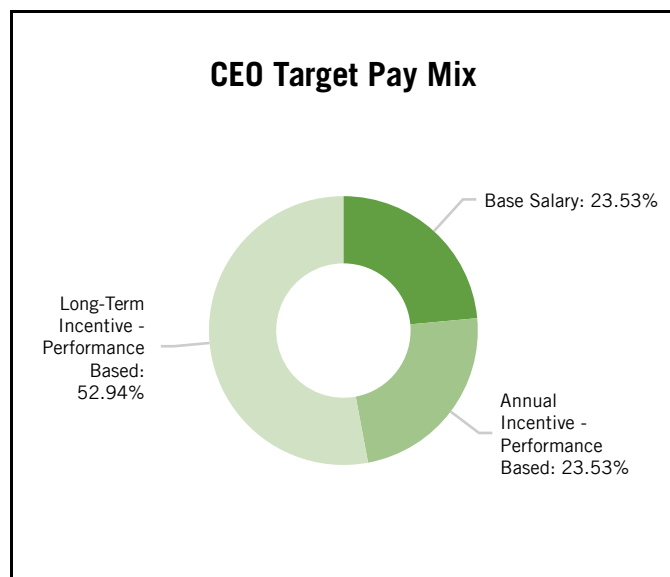
79 Years
of Uninterrupted
Dividend Payments

Compensation Highlights

Executive compensation at the company is focused on performance. Our compensation program is structured to strongly align compensation with the company's performance with a substantial portion of our executive compensation based upon performance incentive awards.

- Over 76% of our chief executive officer's target compensation and 61% of our other named executive officers' target compensation is performance based.
- 100% of annual incentive compensation and 100% of long-term incentive compensation are tied to performance against pre-established, specific, measurable financial and operational goals.
- We require all executive officers to own a significant amount of company stock based upon a multiple of their base salary.

2016 Named Executive Officer Target Pay Mix



- With the exception of the president of our construction materials & contracting segment, which achieved record earnings in 2015, base salaries for our named executive officers were frozen in 2016 following a challenging year in 2015 as a result of impairments at our exploration & production segment, which has since been sold.
- Annual incentive award payout to our CEO for 2016, which was based upon the strong performance at all four of our business units, was 139.8% of his annual incentive target.
- Long-term incentive award payouts in 2017 for the 2014-2016 performance cycle were at 68% of target based upon total stockholder return at the 40th percentile of our peers over the performance cycle reflecting a challenging operating environment in 2014 and 2015.

Key Features of our Executive Compensation Program

What We Do

- Pay for Performance** - All annual and long-term incentives are performance-based and tied to performance measures set by the compensation committee.
- Independent Compensation Committee** - All members of the compensation committee meet the independence standards under the New York Stock Exchange listing standards and the Securities and Exchange Commission rules.
- Independent Compensation Consultant** - The compensation committee retains an independent compensation consultant to evaluate executive compensation plans and practices.
- Competitive Compensation** - Executive compensation reflects the executive's performance, experience, relative value compared to other positions within the company, relationship to competitive market value compensation, and the economic environment of the executive's business segment.
- Annual Compensation Risk Analysis** - We regularly analyze the risks related to our compensation programs and conduct a broad risk assessment annually.
- Stock Ownership & Retention Requirements** - Executive officers are required to own, within five years of appointment or promotion, company common stock equal to a multiple of their base salary. The executive officers must retain at least 50% of the net after tax shares of stock vested through the long-term incentive plan for the earlier of two years or until termination of employment.
- Clawback Policy** - If the company's audited financial statements are restated, the compensation committee may, or shall if required, demand repayment of some or all incentives paid to company executive officers within the last three years.

What We Don't Do

- Stock Options** - The company does not use stock options as a form of incentive compensation.
- Perquisites** - Executives do not receive perquisites which materially differ from those available to employees in general.
- Tax Gross-ups** - Executive officers do not receive tax gross-ups on any compensation.
- Hedge or Pledge Stock** - Executives and directors are not allowed to hedge or pledge company securities.
- No Time Based Awards** - All long-term incentives are performance-based and vest only upon the achievement of specific performance measures.

BOARD OF DIRECTORS

ITEM 1. ELECTION OF DIRECTORS

The nominating and governance committee of the board, reflecting the criteria for election to the board, identifies and reviews possible candidates for the board and recommends the nominees for directors to the board for approval. The committee considers and evaluates suggestions from many sources, including stockholders, regarding possible candidates for directors. Additional information on our board composition and director nomination process is further discussed in our Proxy Statement under “[Nominating and Governance Committee](#)” in the section entitled “[Corporate Governance](#).”

All nominees for director are nominated to serve one-year terms until the annual meeting of stockholders in 2018 and their respective successors are elected and qualified, or until their earlier resignation, removal from office, or death.

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

Director Nominees

	<p>Thomas Everist Age 67</p>	<p>Independent Director Since 1995 Compensation Committee</p>	<p>Other Current Public Boards: --Raven Industries, Inc.</p>
<p>Mr. Everist has more than 43 years of business experience in the construction materials and aggregate mining industry. He has business leadership and management experience serving as president and chairman of his companies for over 29 years. Mr. Everist also has experience serving as a director and chairman of another public company, which enhances his contributions to our board.</p>			

Career Highlights

- President and chairman of The Everist Company, Sioux Falls, South Dakota, an investment and land development company, since April 2002. Prior to January 2017, The Everist Company was engaged in aggregate, concrete, and asphalt production.
- Managing member of South Maryland Creek Ranch, LLC, a land development company; president of SMCR, Inc., an investment company, since June 2006; and managing member of MCR Builders, LLC, which provides residential building services to South Maryland Creek Ranch, LLC, since November 2014.
- Director and chairman of the board of Everist Health, Inc., Ann Arbor, Michigan, which provides solutions for personalized medicines, since 2002, and chief executive officer from August 2012 to December 2012.
- President and chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 2002.

Other Leadership Experience

- Director of publicly traded Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, flow controls, and engineered films, since 1996, and chairman of the board since April 2009.
- Director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer, since January 2000.
- Director of Bell, Inc., Sioux Falls, South Dakota, a manufacturer of folding cartons and packages, since April 2011.
- Director of Angiologix Inc., Mountain View, California, a medical diagnostic device company, from July 2010 through October 2011 when it was acquired by Everist Genomics, Inc.
- Member of the South Dakota Investment Council, the state agency responsible for prudently investing state funds, from July 2001 to June 2006.

Education

- Bachelor’s degree in mechanical engineering and a master’s degree in construction management from Stanford University.

	<p>Karen B. Fagg Age 63</p> <p>Independent Director Since 2005 Compensation Committee Nominating and Governance Committee</p>
<p>Ms. Fagg brings experience to our board in construction and engineering, energy, and the responsible development of natural resources, which are all important aspects of our business. In addition to her industry experience, Ms. Fagg has over 20 years of business leadership and management experience, including over eight years as president, chief executive officer, and chairman of her own company, as well as knowledge and experience acquired through her service on a number of Montana state and community boards.</p>	

Career Highlights

- Vice president of DOWL LLC, d/b/a DOWL HKM, an engineering and design firm, from April 2008 until her retirement on December 31, 2011.
- President of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm, from April 1, 1995 to June 2000, and chairman, chief executive officer, and majority owner from June 2000 through March 2008. HKM Engineering, Inc. merged with DOWL LLC on April 1, 2008.
- Employed with MSE, Inc., Butte, Montana, an energy research and development company, from 1976 through 1988, and vice president of operations and corporate development director from 1993 to April 1995.
- Director of the Montana Department of Natural Resources and Conservation, Helena, Montana, the state agency charged with promoting stewardship of Montana's water, soil, energy, and rangeland resources; regulating oil and gas exploration and production; and administering several grant and loan programs, for a four-year term from 1989 through 1992.

Other Leadership Experience

- Board member of St. Vincent's Healthcare since January 2016 and previously from October 2003 until October 2009, including a term as chair.
- Former member of several state and community boards, including the First Interstate BancSystem Foundation, from June 2013 to 2016; the Montana Justice Foundation, whose mission is to achieve equal access to justice for all Montanans through effective funding and leadership, from 2013 into 2015; Board of Trustees of Carroll College from 2005 through 2010; Montana Board of Investments, the state agency responsible for prudently investing state funds, from 2002 through 2006; Montana State University's Advanced Technology Park from 2001 to 2005; and Deaconess Billings Clinic Health System from 1994 to 2002.

Education

- Bachelor's degree in mathematics from Carroll College in Helena, Montana.

	<p>David L. Goodin Age 55</p> <p>Director Since 2013 President and Chief Executive Officer</p>
<p>As chief executive officer of MDU Resources Group, Inc., Mr. Goodin is the only officer of the company that serves on our board. With over 33 years of significant, hands-on experience at our company, Mr. Goodin's long history and deep knowledge and understanding of MDU Resources Group, Inc., its operating companies, and its lines of business bring continuity to the board.</p>	

Career Highlights

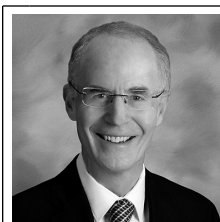
- President and chief executive officer and a director of the company since January 4, 2013.
- Prior to January 4, 2013, served as chief executive officer and president of Intermountain Gas Company, Cascade Natural Gas Corporation, Montana-Dakota Utilities Co., and Great Plains Natural Gas Co.
- Began his career in 1983 at Montana-Dakota Utilities Co. as a division electrical engineer and served in positions of increasing responsibility until 2007 when he was named president of Cascade Natural Gas Corporation; positions included division electric superintendent, electric systems manager, vice president-operations, and executive vice president-operations and acquisitions.

Other Leadership Experience

- Member of the U.S. Bancorp Western North Dakota Advisory Board since January 2013.
- Director of Sanford Bismarck, an integrated health system dedicated to the work of health and healing, and Sanford Living Center, since January 2011.
- Former board member of several industry associations, including the American Gas Association, the Edison Electric Institute, the North Central Electric Association, the Midwest ENERGY Association, and the North Dakota Lignite Energy Council.

Education

- Bachelor of science degree in electrical and electronics engineering from North Dakota State University.
- Masters in business administration from the University of North Dakota.
- The Advanced Management Program at Harvard School of Business.
- Registered professional engineer in North Dakota.



Mark A. Hellerstein
Age 64

Independent Director Since 2013
Audit Committee

Mr. Hellerstein has extensive business experience in the energy industry as a result of his 17 years of senior management experience and service as board chairman of St. Mary Land & Exploration Company (now SM Energy Company). As a certified public accountant, on inactive status, with extensive financial experience as a result of his employment as chief financial officer with several companies, including public companies, Mr. Hellerstein contributes significant finance and accounting knowledge to our board and audit committee.

Career Highlights

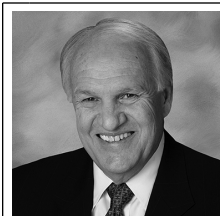
- Chief executive officer of St. Mary Land & Exploration Company (now SM Energy Company), an energy company engaged in the acquisition, exploration, development, and production of crude oil, natural gas, and natural gas liquids, from 1995 until February 2007; president from 1992 until June 2006; and executive vice president and chief financial officer from 1991 until 1992. He was first elected to the board of St. Mary in 1992 and served as chairman of the board from 2002 until May 2009.
- Several positions prior to joining St. Mary in 1991, including chief financial officer of CoCa Mines Inc., which mined and extracted minerals from lands previously held by the public through the Bureau of Land Management; American Golf Corporation, which manages and owns golf courses in the United States; and Worldwide Energy Corporation, an oil and gas acquisition, exploration, development, and production company with operations in the United States and Canada.

Other Leadership Experience

- Director of Transocean Inc., a leading provider of offshore drilling services for oil and gas wells, from December 2006 to November 2007.
- Director of the Denver Children's Advocacy Center, whose mission is to provide a continuum of care for traumatized children and their families, from August 2006 until December 2011, including chairman for the last three years.

Education and Professional

- Bachelor's degree in accounting from the University of Colorado.
 - Certified public accountant, on inactive status.
-



A. Bart Holaday
Age 74

Independent Director Since 2008
Audit Committee
Nominating and Governance Committee

Mr. Holaday has extensive business knowledge and experience in the energy and financial management industries. Mr. Holaday brings to the board extensive finance and investment experience, as well as business development skills, through his senior management experience with investment funds and energy companies. Mr. Holaday is also a chartered financial analyst.

Career Highlights

- President and owner of Dakota Renewable Energy Fund, LLC, which invests in small companies in North Dakota, since August 2007.
- Head of the Private Markets Group of UBS Asset Management and its predecessor entities, managing more than \$19 billion in investments, from December 1985 until retirement in 2001.
- Vice president and principal of the InnoVen Venture Capital Group, a venture capital investment firm, from 1983 through 1985.
- Founder and president of Tenax Oil and Gas Corporation, an onshore Gulf Coast exploration and production company, from 1980 through 1982.
- Four years of senior management experience with Gulf Oil Corporation, a global energy and petrochemical company.
- Eight years of senior management experience with the federal government, including the Department of Defense, Department of the Interior, and the Federal Energy Administration.

Other Leadership Experience

- Member of the investment advisory board of Commons Capital LLC, a venture capital firm, since 1999.
- Director of Hull Investments, LLC, a private entity firm that combines nonprofit activities and investments, since August 2011; Alerus Financial, a financial services company, since September 2007; and Adams Street Partners, LLC, a private equity investment firm, from January 2001 to March 2017.
- Former member of the U.S. Securities and Exchange Commission advisory committee on the regulation of capital markets.

Education and Professional

- Bachelor's degree in engineering sciences from the U.S. Air Force Academy.
 - Rhodes Scholar, earning a bachelor's degree and a master's degree in politics, philosophy, and economics from Oxford University.
 - Law degree from George Washington Law School.
 - Honorary Doctor of Letters from the University of North Dakota.
 - Chartered Financial Analyst.
-

	<p>Dennis W. Johnson Independent Director Since 2001 Age 67 Audit Committee</p> <p>Mr. Johnson brings to our board over 42 years of experience in business management, manufacturing, and finance, holding positions as chairman, president, and chief executive officer of TMI Corporation for 34 years, as well as through his prior service as a director of the Federal Reserve Bank of Minneapolis. As a result of his service on a number of state and local organizations in North Dakota, Mr. Johnson has significant knowledge of local, state, and regional issues involving North Dakota, a state where we have significant operations and assets.</p>
-----------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Career Highlights

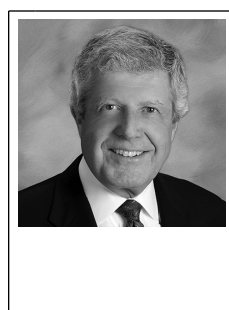
- Chairman, president, and chief executive officer of TMI Corporation and chairman and chief executive officer of TMI Transport Corporation (as well as TMI Systems Design Corporation and TMI Storage Systems Corporation before they merged into TMI Corporation the end of 2015), manufacturers of casework and architectural woodwork in Dickinson, North Dakota; employed since 1974 and serving as president or chief executive officer since 1982.

Other Leadership Experience

- President of the Dickinson City Commission from July 2000 through October 2015.
- Director of the Federal Reserve Bank of Minneapolis for six years from 1993 through 1998.
- Served on numerous industry, state, and community boards, including the North Dakota Workforce Development Council (chair); the Decorative Laminate Products Association; the North Dakota Technology Corporation; and the business advisory council of the Steffes Corporation, a metal manufacturing and engineering firm.
- Served on North Dakota Governor Sinner's Education Action Commission; the North Dakota Job Service Advisory Council; the North Dakota State University President's Advisory Council; North Dakota Governor Schafer's Transition Team; and chaired North Dakota Governor Hoeven's Transition Team.

Education

- Bachelor of science in electrical and electronics engineering and master of science in industrial engineering from North Dakota State University.

	<p>William E. McCracken Independent Director Since 2013 Age 74 Compensation Committee Nominating and Governance Committee</p> <p>Mr. McCracken is experienced in information technology and cybersecurity through his tenure at CA, Inc. and International Business Machines Corporation (IBM). This experience coupled with his service as the chair or a member of the board of other public companies and the National Association of Corporate Directors (NACD) enables him to provide insight into the operations, challenges, and complex issues our company is facing in today's environment and to make significant contributions to the board's oversight of operational risk management functions and corporate governance.</p>
------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Career Highlights

- President of Executive Consulting Group, LLC, a general business consulting firm, from 2002 to present.
- Chief executive officer of CA, Inc., one of the world's largest information technology management software companies, from January 2010 until January 7, 2013, after which he served as executive adviser to the new chief executive officer until March 31, 2013, and as a consultant to the company until December 31, 2013; also as director of CA, Inc. from May 2005 until January 7, 2013, serving as non-executive chairman of the board from June 2007 to September 2009, interim executive chairman from September 2009 to January 2010, and executive chairman from January 2010 to May 2010.
- Several executive positions during his 36-year career with IBM, including serving on its Chairman's Worldwide Management Council, a group of the top 30 executives at IBM, from 1995 to 2001.

Other Leadership Experience

- Director of the NACD, a nonprofit membership organization for corporate board members, since 2010, and named by the NACD as one of the top 100 most influential people in the boardroom in 2009; served on that organization's 2009 blue ribbon commission on risk governance, co-chaired its blue ribbon commission on board diversity in 2012, and co-chaired its blue ribbon commission on the board and long-term value creation in 2015.
- Director of IKON Office Solutions, Inc., a provider of document management systems and services, from 2003 to 2008, where he served on its audit committee, compensation committee, and strategy committee.
- Chair of the advisory board of the Millstein Center for Global Markets and Corporate Ownership at Columbia University and member since 2013, and the New York chairman of the Chairmen's Forum since 2011.

Education

- Bachelor of science in physics and mathematics from Shippensburg University.

Proxy Statement

	Patricia L. Moss Age 63	Independent Director Since 2003 Compensation Committee Nominating and Governance Committee	Other Current Public Boards: --Cascade Bancorp --Aquila Tax Free Trust of Oregon
	Ms. Moss has business experience and knowledge of the Pacific Northwest economy and state, local, and region issues where a significant portion of our operations are located. Ms. Moss provides our board with experience in finance and banking, as well as experience in business development through her work at Cascade Bancorp and Bank of the Cascades, and on the Oregon Investment Fund Advisory Council, the Oregon Business Council, and the Oregon Growth Board. Ms. Moss also has experience as a certified senior professional in human resources.		

Career Highlights


- President and chief executive officer of Cascade Bancorp, a financial holding company, Bend, Oregon, from 1998 to January 3, 2012; chief executive officer of Cascade Bancorp's principal subsidiary, Bank of the Cascades, from 1998 to January 3, 2012, serving also as president from 1998 to 2003; and chief operating officer, chief financial officer and secretary of Cascade Bancorp from 1987 to 1998.

Other Leadership Experience

- Director of Cascade Bancorp and Bank of the Cascades since 1993, and vice chair of both boards since January 3, 2012.
- Chair of the Bank of the Cascades Foundation Inc. since 2014; co-chair of the Oregon Growth Board, a state board created to improve access to capital and create private-public partnerships, since May 2012; and member of the Board of Trustees for the Aquila Tax Free Trust of Oregon, a mutual fund created especially for the benefit of Oregon residents, since June 2015 and January 2002 to May 2005.
- Former director of the Oregon Investment Fund Advisory Council, a state-sponsored program to encourage the growth of small businesses in Oregon; the Oregon Business Council, with a mission to mobilize business leaders to contribute to Oregon's quality of life and economic prosperity; the North Pacific Group, Inc., a wholesale distributor of building materials, industrial, and hardwood products; Clear Choice Health Plans Inc., a multi-state insurance company; and City of Bend's Juniper Ridge management advisory board.

Education

- Bachelor of science in business administration from Linfield College in Oregon and master's studies at Portland State University.
- Commercial banking school certification at the ABA Commercial Banking School at the University of Oklahoma.

	Harry J. Pearce Age 74	Independent Director Since 1997 Chairman of the Board	
	Mr. Pearce provides our board with public company leadership with his multinational business management experience and proven leadership skills through his position as vice chairman at General Motors Corporation, as well as through his extensive service on the boards of large public companies, including Marriott International, Inc., Hughes Electronics Corporation, where he was chairman, and Nortel Networks Corporation, where he also was chairman. He also brings to our board his long experience as a practicing attorney. In addition, Mr. Pearce has focused on corporate governance issues and was the founding chair of Yale University's Chairmen's Forum, an organization comprised of non-executive chairmen of publicly traded companies.		

Career Highlights

- Chairman of the board of the company effective August 17, 2006; lead director from February 15, 2001 until August 17, 2006; and vice chairman of the board from November 16, 2000 until February 15, 2001.
- Vice chairman and director of General Motors Corporation from January 1, 1996 to May 31, 2001; general counsel from 1987 to 1994.
- Senior partner in the Pearce & Durick law firm in Bismarck, North Dakota, prior to joining General Motors in 1987.

Other Leadership Experience

- Director of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting, from 1992 to December 2003, and retiring as chairman in 2003.
- Director of Marriott International, Inc., a major hotel chain, from 1995 to May 2015, and served on the audit, finance, compensation, and excellence committees.
- Director of Nortel Networks Corporation, a global telecommunications company, from January 2005 to August 2009, also served as chairman of the board from June 2005.
- Fellow of the American College of Trial Lawyers, and a member of the International Society of Barristers.
- Founding chair of the Yale University's Chairmen's Forum; former member of the President's Council on Sustainable Development, and co-chair of the President's Commission on the United States Postal Service.

Education

- Bachelor's degree in engineering sciences from the U.S. Air Force Academy.
- Juris doctor degree from Northwestern University's School of Law.



John K. Wilson
Age 62

Independent Director Since 2003
Audit Committee

Mr. Wilson has an extensive background in finance and accounting, as well as experience with mergers and acquisitions, through his education and work experience at a major accounting firm and his later public utility experience in his positions as controller and vice president of Great Plains Natural Gas Co., president of Great Plains Energy Corp., and president, chief financial officer, and treasurer for Durham Resources, LLC, and all Durham Resources entities.

Career Highlights

- President of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska, from 1994 to December 31, 2008; president of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000; and vice president of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000.
- Executive director of the Robert B. Daugherty Foundation in Omaha, Nebraska, since January 2010.
- Held positions of audit manager at Peat, Marwick, Mitchell (now known as KPMG), controller for Great Plains Natural Gas Co., and chief financial officer and treasurer for all Durham Resources entities.

Other Leadership Experience

- Director of HDR, Inc., an international architecture and engineering firm, since December 2008, and director of Tetrad Corporation, a privately held investment company, since April 2010, both located in Omaha, Nebraska.
- Former director of Bridges Investment Fund, Inc., a mutual fund, from April 2003 to April 2008; director of the Greater Omaha Chamber of Commerce from January 2001 through December 2008; member of the advisory board of U.S. Bank NA Omaha from January 2000 to July 2010; and the advisory board of Duncan Aviation, an aircraft service provider, headquartered in Lincoln, Nebraska, from January 2010 to February 2016.

Education and Professional

- Bachelor's degree in business administration, cum laude, from the University of Nebraska – Omaha.
- Certified public accountant, on inactive status.

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

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

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

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

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

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

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

CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

Director Independence

The board of directors has adopted guidelines on director independence that are included in our corporate governance guidelines. The board of directors has determined that, except for Mr. Goodin, all current directors have no material relationship with us and are independent in accordance with our corporate governance guidelines and the New York Stock Exchange listing standards.

In determining director independence, the board of directors reviewed and considered information about any transactions, relationships, and arrangements between the non-employee directors and their immediate family members and affiliated entities on the one hand, and the company and its affiliates on the other, and in particular the following transactions, relationships, and arrangements:

- *Charitable contributions by the MDU Resources Foundation (Foundation) to the following nonprofit organizations, where a director, or a director's spouse, serves or has served as a director, chair, or vice chair of the board of trustees, trustee or member of the organization or related entity:* Charitable contributions by the Foundation to Sanford Health Foundation, Billings Catholic Schools Foundation, Community Resources Inc., the University of North Dakota Foundation, and the University of Jamestown and its foundation. None of the contributions made to any of these nonprofit entities during the last three fiscal years exceeded in any single year the greater of \$1 million or 2% of the relevant entity's consolidated gross revenues.

Stockholder Engagement

The company has an active stockholder outreach program. We believe in providing transparent and timely information to our investors. Each year we routinely engage directly or indirectly with our stockholders, including our top institutional stockholders. During 2016, the company held meetings, conference calls, and webcasts with a diverse mix of stockholders. Throughout the year, we held meetings with nine of the actively managed institutional investors included in our year-end top 30 stockholders. We engage periodically with our index fund investors, however, no direct meetings were held with this investor class in 2016. In our meetings, we discussed a variety of topics with stockholders including longer-term company strategy and our capital expenditure forecast, shorter-term operational and financial updates, and previously announced strategic initiatives. The company also met with proxy advisory firms to discuss corporate governance and executive compensation practices.

Board Leadership Structure

The board separated the positions of chairman of the board and chief executive officer in 2006, and our bylaws and corporate governance guidelines currently require that our chairman be independent. The board believes this structure provides balance and is currently in the best interest of the company and its stockholders. Separating these positions allows the chief executive officer to focus on the full-time job of running our business, while allowing the chairman of the board to lead the board in its fundamental role of providing advice to and independent oversight of management. The chairman consults with the chief executive officer regarding the board meeting agendas, the quality and flow of information provided to the board, and the effectiveness of the board meeting process. The board believes this split structure recognizes the time, effort, and energy the chief executive officer is required to devote to the position in the current business environment, as well as the commitment required to serve as the chairman, particularly as the board's oversight responsibilities continue to grow and demand more time and attention. The fundamental role of the board of directors is to provide oversight of the management of the company in good faith and in the best interests of the company and its stockholders. Having an independent chairman is a means to ensure the chief executive officer is accountable for managing the company in close alignment with the interests of stockholders, including with respect to risk management as discussed below. An independent chairman is in a position to encourage frank and lively discussions and to assure that the company has adequately assessed all appropriate business risks before adopting its final business plans and strategies. The board believes that having separate positions and having an independent outside director serve as chairman is the appropriate leadership structure for the company at this time and demonstrates our commitment to good corporate governance.

Board's Role in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, environmental and regulatory risks, the impact of competition, weather conditions, limitations on our ability to pay dividends, pension plan obligations, cyberattacks or acts of terrorism, and third party liabilities. Management is responsible for the day-to-day management of risks the company faces, while the board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The board believes establishing the right “tone at the top” and full and open communication between management and the board of directors are essential for effective risk management and oversight. Our chairman meets regularly with our president and chief executive officer and other senior officers to discuss strategy and risks facing the company. Senior management attends the quarterly board meetings and is available to address any questions or concerns raised by the board on risk management-related and any other matters. Each quarter, the board of directors receives presentations from senior management on strategic matters involving our operations. At least annually, the board holds strategic planning sessions with senior management to discuss strategies, key challenges, and risks and opportunities for the company.

While the board is ultimately responsible for risk oversight at our company, our three standing board committees assist the board in fulfilling its oversight responsibilities in certain areas of risk. The audit committee assists the board in fulfilling its oversight responsibilities with respect to risk management in a general manner and specifically in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and, in accordance with New York Stock Exchange requirements, discusses policies with respect to risk assessment and risk management and their adequacy and effectiveness. Risk assessment reports are regularly provided by management to the audit committee or the full board. This opens the opportunity for discussions about areas where the company may have material risk exposure, steps taken to manage such exposure, and the company's risk tolerance in relation to company strategy. The audit committee reports regularly to the board of directors on the company's management of risks in the audit committee's areas of responsibility. The compensation committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The nominating and governance committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance.

Board Meetings and Committees

During 2016, the board of directors held four regular meetings and three special meetings. Each director attended at least 75% of the combined total meetings of the board and the committees on which the director served during 2016. Director attendance at our annual meeting of stockholders is encouraged. All directors attended our 2016 Annual Meeting of Stockholders.

Harry J. Pearce was elected non-employee chairman of the board on August 17, 2006, and previously served as lead director from February 15, 2001 to August 17, 2006. He presides at the executive session of the non-employee directors held in connection with each regularly scheduled quarterly board of directors meeting. The non-employee directors also meet in executive session both with and without the chief executive officer at each regularly scheduled quarterly board of directors meeting. All of our non-employee directors are independent, as defined in our corporate governance guidelines and New York Stock Exchange listing standards.

The board has a standing audit committee, compensation committee, and nominating and governance committee. These committees are composed entirely of independent directors.

Nominating and Governance Committee

The nominating and governance committee met four times during 2016. The committee members are Karen B. Fagg, chair, A. Bart Holaday, William E. McCracken, and Patricia L. Moss.

The nominating and governance committee provides recommendations to the board with respect to:

- board organization, membership, and function;
- committee structure and membership;
- succession planning for our executive management and directors; and
- our corporate governance guidelines.

Proxy Statement

The nominating and governance committee assists the board in overseeing the management of risks in the committee's areas of responsibility.

The committee identifies individuals qualified to become directors and recommends to the board the nominees for director for the next annual meeting of stockholders. The committee also identifies and recommends to the board individuals qualified to become our principal officers and the nominees for membership on each board committee. The committee oversees the evaluation of the board and management.

In identifying nominees for director, the committee consults with board members, our management, consultants, and other individuals likely to possess an understanding of our business and knowledge concerning suitable director candidates.

Our corporate governance guidelines include our policy on consideration of director candidates recommended to us. We will consider candidates that our stockholders recommend in the same manner we consider other nominees. Stockholders who wish to recommend a director candidate may submit recommendations, along with the information set forth in the guidelines, to the nominating and governance committee chair in care of the secretary at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650.

Stockholders who wish to nominate persons for election to our board at an annual meeting of stockholders must follow the procedures set forth in section 2.08 of our bylaws. Our bylaws are available on our website. See "[Stockholder Proposals, Director Nominations, and Other Items of Business for 2018 Annual Meeting](#)" in the section entitled "[Information about the Annual Meeting](#)" for further details.

In evaluating director candidates, the committee, in accordance with our corporate governance guidelines, considers an individual's:

- background, character, and experience, including experience relative to our company's lines of business;
- skills and experience which complement the skills and experience of current board members;
- success in the individual's chosen field of endeavor;
- skill in the areas of accounting and financial management, banking, business management, human resources, marketing, operations, public affairs, law, technology, risk management, governance, and operations abroad;
- background in publicly traded companies including service on other public company boards of directors;
- geographic area of residence;
- diversity of business and professional experience, skills, gender, and ethnic background, as appropriate in light of the current composition and needs of the board;
- independence, including any affiliation or relationship with other groups, organizations, or entities; and
- compliance with applicable law and applicable corporate governance, code of conduct and ethics, conflict of interest, corporate opportunities, confidentiality, stock ownership and trading policies, and our other policies and guidelines of the company.

In addition, our bylaws contain requirements that a person must meet to qualify for service as a director.

The nominating and governance committee assesses the effectiveness of this policy annually in connection with the nomination of directors for election at the annual meeting of stockholders. The composition of the current board reflects diversity in business and professional experience, skills, and gender.

Audit Committee

The audit committee is a separately-designated committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

The audit committee met eight times during 2016. The audit committee members are Dennis W. Johnson, chair, Mark A. Hellerstein, A. Bart Holaday, and John K. Wilson. The board of directors has determined that Messrs. Johnson, Hellerstein, Holaday, and Wilson are "audit committee financial experts" as defined by Securities and Exchange Commission rules and are financially literate within meaning of the listing standards of the New York Stock Exchange. They also meet the independence standard for audit committee members under our director independence guidelines, the New York Stock Exchange listing standards, and Securities and Exchange Commission rules.

The audit committee assists the board of directors in fulfilling its oversight responsibilities to the stockholders and serves as a communication link among the board, management, the independent registered public accounting firm, and the internal auditors. The audit committee:

- assists the board's oversight of
 - the integrity of our financial statements and system of internal controls;
 - the company's compliance with legal and regulatory requirements;
 - the independent registered public accounting firm's qualifications and independence;
 - the performance of our internal audit function and independent registered public accounting firm; and
 - management of risk in the audit committee's areas of responsibility; and
- arranges for the preparation of and approves the report that Securities and Exchange Commission rules require we include in our annual proxy statement. See the section entitled "[Audit Committee Report](#)" for further information.

Compensation Committee

During 2016, the compensation committee met five times. The compensation committee consists entirely of independent directors within the meaning of the company's corporate governance guidelines and the New York Stock Exchange listing standards and who meet the definitions of outside or non-employee directors for purposes of Section 162(m) of the Internal Revenue Code and Rule 16-b under the Exchange Act. Members of the compensation committee are Thomas Everist, chair, Karen B. Fagg, William E. McCracken, and Patricia L. Moss.

The compensation committee assists the board of directors in fulfilling its responsibilities relating to the company's compensation policy and programs. It has the direct responsibility for determining compensation for our Section 16 officers and for overseeing the company's management of risk in its areas of responsibility. In addition, the compensation committee reviews and recommends any changes to director compensation policies to the board of directors. The authority and responsibility of the compensation committee is outlined in the compensation committee's charter.

The compensation committee uses the analysis and recommendations from outside consultants, the chief executive officer, and the human resources department in making its compensation decisions. The chief executive officer, the vice president-human resources, and the general counsel regularly attend compensation committee meetings. The committee meets in executive session as needed. The processes and procedures for consideration and determination of compensation of the Section 16 officers, as well as the role of our executive officers, are discussed in the Compensation Discussion and Analysis.

The compensation committee has sole authority to retain compensation consultants, legal counsel, or other advisers to assist in consideration of the compensation of the chief executive officer, the other Section 16 officers, and the board of directors, and the committee is directly responsible for the appointment, compensation, and oversight of the work of such advisers. The committee's practice has been to retain a compensation consultant every other year to conduct a competitive analysis on executive compensation. The competitive analysis is conducted internally by the human resources department in the other years. Prior to retaining an adviser, the committee will consider all factors relevant to ensure the adviser's independence from management. Annually the compensation committee conducts a potential conflicts of interest assessment raised by the work of any compensation consultant and how such conflicts, if any, should be addressed. The compensation committee requested and received information from its compensation consultant, Willis Towers Watson, to assist in its potential conflicts of interest assessment. Based on its review and analysis, the compensation committee did not identify any conflicts of interest with respect to Willis Towers Watson.

The board of directors determines compensation for our non-employee directors based upon recommendations from the compensation committee. The compensation committee's practice has been to retain a compensation consultant every other year to conduct a competitive analysis on director compensation. The compensation committee employed a compensation consultant for an analysis of director compensation in 2015 but not in 2016 as the study was performed by the human resources department.

Narrative Disclosure of our Compensation Policies and Practices as They Relate to Risk Management

The human resources department has conducted an assessment of the risks arising from our compensation policies and practices for all employees and concluded that none of these risks is reasonably likely to have a material adverse effect on the company. Based on the human resources department's assessment and taking into account information received from the risk identification process, senior management and our management policy committee concluded that risks arising from our compensation policies and practices for all employees are not reasonably likely to have a material adverse effect on the company. After review and discussion with senior management, the compensation committee concurred with this assessment.

As part of its assessment of the risks arising from our compensation policies and practices for all employees, the human resources department identified the principal areas of risk faced by the company that may be affected by our compensation policies and practices for all employees, including any risks resulting from our operating businesses' compensation policies and practices. In assessing the risks arising from our compensation policies and practices, the human resources department identified the following practices designed to prevent excessive risk taking:

- Business management and governance practices:
 - risk management is a specific performance competency included in the annual performance assessment of Section 16 officers;
 - board oversight on capital expenditure and operating plans that promotes careful consideration of financial assumptions;
 - limitation on business acquisitions without board approval;
 - employee integrity training programs and anonymous reporting systems;
 - quarterly risk assessment reports at audit committee meetings; and
 - prohibitions on holding company stock in an account that is subject to a margin call, pledging company stock as collateral for a loan, and hedging of company stock by Section 16 officers and directors.
- Executive compensation practices:
 - active compensation committee review of executive compensation, including comparison of executive compensation to total stockholder return ratio to the ratio for the company's peer group;
 - the initial determination of a position's salary grade to be at or near the 50th percentile of base salaries paid to similar positions at peer group companies and/or relevant industry companies;
 - consideration of peer group and/or relevant industry practices to establish appropriate compensation target amounts;
 - a balanced compensation mix of fixed salary and annual and long-term incentives tied to the company's financial performance;
 - use of interpolation for annual and long-term incentive awards to avoid payout cliffs;
 - negative discretion to adjust any annual or long-term incentive award payment downward;
 - use of caps on annual incentive awards (maximum of 250% of target) and long-term incentive stock grant awards (200% target);
 - clawback availability on incentive payments in the event of a financial restatement;
 - use of performance shares, rather than stock options or stock appreciation rights, as the equity component of incentive compensation;
 - use of performance shares with a relative total stockholder return performance measure and mandatory reduction in award if total stockholder return over the performance period is negative;
 - use of three-year performance periods to discourage short-term risk-taking;
 - substantive incentive goals measured primarily by return on invested capital, earnings, and earnings per share criteria, which encourage balanced performance and are important to stockholders;
 - use of financial performance metrics that are readily monitored and reviewed;

- regular review of the appropriateness of the companies in the peer group;
- stock ownership requirements for the board and for executives receiving long-term incentive awards under the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan;
- mandatory holding periods for 50% of any net after-tax shares earned under long-term incentive awards; and
- use of independent consultants in establishing pay targets at least biennially.

Stockholder Communications with the Board

Stockholders and other interested parties who wish to contact the board of directors or any individual director, including our non-employee chairman or non-employee directors as a group, should address a communication in care of the secretary at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650. The secretary will forward all communications.

Additional Governance Features

Board and Committee Evaluations

Our corporate governance guidelines provide that the board of directors, in coordination with the nominating and governance committee, will annually review and evaluate the performance and functioning of the board and its committees. The self-evaluations are intended to facilitate a candid assessment and discussion by the board and each committee of its effectiveness as a group in fulfilling its responsibilities, its performance as measured against the corporate governance guidelines, and areas for improvement. The board and committee members are provided with a questionnaire to facilitate discussion. The results of the evaluations are reviewed and discussed in executive sessions of the committees and the board of directors.

Director Resignation Upon Change of Job Responsibility

Our corporate governance guidelines require a director to tender his or her resignation after a material change in job responsibility. In 2017, Mr. Everist submitted his resignation in connection with the sale by The Everist Company of its aggregate, concrete, and asphalt production interests. After considering his background, experience on the board, skills and character, and contribution to the company in light of the company's business and structure, the board determined Mr. Everist's resignation should not be accepted.

Majority Voting in Uncontested Director Elections

Our corporate governance guidelines require that in uncontested elections (those where the number of nominees does not exceed the number of directors to be elected), director nominees must receive the affirmative vote of a majority of the votes cast to be elected to our board of directors. Contested director elections (those where the number of director nominees exceeds the number of directors to be elected) are governed by a plurality of the vote of shares present in person or represented by proxy at the meeting.

The board has adopted a director resignation policy for incumbent directors in uncontested elections. Any proposed nominee for re-election as a director shall, before he or she is nominated to serve on the board, tender to the board his or her irrevocable resignation that will be effective, in an uncontested election of directors only, upon (i) such nominee's receipt of a greater number of votes "against" election than votes "for" election at our annual meeting of stockholders; and (ii) acceptance of such resignation by the board of directors.

Director Overboarding Policy

Our bylaws and corporate governance guidelines state that a director may not serve on more than three public company boards, including the company's board. Currently, all of our directors are in compliance of this policy.

Board Refreshment

The company regularly evaluates the need for board refreshment. The nominating and governance committee and the board are focused on identifying individuals whose skills and experiences will enable them to make meaningful contributions to shaping the company's business strategy. As part of its consideration of director succession, the nominating and governance committee from time to time reviews, including when considering potential candidates, the appropriate skills and characteristics required of board members. The board believes it is important to consider diversity of skills, expertise, race, ethnicity, gender, age, education, cultural background, and professional experiences in evaluating board candidates for expected contributions to an effective board. Independent directors may not serve on the board beyond the next annual meeting of stockholders after attaining the age of 76. In connection with our mandatory retirement for directors, three of our current directors are expected to retire within the next two years.

Proxy Statement

Prohibitions on Hedging/Pledging Company Stock

The director compensation policy prohibits directors from hedging their ownership of common stock, pledging company stock as collateral for a loan, or holding company stock in an account that is subject to a margin call.

Code of Conduct

We have a code of conduct and ethics, which we refer to as the Leading With Integrity Guide. It applies to all directors, officers, and employees.

We intend to satisfy our disclosure obligations regarding amendments to, or waivers of, any provision of the code of conduct that applies to our principal executive officer, principal financial officer, and principal accounting officer and that relates to any element of the code of ethics definition in Regulation S-K, Item 406(b), and waivers of the code of conduct for our directors or executive officers, as required by New York Stock Exchange listing standards, by posting such information on our website.

Corporate Governance Materials

Stockholders can see our bylaws, corporate governance guidelines, board committee charters, and Leading With Integrity Guide on our website.

- Audit, compensation, and nominating and governance committees' charters are available at <http://www.mdu.com/integrity/governance/board-charters-and-committees>.
- Bylaws and corporate governance guidelines are available at <http://www.mdu.com/integrity/governance/guidelines-and-bylaws>.
- Leading With Integrity Guide is available at <http://www.mdu.com/docs/default-source/governance/leadingwithintegrity.pdf>.

Related Person Transaction Disclosure

The board of directors' policy for the review of related person transactions is contained in our corporate governance guidelines. The policy provides that the audit committee review any transaction, arrangement or relationship, or series thereof:

- in which we are or will be a participant;
- the amount involved exceeds \$120,000; and
- a related person has or will have a direct or indirect material interest.

The purpose of this review is to determine whether this transaction is in the best interests of the company.

Related persons are directors, director nominees, executive officers, holders of 5% or more of our voting stock, and their immediate family members. Related persons are required promptly to report to our general counsel all proposed or existing related person transactions in which they are involved.

If our general counsel determines that the transaction is required to be disclosed under the Securities and Exchange Commission's rules, the general counsel furnishes the information to the chairman of the audit committee. After its review, the committee makes a determination or a recommendation to the board and officers of the company with respect to the related person transaction. Upon receipt of the committee's recommendation, the board of directors or officers, as the case may be, take such action as they deem appropriate in light of their responsibilities under applicable laws and regulations.

We had no related person transactions in 2016.

COMPENSATION OF NON-EMPLOYEE DIRECTORS

Director Compensation for 2016

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ¹	All Other Compensation (\$) ²	Total (\$)
Thomas Everist	75,000	110,000	83	185,083
Karen B. Fagg	75,000	110,000	83	185,083
Mark A. Hellerstein	65,000	110,000	83	175,083
A. Bart Holaday	65,000	110,000	83	175,083
Dennis W. Johnson	80,000	110,000	83	190,083
William E. McCracken	65,000	110,000	83	175,083
Patricia L. Moss	65,000	110,000	83	175,083
Harry J. Pearce	155,000	110,000	83	265,083
John K. Wilson	65,000 ³	110,000	83	175,083

¹ The annual retainer of \$110,000 in company common stock is awarded pursuant to the MDU Resources Group, Inc. Non-Employee Director Stock Compensation Plan. The amount shown for each director represents the aggregate grant date fair value of 3,886 shares of MDU Resources Group, Inc. common stock measured in accordance with Financial Accounting Standards Board (FASB) generally accepted accounting principles for stock-based compensation in FASB Accounting Standards Codification Topic 718. The grant date fair value is based on the purchase price of our common stock on the grant date of November 21, 2016, which was \$28.30 per share. The \$10.66 in cash paid to each director in lieu of fractional shares is included in the amount reported in the stock awards column to this table. As of December 31, 2016, there are no outstanding stock awards or options associated with the Non-Employee Director Stock Compensation Plan.

² Group life insurance premium.

³ Mr. Wilson elected to receive shares of our common stock in lieu of his cash retainer pursuant to the Non-Employee Director Stock Compensation Plan. The amount shown includes 2,244 shares of our common stock purchased on December 7, 2016, at \$28.96 per share.

The following table shows the cash and stock retainers payable to our non-employee directors.

Base Retainer	\$ 65,000
Additional Retainers:	
Non-Executive Chair	90,000
Lead Director, if any	33,000
Audit Committee Chair	15,000
Compensation Committee Chair	10,000
Nominating and Governance Committee Chair	10,000
Annual Stock Grant ¹	110,000

¹ The annual stock grant is a grant of shares equal in value to \$110,000.

There are no meeting fees paid to directors.

In addition to liability insurance, we maintain group life insurance in the amount of \$100,000 on each non-employee director for the benefit of each director's beneficiaries during the time each director serves on the board. The annual cost per director is \$82.80.

Directors may defer all or any portion of the annual cash retainer and any other cash compensation paid for service as a director pursuant to the Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.

Directors are reimbursed for all reasonable travel expenses, including spousal expenses in connection with attendance at meetings of the board and its committees. All reimbursable expense amounts, together with any other perquisites, were below the disclosure threshold for 2016.

Proxy Statement

Our post-retirement income plan for directors was terminated in May 2001 for current and future directors. The net present value of each director's benefit was calculated and converted into phantom stock. Payment is deferred pursuant to the Deferred Compensation Plan for Directors and will be made in cash over a five-year period after the director's retirement from the board.

Our director stock ownership policy contained in our corporate governance guidelines requires each director to own our common stock equal in value to five times the director's annual cash base retainer. Shares acquired through purchases on the open market and participation in our director stock plans are considered in ownership calculations as is ownership of our common stock by a spouse. A director is allowed five years commencing January 1 of the year following the year of that director's initial election to the board to meet the requirements. The level of common stock ownership is monitored with an annual report made to the compensation committee of the board. All directors are in compliance with the stock ownership policy. For stock ownership, see the section below.

SECURITY OWNERSHIP

Security Ownership Table

The table below sets forth the number of shares of our capital stock that each director and each nominee for director, each named executive officer, and all directors and executive officers as a group owned beneficially as of February 28, 2017. Unless otherwise indicated, each person has sole investment and voting power (or share such power with his or her spouse) of the shares noted.

Name	Common Shares Beneficially Owned	Percent of Class	Deferred Director Fees Held as Phantom Stock ¹
David C. Barney	12,055 ^{2,3}	*	
Thomas Everist	853,458	*	32,977
Karen B. Fagg	61,164	*	
Martin A. Fritz	—	*	
David L. Goodin	101,788 ²	*	
Mark A. Hellerstein	15,766	*	8,637
A. Bart Holaday	60,911	*	8,637
Dennis W. Johnson	80,330 ⁴	*	
William E. McCracken	15,766	*	
Patricia L. Moss	75,418	*	
Harry J. Pearce	235,885	*	54,221
Doran N. Schwartz	54,897 ⁵	*	
Jeffrey S. Thiede	7,149 ²	*	
John K. Wilson	118,916	*	
All directors and executive officers as a group (20 in number)	1,853,142	0.95 %	104,472

* Less than one percent of the class. Percent of class is calculated based on 195,304,376 outstanding shares as of February 28, 2017.

¹ These shares are not included in the "Common Shares Beneficially Owned" column. Directors may defer all or a portion of their cash compensation pursuant to the Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.

² Includes full shares allocated to the officer's account in our 401(k) retirement plan.

³ The total includes 687 shares owned by Mr. Barney's spouse.

⁴ Mr. Johnson disclaims all beneficial ownership of the 163 shares owned by his spouse.

⁵ The total includes 1,300 shares owned by Mr. Schwartz's spouse.

We prohibit our directors and executive officers from hedging their ownership of company common stock. They may not enter into transactions that allow them to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership.

Directors, executive officers, and related persons are prohibited from holding our common stock in a margin account, with certain exceptions, or pledging company securities as collateral for a loan. Company common stock may be held in a margin brokerage account only if the stock is explicitly excluded from any margin, pledge, or security provisions of the customer agreement. Company common stock may be held in a cash account, which is a brokerage account that does not allow any extension of credit on securities. "Related person" means an executive officer's or director's spouse, minor child, and any person (other than a tenant or domestic employee) sharing the household of a director or executive officer, as well as any entities over which a director or executive officer exercises control.

The table below sets forth information with respect to any person we know to be the beneficial owner of more than five percent of any class of our voting securities.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	BlackRock, Inc. 55 East 52nd Street New York, NY 10055	15,934,262 ¹	8.20 %
Common Stock	State Street Corporation State Street Financial Center One Lincoln Street Boston, MA 02111	13,420,759 ²	6.87 %
Common Stock	The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	20,142,541 ³	10.31 %
Common Stock	Parnassus Investments 1 Market Street, Suite 1600 San Francisco, CA 94105	13,875,527 ⁴	7.10 %

¹ Based solely on the Schedule 13G, Amendment No. 7, filed on January 25, 2017, BlackRock, Inc. reported sole voting power with respect to 15,053,491 shares and sole dispositive power with respect to 15,934,262 shares as the parent holding company or control person of BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management North Asia Limited, BlackRock Asset Management Schweiz AG, BlackRock Capital Management, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Fund Managers Ltd, BlackRock Institutional Trust Company, N.A., BlackRock Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC, and BlackRock Life Limited.

² Based solely on the Schedule 13G, filed on February 9, 2017, State Street Corporation reported shared voting and dispositive power with respect to all shares as the parent holding company or control person of State Street Bank and Trust Company, SSGA Funds Management, Inc., State Street Global Advisors, Ltd, State Street Global Advisors, Australia, Limited, State Street Global Advisors (Asia) Limited, and State Street Global Advisors France, S.A.

³ Based solely on the Schedule 13G, Amendment No. 5, filed on February 10, 2017, The Vanguard Group reported sole dispositive power with respect to 20,014,996 shares, shared dispositive power with respect to 127,545 shares, sole voting power with respect to 115,860 shares, and shared voting power with respect to 21,119 shares. These shares includes 106,426 shares beneficially owned by Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., as a result of its serving as investment manager of collective trust accounts, and 30,553 shares beneficially owned by Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., as a result of its serving as investment manager of Australian investment offerings.

⁴ Based solely on the Schedule 13G, Amendment No. 2, filed on February 14, 2017, Parnassus Investments reported sole voting and dispositive power with respect to all shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934, as amended, requires that officers, directors, and holders of more than 10% of our common stock file reports of their trading in our equity securities with the Securities and Exchange Commission. Based solely on a review of Forms 3, 4, and 5 and any amendments to these forms furnished to us during and with respect to 2016 or written representations that no Forms 5 were required, we believe that all such reports were timely filed, except that in May 2016, Mr. Daniel S. Kuntz filed an amended Form 3 to report beneficial ownership of 631 additional shares that were omitted from his original Form 3 filed in January 2016. Mr. Kuntz disclaims beneficial ownership of these additional shares.

EXECUTIVE COMPENSATION

ITEM 2. ADVISORY VOTE TO APPROVE THE FREQUENCY OF THE VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Securities Exchange Act of 1934 and Rule 14a-21(b), we are asking our stockholders to indicate, on an advisory basis, whether future advisory votes to approve the compensation paid to our named executive officers should be held every year, every two years, or every three years.

Our board of directors has determined that our stockholders should have the opportunity to vote on the compensation of our named executive officers every year. The board of directors believes that giving our stockholders the right to cast an advisory vote every year on the compensation of our named executive officers is a good corporate governance practice and is in the best interests of our stockholders. Annual advisory votes provide the highest level of accountability and direct communication with our stockholders.

By voting on this Item 2, stockholders are not approving or disapproving the board of directors' recommendation, but rather are indicating whether they prefer an advisory vote on named executive officer compensation be held every year, every two years, or every three years. Stockholders may also abstain from voting.

Although the board of directors intends to carefully consider the voting results of this proposal, it is an advisory vote and the results will not be binding on the board of directors or the company, and the board of directors may decide that it is in the best interests of our stockholders and the company to hold an advisory vote on executive compensation more or less frequently than the option selected by our stockholders. We will provide our stockholders with the opportunity to vote on the frequency of advisory votes on our named executive officer compensation at our annual meetings at least once every six calendar years.

**The board of directors recommends that an advisory vote
on compensation paid to our named executive officers be held every year.**

The frequency of every year, every two years, or every three years that receives the most votes of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal will be the frequency for the advisory vote on executive compensation that has been recommended by our stockholders. Abstentions will not count as votes for or against any frequency. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

ITEM 3. ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

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

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

- we pay for performance, with over 60% of our 2016 total target direct compensation for our named executive officers in the form of performance-based incentive compensation;
- we review competitive compensation data for our named executive officers, to the extent available, and incorporate internal equity in the final determination of target compensation levels;
- we align executive compensation and performance by using annual performance incentives based on criteria that are important to stockholder value, including earnings, earnings per share, and return on invested capital; and
- we align executive compensation and performance by using long-term performance incentives based on total stockholder return relative to our peer group.

We are asking our stockholders to indicate their approval of our named executive officer compensation as disclosed in this Proxy Statement, including the Compensation Discussion and Analysis, the executive compensation tables, and narrative discussion. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers for 2016. Accordingly, the following resolution is submitted for stockholder vote at the 2017 annual meeting:

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

As this is an advisory vote, the results will not be binding on the company, the board of directors, or the compensation committee and will not require us to take any action. The final decision on the compensation of our named executive officers remains with our compensation committee and our board of directors, although our board and compensation committee will consider the outcome of this vote when making future compensation decisions. In a separate vote, we are also providing our stockholders with the opportunity to vote, on an advisory basis, on whether the vote on our named executive officer compensation should occur every year, every two years, or every three years.

The board of directors recommends a vote “for” the approval, on a non-binding advisory basis, of the compensation of the company’s named executive officers, as disclosed in this Proxy Statement.

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

INFORMATION CONCERNING EXECUTIVE OFFICERS

At the first annual meeting of the board after the annual meeting of stockholders, our board of directors elects our executive officers, who serve until their successors are chosen and qualify. A majority of our board of directors may remove any executive officer at any time. Information concerning our executive officers, including their ages as of December 31, 2016, present corporate positions, and business experience during the past five years, is as follows:

Name	Age	Present Corporate Position and Business Experience
David L. Goodin	55	Mr. Goodin was elected president and chief executive officer of the company and a director effective January 4, 2013. For more information about Mr. Goodin, see the section entitled “Item 1. Election of Directors.”
David C. Barney	61	Mr. Barney was elected president and chief executive officer of Knife River Corporation effective April 30, 2013, and president effective January 1, 2012.
Martin A. Fritz	52	Mr. Fritz was elected president and chief executive officer of WBI Holdings, Inc. effective July 20, 2015. Prior to joining WBI Holdings, Inc., he had his own energy consulting firm, Fritz Consulting, from February 2014 to July 2015, where he provided strategy, operations, business development, and business brokerage services. Prior to that, Mr. Fritz was employed by EQT Corporation, a petroleum and natural gas exploration and pipeline company, in positions of increasing responsibility, most recently serving as its executive vice president midstream operations, land and construction from 2013 through January 2014 and vice president EQT and president EQT midstream operations from 2008 to 2013.
Dennis L. Haider	64	Mr. Haider was elected executive vice president-business development effective June 1, 2013. Prior to that, he was executive vice president-business development and gas supply of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company from January 1, 2012 to May 31, 2013.
Anne M. Jones	53	Ms. Jones was elected vice president-human resources effective January 1, 2016. Prior to that, she was vice president-human resources, customer service, and safety at Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company effective July 1, 2013, and director of human resources for Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. effective June 2008.
Nicole A. Kivisto	43	Ms. Kivisto was elected president and chief executive officer of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company effective January 9, 2015. Prior to that, she was vice president of operations for Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. effective January 3, 2014, and vice president, controller and chief accounting officer for the company effective February 17, 2010.
Daniel S. Kuntz	63	Mr. Kuntz was elected vice president, general counsel and secretary effective January 1, 2017. Prior to that, he was general counsel and secretary effective January 9, 2016, associate general counsel effective April 1, 2007, and assistant secretary effective August 17, 2007.
Margaret (Peggy) A. Link	50	Ms. Link was elected chief information officer effective January 1, 2016. Prior to that, she was assistant vice president-technology and cybersecurity officer effective January 1, 2015, and director shared IT services effective June 2, 2009.
Doran N. Schwartz	47	Mr. Schwartz was elected vice president and chief financial officer effective February 17, 2010.
Jeffrey S. Thiede	54	Mr. Thiede was elected president and chief executive officer of MDU Construction Services Group, Inc. effective April 30, 2013, and president effective January 1, 2012.
Jason L. Vollmer	39	Mr. Vollmer was elected vice president, chief accounting officer and treasurer effective March 19, 2016. Prior to that, he was treasurer and director of cash and risk management effective November 29, 2014, assistant treasurer of Centennial Energy Holdings, Inc. and manager of treasury services and risk management effective June 30, 2014, and manager of treasury services, cash and risk management effective April 11, 2011.

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Discussion and Analysis describes how our named executive officers were compensated for 2016 and how their 2016 compensation aligns with our pay for performance philosophy. It also describes the oversight of the compensation committee and the rationale and processes used to determine the 2016 compensation of our executive officers including the objectives and specific elements of our compensation program.

The Compensation Discussion and Analysis may contain statements regarding corporate performance targets and goals. The 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.

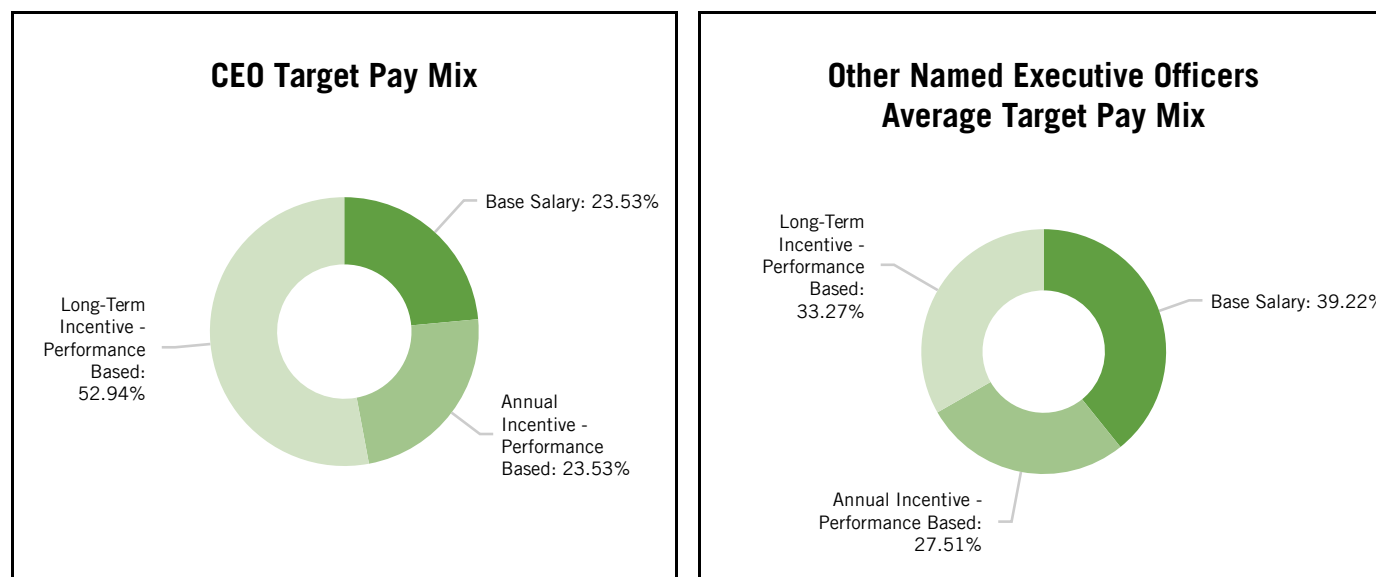
Our Named Executive Officers for 2016 were:

David L. Goodin	President and Chief Executive Officer (CEO)
Doran N. Schwartz	Vice President and Chief Financial Officer (CFO)
David C. Barney	President and Chief Executive Officer - Construction Materials & Contracting Segment
Jeffrey S. Thiede	President and Chief Executive Officer - Construction Services Segment
Martin A. Fritz	President and Chief Executive Officer - Pipeline & Midstream Segment

Executive Summary

Pay for Performance

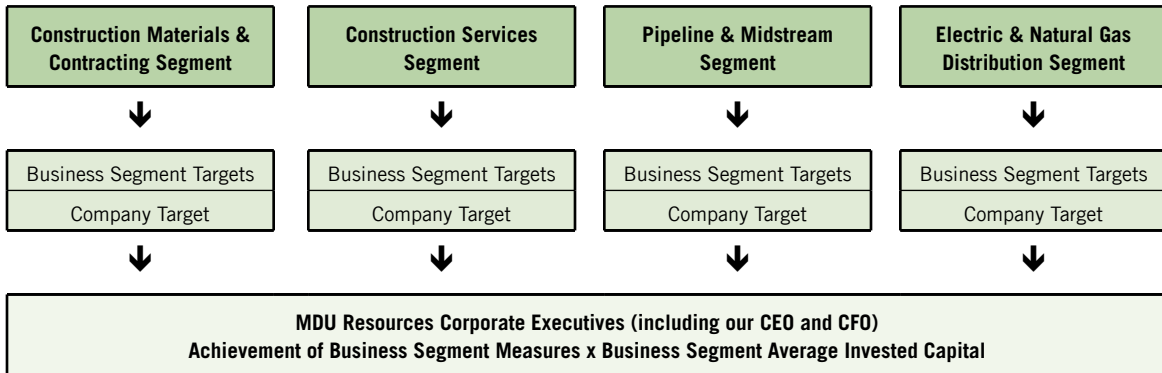
To ensure management's interests are aligned with those of our stockholders and the performance of the company, over 76% of the CEO's target compensation and 61% of the other named executive officers' target compensation is dependent on the achievement of company performance targets. The charts below show the target pay mix for the CEO and average target pay mix of the other named executive officers, including base salary and the annual and long-term at-risk performance incentives.



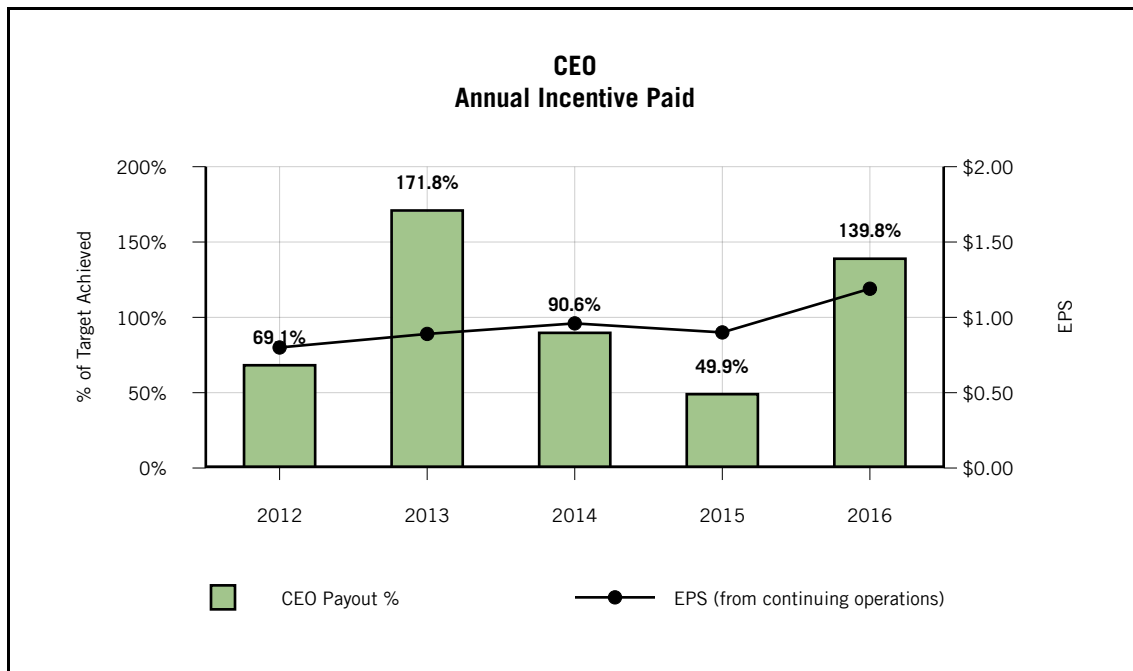
Annual incentive opportunities for our executive officers are linked to performance by tying them to the achievement of specific business and financial goals. The 2016 annual incentive opportunities for business segment executives are based on the achievement of specific performance measures selected by the compensation committee. The performance measures included targets specific to the business segment and one performance measure tied to the success of the company as a whole. This incentivized our business segment executives to focus on the success and performance of their business segment while keeping the overall success of the company in mind.

For corporate executives (including our CEO and CFO), annual incentive opportunities are based on the business segments' achievement of their performance measures. The business segment performance measures are then weighted by its average invested capital. The sum of the weighted business unit achieved performance measures results in the annual incentive payout for corporate executives. This incentivizes the corporate executives to assist the business segments in their success and performance.

Proxy Statement

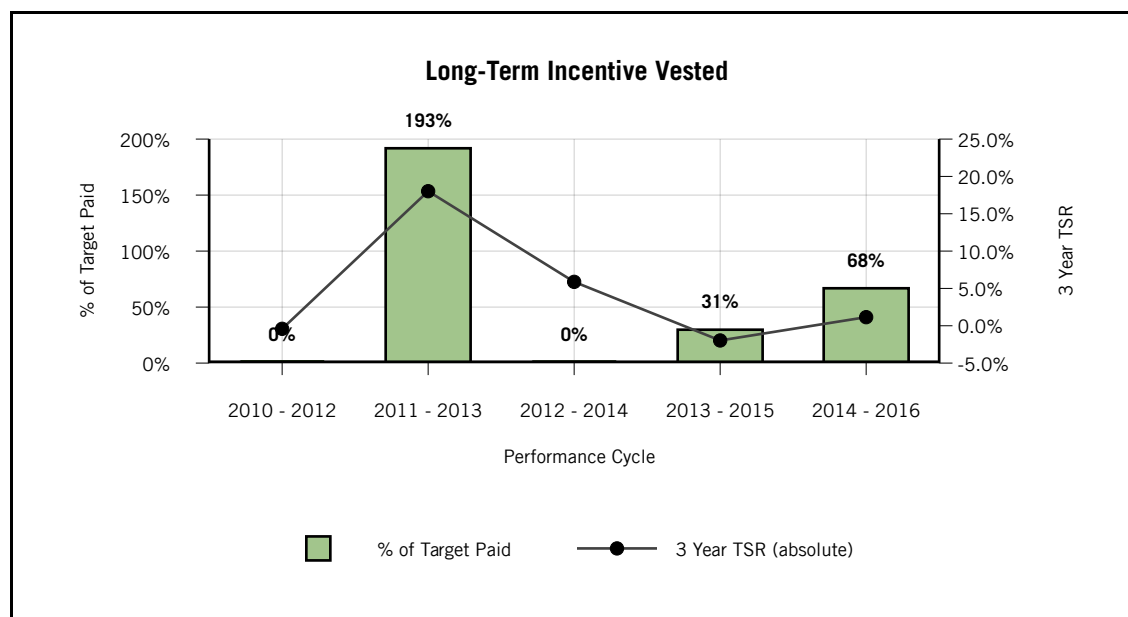


The following chart shows the annual incentive payout of target realized by our CEO with a comparison to earnings per share from continuing operations for the last five years and demonstrates the alignment between our financial performance and realized annual incentive compensation.



See “Annual Incentives” in this section for further details on our company’s annual incentive program.

Vesting of long-term incentives is based on our company’s total stockholder return in comparison to that of our peers measured over a three year period. The following chart depicts the actual vesting percentage for the last five performance cycles and demonstrates the alignment between total return to our stockholders and our realized long-term incentive compensation.



See “Long-Term Incentives” in this section for further details on the company’s long-term incentive program.

With the majority of our executive officer’s compensation dependent on the achievement of performance measures set by the compensation committee, we believe there is substantial alignment between executive pay and the company’s performance.

Stockholder Advisory Vote (“Say on Pay”)

At our 2016 Annual Meeting of Stockholders, 85.2% of the votes cast on the “Say on Pay” proposal approved the compensation of our named executive officers. Although the compensation committee viewed the 2016 vote as a strong expression of the stockholders general satisfaction with the company’s executive compensation programs, the 85.2% approval is lower than the results of our 88.2% “Say on Pay” vote at the 2015 Annual Meeting of Stockholders. The compensation committee believes the lower approval vote was largely attributable to a negative recommendation of a proxy advisor largely caused by comparative analysis to a peer group that was not reflective of the company’s business mix and an analysis that gave inadequate recognition to the distinction between target incentive award opportunities and realized incentive compensation. The compensation committee reviewed and considered the 2016 vote on “Say on Pay” in setting compensation for 2017.

Total Realized Pay

Total Realized Pay reflects the compensation actually paid to our executive officers based on performance, which can differ substantially from compensation as presented in the Summary Compensation Table. For example, total compensation presented in the Summary Compensation Table contains estimated values of performance share grants based on multiple assumptions which may or may not be achieved and can only be realized at the end of a three-year performance period. In addition, the Summary Compensation Table may show an increase in pension value based on valuation assumptions and discount rates used to calculate present value; however, any change in the pension value is not realized until the future period when the executive actually retires. We believe presenting information on Total Realized Pay provides additional perspective on the remuneration actually received by an executive in a given year. We define 2016 Total Realized Pay to include:

- Base salary for 2016;
- Annual incentive earned for 2016;
- Performance shares (long-term incentive) plus dividend equivalents vesting as of December 31, 2016 and paid in 2017; and
- Other compensation which includes company contributions to the 401(k) plan and company paid life insurance premiums.

Proxy Statement

Name	2016 Base Salary (\$)	2016 Annual Incentive Earned (\$)	Vested and Paid Performance Shares ¹ (\$)	2016 Other Compensation (\$)	2016 Total Realized Pay (\$)	Summary Compensation Table Total Compensation (\$)
David L. Goodin	755,000	1,055,490	654,368	40,246	2,505,104	3,510,991
Doran N. Schwartz	380,000	351,481	171,936	35,772	939,189	1,134,629
David C. Barney	406,800	593,114	145,190	22,905	1,168,009	1,376,616
Jeffrey S. Thiede	425,000	489,600	152,848	22,708	1,090,156	1,325,906
Martin A. Fritz	400,000	416,000	—	21,670	837,670	1,243,248

¹ Performance shares and dividend equivalents for the 2014-2016 performance cycle vested on December 31, 2016 and were approved in February 2017. The performance share value is based on our stock price on February 16, 2017, which was \$26.37 per share.

Compensation Practices

Our practices and policies ensure alignment between the interests of our stockholders and our executives as well as effective compensation governance.

What We Do

- Pay for Performance** - All annual and long-term incentives are performance-based and tied to performance measures set by the compensation committee.
- Independent Compensation Committee** - All members of the compensation committee meet the independence standards under the New York Stock Exchange listing standards and the Securities and Exchange Commission rules.
- Independent Compensation Consultant** - The compensation committee retains an independent compensation consultant to evaluate executive compensation plans and practices.
- Competitive Compensation** - Executive compensation reflects the executive's performance, experience, relative value compared to other positions within the company, relationship to competitive market value compensation, and the economic environment of the executive's business segment.
- Annual Compensation Risk Analysis** - We regularly analyze the risks related to our compensation programs and conduct a broad risk assessment annually.
- Stock Ownership & Retention Requirements** - Executive officers are required to own, within five years of appointment or promotion, company common stock equal to a multiple of their base salary. The executive officers must retain at least 50% of the net after tax shares of stock vested through the long-term incentive plan for the earlier of two years or until termination of employment.
- Clawback Policy** - If the company's audited financial statements are restated, the compensation committee may, or shall if required, demand repayment of some or all incentives paid to company executive officers within the last three years.

What We Don't Do

- Stock Options** - The company does not use stock options as a form of incentive compensation.
- Perquisites** - Executives do not receive perquisites which materially differ from those available to employees in general.
- Tax Gross-ups** - Executive officers do not receive tax gross-ups on any compensation.
- Hedge or Pledge Stock** - Executives and directors are not allowed to hedge or pledge company securities.
- No Time Based Awards** - All long-term incentives are performance-based and vest only upon the achievement of specific performance measures.

2016 Compensation Framework

Objectives of our Compensation Program

We have a written executive compensation policy for our executive officers, including all our named executive officers. Our policy's stated objectives are to:

- recruit, motivate, reward, and retain high performing executive talent required to create superior long-term total stockholder return in comparison to our peer group;
- reward executives for short-term performance, as well as for growth in enterprise value over the long-term;
- provide a competitive compensation package relative to industry-specific and general industry comparisons and internal equity;
- ensure effective utilization and development of talent by working in concert with other management processes - for example, performance appraisal, succession planning, and management development; and
- ensure that compensation programs do not encourage or reward excessive or imprudent risk taking.

Compensation Decision Process for 2016

For 2016, the compensation committee made recommendations to the board of directors regarding compensation of all executive officers, and the board of directors then approved the recommendations. The CEO's role in the process includes the assessment of executive officer performance and recommending base salaries for the executive officers other than himself. The CEO attended all the compensation committee meetings but was not present during discussions of his compensation. The compensation committee established and approved base salaries and performance measures for the annual and long-term incentive compensation for 2016. They also certified the achievement of performance measures associated with annual and long-term incentive compensation.

At least every two years, the compensation committee hires an independent consulting firm to assess competitive pay levels including base salaries and incentive compensation associated with executive officer positions. Typically the consulting firm conducts its analysis in even numbered years. In odd numbered years, the assessment is performed by the company's human resources department using a variety of industry specific sources. In 2015, the human resources department prepared the analysis for 2016 compensation.

Components of Compensation

The components of our executive officer's compensation are selected to drive financial and operational results as well as align the executive officer's interests with those of our stockholders. The components of our executive compensation include:

Component	Payments	Purpose	How Determined	How it Links to Performance
Base Salary	Assured	Provides executives with sufficient, regularly paid income to recruit and retain executives with knowledge, skills, and abilities necessary to successfully execute their job responsibilities.	Compared to peer company and industry compensation information.	Base salary is a means to attract and retain talented executives capable of driving success and performance.
Annual Cash Incentive	Performance Based At Risk	Provides an opportunity to earn annual incentive compensation to be competitive from a total remuneration standpoint and to ensure focus on annual financial and operating results.	Annual incentives calculated as a percentage of base salary based on the achievement of performance measures established by the compensation committee.	Annual incentive performance measures are tied to the achievement of financial and operational goals aimed to drive the success of the company.
Performance Shares	Performance Based At Risk	Provides an opportunity to earn long-term compensation to be competitive from a total remuneration standpoint and to ensure focus on stockholder return.	Performance share award opportunities are calculated as a percentage of base salary and pay out is based on the company's total stockholder return over a three-year period in comparison to the company's peer group.	Fosters ownership in company stock and aligns the executive's interests with those of the stockholder in increasing stockholder value.

Allocation of Total Target Compensation for 2016

Total target compensation consists of base salary plus target annual and long-term incentive compensation. Performance-based compensation accounts for over 76% of our CEO's and on average approximately 61% of our other named executive officers' total target

Proxy Statement

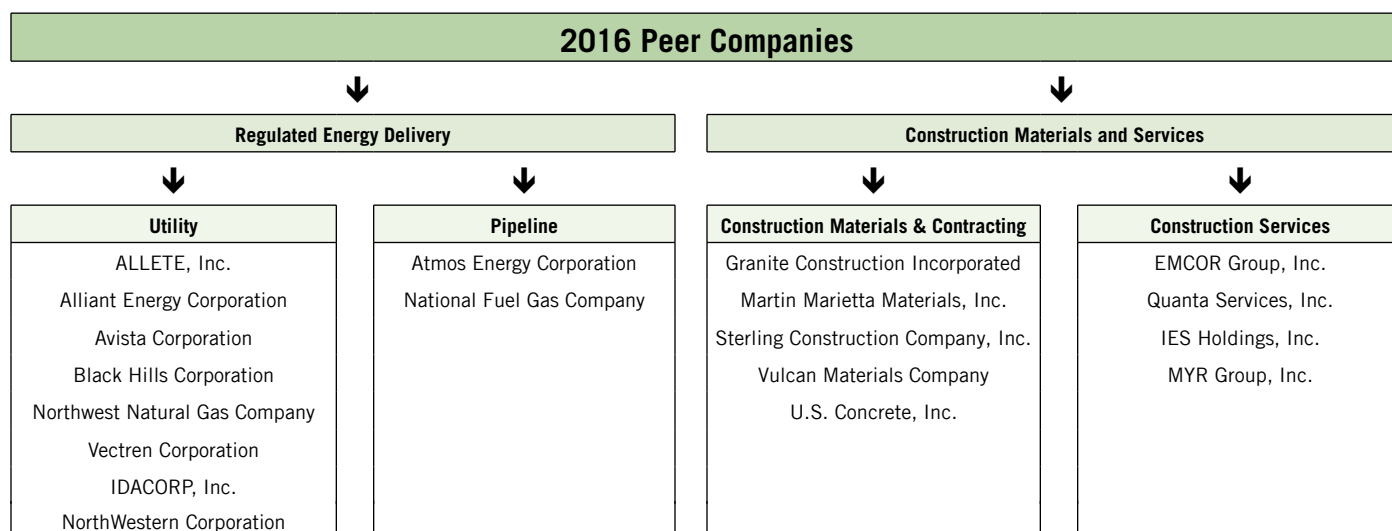
compensation. Incentive compensation, which consists of annual cash incentive and three-year performance share award opportunities, comprises the largest portion of our named executive officers' total target compensation because:

- our named executive officers are in positions to drive, and therefore bear high levels of responsibility for our corporate performance;
- incentive compensation is dependent upon our performance;
- incentive compensation helps ensure focus on performance measures that are aligned with our overall strategy; and
- the interests of the named executive officers are aligned with those of stockholders by making a significant portion of their target compensation contingent upon results beneficial to stockholders.

To foster and reward long-term growth, the compensation committee generally allocates a higher percentage of total target compensation to the target long-term incentive than to the target annual incentive for our higher level executives because they are in a better position to influence our long-term performance. The long-term incentive awards, if earned by achieving performance measures, are paid in company common stock. These awards, combined with our stock retention requirements and our stock ownership policy, promote ownership of our stock by the executive officers. The compensation committee believes, as stockholders, the executive officers will be motivated to deliver financial results that build value for all stockholders over the long term.

Peer Group

The compensation committee evaluates the company's compensation plan and its performance relative to a group of peer companies in determining compensation and the vesting of long-term incentive compensation. The companies included in our peer group are evaluated every year and are selected to be representative of the industries in which we operate. During 2015, as we decided to exit the oil and gas exploration and production business, we re-evaluated our peer group and removed the remaining exploration and production companies, which were Bill Barrett Corporation and SM Energy Company from the peer group. To more closely reflect our regulated energy delivery and construction materials and services businesses, we added IDACORP, Inc., NorthWestern Corporation, U.S. Concrete, Inc., IES Holdings, Inc., and MYR Group, Inc. to our peer group. MarkWest Energy Partners L.P., which was added as a peer company in 2015, merged with another company and was removed from our 2015 peer group. Likewise, Questar Corporation merged with another company in 2016 and was removed from our 2016 peer group. The following chart depicts the companies included in our 2016 peer group.



2016 Compensation for Our Named Executive Officers

2016 Salary and Incentive Targets

For 2016, Mr. Goodin considered the 2015 financial results as well as the economic challenges facing the company and recommended a base salary freeze for the named executive officers during 2016, with the exception of Mr. Barney where he recommended a 3% increase based on the outstanding performance of the construction materials & contracting segment in achieving record earnings and exceeding its risk adjusted capital cost in 2015. The compensation committee approved the salary recommendations of the CEO. The compensation committee reviewed and determined to freeze Mr. Goodin's base salary for 2016 consistent with the freeze of other named executive officers.

The following is information related to each named executive officer's base salary, target annual incentive, target long-term incentive, and total direct compensation:

David L. Goodin	2016 (\$)	% Increase from Prior Year	Compensation Component as a % of Base Salary
Base Salary	755,000	0%	n/a
Target Annual Incentive Opportunity	755,000	0%	100 %
Target Long-Term Incentive Opportunity	1,698,750	0%	225 %
Target Total Potential Direct Compensation	3,208,750	0%	425 %

Doran N. Schwartz	2016 (\$)	% Increase from Prior Year	Compensation Component as a % of Base Salary
Base Salary	380,000	0%	n/a
Target Annual Incentive Opportunity	247,000	0%	65 %
Target Long-Term Incentive Opportunity	342,000	0%	90 %
Target Total Potential Direct Compensation	969,000	0%	255 %

David C. Barney	2016 (\$)	% Increase from Prior Year	Compensation Component as a % of Base Salary
Base Salary	406,800	3 %	n/a
Target Annual Incentive Opportunity	305,100	(3)%	75 %
Target Long-Term Incentive Opportunity	325,440	18 %	80 %
Target Total Potential Direct Compensation	1,037,340	5 %	255 %

Mr. Barney continues to transition from an all annual incentive target to a combination of annual and long-term incentive targets in connection with his promotion in 2013. Mr. Barney's annual incentive target as a percent of base salary decreased from 80% in 2015 to 75% for 2016, while his long-term incentive target as a percent of base salary increased from 70% in 2015 to 80% for 2016.

Jeffrey S. Thiede	2016 (\$)	% Increase from Prior Year	Compensation Component as a % of Base Salary
Base Salary	425,000	0 %	n/a
Target Annual Incentive Opportunity	318,750	(6)%	75 %
Target Long-Term Incentive Opportunity	340,000	14 %	80 %
Target Total Potential Direct Compensation	1,083,750	2 %	255 %

Mr. Thiede continues to transition from an all annual incentive target to a combination of annual and long-term incentive targets in connection with his promotion in 2013. Mr. Thiede's annual incentive target as a percent of base salary decreased from 80% in 2015 to 75% for 2016, while his long-term incentive target as a percent of base salary increased from 70% in 2015 to 80% for 2016.

Martin A. Fritz	2016 (\$)	% Increase from Prior Year	Compensation Component as a % of Base Salary
Base Salary	400,000	0 %	n/a
Target Annual Incentive Opportunity	260,000	0 %	65 %
Target Long-Term Incentive Opportunity	360,000	0 %	90 %
Target Total Potential Direct Compensation	1,020,000	0 %	255 %

Annual Incentives

Annual incentive opportunities are determined for business segment executives by the achievement of specific performance measures selected by the compensation committee. For corporate executives, annual incentive opportunities are determined by the average of the business segments' achievement of their performance measures weighted by its average invested capital. Through this, our business segment executives are incentivized to primarily focus on the success and performance of their business segment while corporate executives focus on the success and performance of all lines of business.

Proxy Statement

The compensation committee developed and reviewed financial and other corporate performance measures to ensure compensation to the executives reflect the success of their respective business segments and the company, as well as the value provided to our stockholders. Each business segment's performance measures are weighted with a corporate earnings per share performance measure representing 20% of the target award opportunity and the business segment specific performance measures representing 80% of the award opportunity. The following incentive plan performance measures for 2016 were established by the compensation committee for the business segment presidents (exclusive of the MDU Resources corporate executive officers) at the February 2016 meeting:

Measure	Applies to	Purpose	Measurement	Target	Weight	Why Measure Selected
MDU Resources Diluted Adjusted Earnings per Share (EPS)	All the business segments	EPS is a generally accepted accounting principle (GAAP) measurement and is a key driver of stockholder return. This goal applies to the presidents of all business segments to engage them in the earnings of the company as a whole.	GAAP EPS less discontinued operations (as reported as discontinued on or prior to December 31, 2015) and adjusted to exclude: - effects of intersegment eliminations, - noncash gains/losses resulting from hedge accounting, - losses on asset sales/dispositions approved by the board, and - assessed withdrawal liabilities relating to multiemployer pension plans.	\$1.02	20%	Reflects anticipated EPS performance within the range of EPS guidance for 2016.
Return on Invested Capital (ROIC)	Electric & Natural Gas Distribution Segment	Provides a measure of how effective the business segment uses its capital and generates a return from its capital. These segments are primarily regulated entities requiring significant capital investment. ROIC is important in providing a return to our stockholders.	Business segment earnings, without regard to after tax interest expense and preferred stock dividends divided by the business segment's average capitalization for the calendar year.	4.4%	40%	Reflects anticipated returns considering additional capital investments made in 2015.
	Pipeline & Midstream Segment			5.9%	28%	Reflects anticipated returns considering additional capital investments made in 2015.
Business Segment Earnings	Electric & Natural Gas Distribution Segment	Provides a measure of financial performance.	GAAP business segment earnings adjusted to exclude: - effects of intersegment eliminations, - noncash gains/losses resulting from hedge accounting, - losses on asset sales/dispositions approved by the board, and - assessed withdrawal liabilities relating to multiemployer pension plans.	\$68.0 million	40%	Reflects anticipated earnings associated with the business segment.
	Pipeline & Midstream Segment			\$18.5 million	28%	Reflects anticipated earnings associated with the business segment.
	Construction Materials & Contracting Segment			\$62.8 million	80%	Reflects earnings necessary to meet or exceed the business segment's risk adjusted capital cost.
	Construction Services Segment			\$26.4 million	80%	Reflects earnings necessary to meet or exceed the business segment's risk adjusted capital cost.
Optimum Refining Production	Refining Segment	Promotes the achievement of plant reliability based on optimum production.	Barrels of diesel produced in 2016.	5,865 bbls	24%	Reflects plant production based on the plant design with consideration for planned maintenance outages.

Actual performance results are compared to the target performance measure to arrive at a percent of target achieved. The percent of target achieved is then translated into a payout percentage of the target award opportunity. Generally, to receive a payout requires achievement of 85% of the target performance measure which results in a payout of 25% of the award opportunity. Maximum payouts vary by business segment. For the regulated energy delivery companies, maximum payout of 200% of the award opportunity is received if the percent of target achieved is 115% or greater. For the construction materials and services companies, maximum payout is 250% of the award opportunity if the percent of target achieved is 167.2% of target for the construction materials & contracting segment and 210% of target for the construction services segment. Results achieved between the threshold, target, and maximum levels are calculated using linear interpolation. The following tables show the 2016 performance measure results and the relative award opportunity payout:

Business Segment	Performance Measure	Result	Percent of Performance Measure Achieved	Percent of Award Opportunity Payout	Weight	Weighted Award Opportunity Payout %
All Business Segments	Earnings per Share	\$1.08	105.9 %	139.2 %	20 %	27.8 %
Electric & Natural Gas Distribution Segment	Earnings	\$69.3 million	101.9 %	112.7 %	40 %	45.1 %
	ROIC	4.5 %	102.3 %	115.1 %	40 %	46.0 %
Pipeline & Midstream and Refining Segments	Earnings	\$24.9 million	134.6 %	200.0 %	28 %	56.0 %
	ROIC	7.5 %	127.1 %	200.0 %	28 %	56.0 %
	Optimum Refining Production ¹	2,796 bbls	82.9 %	84.0 %	24 %	20.2 %
Construction Materials & Contracting Segment	Earnings	\$96.0 million	152.9 %	208.3 %	80 %	166.6 %
Construction Services Segment	Earnings	\$33.9 million	128.6 %	157.2 %	80 %	125.8 %

¹ The compensation committee determined the economic conditions that led to the sale of Dakota Prairie Refining, LLC in June 2016, as well as the sale itself, were unforeseen changes and significant factors beyond the control of management that substantially affected the ability of the refining segment to achieve the specified annual production performance measure at Dakota Prairie Refining, LLC. Due to these unforeseen circumstances, the compensation committee determined the annual production performance measure at the refining segment was achieved for Mr. Fritz at the same percentage as the annual production rate at Dakota Prairie Refining, LLC was being achieved during 2016 prior to the sale.

For the MDU Resources Group, Inc. corporate named executive officers, namely Messrs. Goodin and Schwartz, the compensation committee continued to base the payment of the annual incentive on the achievement of performance measures at the business segments weighted by each business segment's weighted average invested capital. The compensation committee's rationale for this approach was to provide alignment between the MDU Resources Group, Inc. executives and business segment performance. The compensation committee determined achievement of the optimum refining production performance measure for Mr. Schwartz's award opportunity payout in the same manner as it determined the achievement of the performance measure for Mr. Fritz. The compensation committee did not modify Mr. Goodin's award opportunity payout for the effects of the optimum refining production performance measure. As a result, Messrs. Goodin's and Schwartz's 2016 annual incentives were earned at 139.8% and 142.3% of the target award opportunity, respectively, based on the following weighted average of annual business segment incentives achieved:

Business Segment	Column A Business Segment Award Opportunity Payout		Column B Percentage of Average Invested Capital	Column A x Column B	
	Mr. Goodin	Mr. Schwartz		Mr. Goodin	Mr. Schwartz
Construction Materials & Contracting Segment ¹	187.8 %	187.8 %	22.2 %	41.7 %	41.7 %
Construction Services Segment	153.6 %	153.6 %	8.8 %	13.5 %	13.5 %
Pipeline & Midstream and Refining Segments	139.8 %	160.0 %	12.4 %	17.3 %	19.8 %
Electric & Natural Gas Distribution Segment	118.9 %	118.9 %	56.6 %	67.3 %	67.3 %
Total Payout Percentage				139.8 %	142.3 %

¹ For purposes of calculating the incentive award opportunities for Messrs. Goodin and Schwartz, the award opportunity payout associated with the earnings performance measure for the construction materials & contracting segment was limited to 200%, which resulted in a weighted construction materials & contracting segment award opportunity payout percentage of 187.8% versus the 194.4% for the business segment.

Based on the achievement of the performance targets, the named executive officers received the following annual incentive compensation:

2016 Annual Incentives Earned

Name	Target Annual Incentive (\$)	Annual Incentive Earned	
		Payout (%)	Amount (\$)
David L. Goodin	755,000	139.8	1,055,490
Doran N. Schwartz	247,000	142.3	351,481
David C. Barney	305,100	194.4	593,114
Jeffrey S. Thiede	318,750	153.6	489,600
Martin A. Fritz	260,000	160.0	416,000

Proxy Statement

Long-Term Incentives

We use the Long-Term Performance-Based Incentive Plan, which has been approved by our stockholders, for long-term incentive compensation. As in the past, the compensation committee used performance shares as the form of long-term incentive compensation for 2016 and established the company's total stockholder return in comparison to the total stockholder return for the peer group companies over a three-year period as the performance measure for vesting of long-term incentive compensation.

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 during the performance period. The compensation committee selected total stockholder return as the performance measure because long-term executive incentive compensation should align with our long-term performance in stockholder return as compared to other public companies in our industries.

Depending on our total three-year stockholder return compared to the total three-year stockholder returns of our peer group companies, performance share award opportunities for our named executive officers may or may not vest. Vesting of performance shares can range from 0% to 200% of the target award. Vesting of the performance share opportunities will be a function of our rank over the performance period against our peer group companies as delineated in the following table:

The Company's Peer TSR Percentile Rank	Vesting Percentage of Award Target
75th or higher	200%
50th	100%
25th	20%
Less than 25th	0%

Vesting for percentile ranks falling between the intervals will be interpolated. If our total stockholder return is negative, the shares and dividend equivalents otherwise earned based on the payout percentages above, if any, will be reduced in accordance with the following table:

Total Stockholder Return	Reduction in Vesting
0% through -5%	50%
-5.01% through -10%	60%
-10.01% through -15%	70%
-15.01% through -20%	80%
-20.01% through -25%	90%
-25.01% or below	100%

Dividend equivalents are paid in cash based on the number of shares actually vested for the performance period. No dividend equivalents are paid on unvested performance shares.

Actual vesting of performance share awards under the plan have varied over the last five years as shown below:

Performance Period	Vesting Percentage
2014-2016	68%
2013-2015	31%
2012-2014	0%
2011-2013	193%
2010-2012	0%

Results of 2014-2016 Performance Period

We awarded performance share opportunities to our named executive officers on February 14, 2014 for the 2014-2016 performance period. Our total stockholder return for the three-year performance period was 1.15% which corresponded to a percentile ranking of 40% with our 2014 peer group companies, and resulted in 68% vesting of performance shares and dividend equivalents. The named executive officers received the following for the 2014-2016 performance period:

Name	Target Performance Shares (#)	Performance Shares Vested (#)	Dividend Equivalents (\$)	Value of Vested Shares and Dividend Equivalents at 2/16/17 (\$) ¹
David L. Goodin	33,677	22,900	50,495	654,368
Doran N. Schwartz	8,849	6,017	13,267	171,936
David C. Barney	7,472	5,081	11,204	145,190
Jeffrey S. Thiede	7,866	5,349	11,795	152,848
Martin A. Fritz	None ²	—	—	—

¹ Closing share price at February 16, 2017 was \$26.37.

² Mr. Fritz joined the company in 2015, therefore was not eligible for award for the 2014-2016 performance period.

2016-2018 Performance Period

On February 11, 2016, for the 2016-2018 performance period, the compensation committee determined the target number of performance shares for each named executive officer by multiplying the named executive officer's base salary by his target long-term incentive percentage and then dividing by the average of the closing prices of our stock from January 1 through January 22, 2016, which was \$17.20 per share. Based on this price, the board of directors, upon recommendation of the compensation committee, awarded the following performance share opportunities to the named executive officers:

Name	Base Salary to Determine Target (\$)	Target Long-Term Incentive % (%)	Long-Term Incentive Target (\$)	Resulting Number of Performance Share Opportunities (#)
David L. Goodin	755,000	225	1,698,750	98,764
Doran N. Schwartz	380,000	90	342,000	19,883
David C. Barney	406,800	80	325,440	18,920
Jeffrey S. Thiede	425,000	80	340,000	19,767
Martin A. Fritz	400,000	90	360,000	20,930

The named executive officers must retain 50% of the net after-tax performance shares vested pursuant to the long-term incentive award until the earlier of two years from the date the vested shares are issued or the executive's termination of employment. The compensation committee may also require the executive officer to retain performance shares net of taxes if the executive has not met the stock ownership requirements under the company's stock ownership policy for executives.

Other Benefits

The company provides post employment benefit plans and programs in which our named executive officers may be participants. We believe it is important to provide post-employment benefits which approximate retirement benefits paid by other employers to executives in similar positions. The compensation committee periodically reviews the benefits provided to maintain a market based benefits package. Our named executive officers participated in the following plans during 2016 which are described below:

Plans	David L. Goodin	Doran N. Schwartz	David C. Barney	Jeffrey S. Thiede	Martin A. Fritz
401(k)	Yes	Yes	Yes	Yes	Yes
Pension	Yes	Yes	No	No	No
Supplemental Income Security Plan	Yes	Yes	Yes	No	No
Non-Qualified Defined Contribution Plan	No	No	No	Yes	Yes

Proxy Statement

401(k) Retirement Plan

The named executive officers as well as all employees working a minimum of 1,000 hours per year are eligible to participate in the 401(k) Plan and defer annual income up to the IRS limit. The company provides a match up to 3% of the employee's elected deferral rate. Contributions and the company match are invested in various funds including company common stock.

In 2010, the company began offering increased company contributions to our 401(k) plan in lieu of pension plan contributions. For non-bargaining unit employees hired after 2006, the added retirement contribution is 5% of plan eligible compensation. For participants hired prior to 2006, the added retirement contributions are based on the participant's age as of December 31, 2009. The retirement contribution is 11.5% for Mr. Goodin, 10.5% for Mr. Schwartz, and 5% for Messrs. Barney, Thiede, and Fritz. These amounts may be reduced in accordance with the provisions of the 401(k) plan to meet IRS limits.

Pension Plans

Effective in 2006, the defined benefit pension plans were closed to new non-bargaining unit employees and as of December 31, 2009, the defined benefit plans were frozen. For further details regarding the company's pension plans, please refer to the section entitled "[Pension Benefits for 2016.](#)"

Supplemental Income Security Plan

We offer certain key managers and executives benefits under a nonqualified retirement plan, referred to as the Supplemental Income Security Plan (SISP). The SISP provides participants with additional retirement income and death benefits. Effective February 11, 2016, the SISP was amended so no new participants will be added to the plan and current benefit levels are frozen for existing participants. For further details regarding the company's SISP, please refer to the section entitled "[Pension Benefits for 2016.](#)" Named executive officers participating in the SISP are Messrs. Goodin, Schwartz, and Barney.

The following table reflects our named executive officers' SISP benefits as of December 31, 2016:

Name	SISP Benefits	
	Annual Death Benefit (\$)	Annual Retirement Benefit (\$)
David L. Goodin	552,960	276,480
Doran N. Schwartz	262,464	131,232
David C. Barney	262,464	131,232
Jeffrey S. Thiede	—	—
Martin A. Fritz	—	—

Nonqualified Defined Contribution Plan

The company adopted the Nonqualified Defined Contribution Plan (NQDCP) effective January 1, 2012, to provide retirement and deferred compensation for a select group of management or highly compensated employees. The compensation committee, upon recommendation from the CEO, determines which employees will participate in the NQDCP and the amount of contributions for any year. After satisfying a vesting requirement for each contribution, distributions will be made to the executive in accordance with the terms of the plan commencing upon the later of separation from service or age 65. For further details regarding the company's NQDCP, please refer to the section entitled "[Nonqualified Deferred Compensation for 2016.](#)"

For 2016, the compensation committee selected and approved contributions of \$100,000 each to Mr. Thiede and Mr. Fritz. The contribution awarded to Mr. Thiede represents 23.5% of his base salary at December 31, 2015 and recognized his strong leadership at the construction services segment, which delivered a favorable return on invested capital in comparison to the median return on invested capital of similar companies in the peer group. The contribution awarded to Mr. Fritz represents 25% of his base salary at December 31, 2015 and recognized his performance in revitalizing the pipeline & midstream segment, pursuing new opportunities, and steps taken to control costs and align the operations of the refinery in 2015.

Compensation Governance

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 limits the deductibility of certain compensation to \$1 million paid to certain officers as a business expense in any tax year unless the compensation qualifies as performance-based compensation under Section 162(m). Generally,

long-term incentive compensation and annual incentive awards for our CEO and those executive officers whose overall compensation is likely to exceed \$1 million are structured to be deductible for purposes of Section 162(m). All incentive compensation in excess of \$1 million paid to our named executive officers in 2016 satisfied the requirements for deductibility.

The compensation committee also considers the accounting and cash flow implications of various forms of executive compensation. We expense salaries and annual incentive compensation as earned. For our equity awards, we record the accounting expense in accordance with Financial Accounting Standards Board 718, which is generally expensed over the vesting period.

Stock Ownership Requirements

Executives participating in our Long-Term Performance-Based Incentive Plan are required within five years of appointment or promotion into an executive level to own our common stock equal to a multiple of their base salary as outlined in the stock ownership policy. Stock owned through our 401(k) plan or by a spouse is considered in ownership calculations. Unvested performance shares are not considered in ownership calculations. The level of stock ownership compared to the ownership requirements is determined based on the closing sale price of our stock on the last trading day of the year and base salary at December 31 of the same year. The table shows the named executive officers' holdings as a multiple of their base salary as of December 31, 2016:

Name	Ownership Policy Multiple of Base Salary within 5 Years	Actual Holdings as a Multiple of Base Salary as of 12/31/2016	Ownership requirement must be met by:
David L. Goodin	4X	3.26	1/1/2018
Doran N. Schwartz	3X	3.81	Ownership requirement met
David C. Barney	3X	0.61	1/1/2019
Jeffrey S. Thiede	3X	0.20	1/1/2019
Martin A. Fritz	3X	—	1/1/2020

Deferral of Annual Incentive Compensation

We provide executives the opportunity to defer receipt of earned annual incentives. If an executive chooses to defer an annual incentive, we credit the deferral with interest at a rate determined by the compensation committee. For 2016, the committee chose to use an interest rate of 4.5% based on an average of the Moody's U.S. Long-Term Corporate Bond Yield Average for "A" and "Baa" rated companies. The compensation committee's reasons for using this interest rate recognized incentive deferrals are a low-cost source of capital for the company and are unsecured obligations and, therefore, carry a higher risk to the executives.

Clawback

In February 2016, we amended our Long-Term Incentive Plan and Executive Incentive Compensation Plan sections regarding the repayment of incentive compensation due to accounting restatements, commonly referred to as a clawback policy. The compensation committee may, or shall if required, take action to recover incentive-based compensation from specific executives in the event the company is required to restate its financial statements due to material noncompliance with any financial reporting requirements under the securities laws.

Policy Regarding Hedging Stock Ownership

Our executive compensation policy prohibits executive officers, which includes our named executive officers, 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. See the section entitled "[Security Ownership](#)" for our policy on margin accounts and pledging of our stock.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Regulation 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

William E. McCracken

Patricia L. Moss

Proxy Statement

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table for 2016

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d) ¹	Stock Awards (\$) (e) ²	Option Awards (\$) (f)	Non-Equity Incentive Plan Compensation (\$) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$) (i)	Total (\$) (j)
David L. Goodin President and CEO	2016	755,000	—	1,441,954	—	1,055,490	218,301 ³	40,246 ⁴	3,510,991
	2015	755,000	—	1,386,992	—	376,745	—	39,411	2,558,148
	2014	685,000	—	1,385,135	—	830,915	631,901	38,686	3,571,637
Doran N. Schwartz Vice President and CFO	2016	380,000	6,175	290,292	—	345,306	77,084 ³	35,772 ⁴	1,134,629
	2015	380,000	—	279,228	—	123,253	—	35,571	818,052
	2014	360,000	—	363,959	—	163,080	273,974	34,956	1,195,969
David C. Barney President and CEO of Knife River Corporation	2016	406,800	—	276,232	—	593,114	77,565 ³	22,905 ⁴	1,376,616
	2015	395,000	—	225,739	—	637,588	9,530	22,556	1,290,413
	2014	—	—	—	—	—	—	—	—
Jeffrey S. Thiede President and CEO of MDU Construction Services Group, Inc.	2016	425,000	—	288,598	—	489,600	—	122,708 ⁴	1,325,906
	2015	425,000	—	242,902	—	161,857	—	172,506	1,002,265
	2014	400,000	—	323,529	—	730,150	—	96,481	1,550,160
Martin A. Fritz President and CEO of WBI Energy, Inc.	2016	400,000	52,520	305,578	—	363,480	—	121,670 ⁴	1,243,248
	2015	—	—	—	—	—	—	—	—
	2014	—	—	—	—	—	—	—	—

¹ Amounts shown represent the incentive compensation determined by the compensation committee for the optimum refining production performance measure for 2016 due to the unforeseen economic conditions which lead to the sale of Dakota Prairie Refining, LLC. See “Annual Incentives” in the section entitled “[Compensation Discussion and Analysis](#)” for further information.

² Amounts in this column represent the aggregate grant date fair value of performance share award opportunities at target calculated in accordance with Financial Accounting Standards Board (FASB) generally accepted accounting principles for stock-based compensation in FASB Accounting Standards Codification Topic 718. This column was prepared assuming none of the awards were or will be forfeited. The amounts were calculated using the Monte Carlo simulation, as described in Note 10 of our audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016. For 2016, the total aggregate grant date fair value of performance share award opportunities assuming the highest level of payout would be as follows:

Name	Aggregate grant date fair value at highest payout (\$)
David L. Goodin	2,883,909
Doran N. Schwartz	580,584
David C. Barney	552,464
Jeffrey S. Thiede	577,196
Martin A. Fritz	611,156

³ Amounts shown for 2016 represent the change in the actuarial present value for the named executive officers’ accumulated benefits under the pension plan, SISF, and Excess SISF, collectively referred to as the “accumulated pension change,” plus above-market earnings on deferred annual incentives as of December 31, 2016.

Name	Accumulated Pension Change (\$)	Above Market Interest (\$)
David L. Goodin	215,917	2,384
Doran N. Schwartz	77,084	—
David C. Barney	77,565	—

⁴ All Other Compensation is comprised of:

Name	401(k) (\$) ^a	Life Insurance Premium (\$)	Matching Charitable Contributions (\$)	Nonqualified Defined Contribution Plan (\$)	Total (\$)
David L. Goodin	38,425	621	1,200	—	40,246
Doran N. Schwartz	35,000	472	300	—	35,772
David C. Barney	21,200	505	1,200	—	22,905
Jeffrey S. Thiede	21,200	528	980	100,000	122,708
Martin A. Fritz	21,173	497	—	100,000	121,670

^a Represents company contributions to the 401(k) plan, which includes matching contributions and retirement contributions made after the pension plans were frozen at December 31, 2009.

Grants of Plan-Based Awards in 2016

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Option Awards (\$) (i)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	
David L. Goodin	2/11/2016 ¹	188,750	755,000	1,510,000	—	—	—	—
	2/11/2016 ²	—	—	—	19,753	98,764	197,528	1,441,954
Doran N. Schwartz	2/11/2016 ³	61,750	247,000	494,000	—	—	—	—
	2/11/2016 ²	—	—	—	3,977	19,883	39,766	290,292
David C. Barney	2/11/2016 ¹	76,275	305,100	732,240	—	—	—	—
	2/11/2016 ²	—	—	—	3,784	18,920	37,840	276,232
Jeffrey S. Thiede	2/11/2016 ¹	79,688	318,750	765,000	—	—	—	—
	2/11/2016 ²	—	—	—	3,953	19,767	39,534	288,598
Martin A. Fritz	2/11/2016 ³	65,000	260,000	520,000	—	—	—	—
	2/11/2016 ²	—	—	—	4,186	20,930	41,860	305,578

¹ Annual incentive for 2016 granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

² Performance shares for the 2016-2018 performance period granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

³ Annual incentive for 2016 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

Annual Incentive

The compensation committee recommended the 2016 annual incentive award opportunities for our named executive officers and the board approved these opportunities at its meeting on February 11, 2016. The award opportunities at threshold, target, and maximum are reflected in columns (c), (d), and (e), respectively, of the Grants of Plan-Based Awards table. The actual amount paid with respect to 2016 performance is reflected in column (g) of the Summary Compensation Table.

As described in “Annual Incentives” in the section entitled “[Compensation Discussion and Analysis](#),” payment of annual award opportunities is dependent upon achievement of performance measures; actual payout may range from 0% to 200% of the target except for the construction materials & contracting and construction services segments which may range from 0% to 250% for achievement of certain performance measures.

Proxy Statement

Messrs. Goodin, Barney, and Thiede received their 2016 annual incentive award opportunities pursuant to the Long-Term Performance-Based Incentive Plan. To be eligible to receive a payment, they must remain employed by the company through December 31, 2016. The performance measures associated with their annual incentive may not be adjusted if the adjustment would increase their annual incentive award payment, unless the compensation committee determined and established the adjustment in writing within 90 days of the beginning of the performance period. The compensation committee may at its sole discretion use negative discretion based on subjective or objective measures and adjust any annual incentive award payment downward.

Messrs. Schwartz and Fritz were awarded their annual incentive opportunities pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan. Under the Executive Incentive Compensation Plan, executives who retire during the year at age 65 remain eligible to receive an award, but executives who terminate employment for other reasons are not eligible for an award. The committee generally does not modify the performance measures; 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 measures, the committee, in consultation with the CEO, may modify the performance measures. The compensation committee has full discretion to determine the extent to which goals have been achieved, the payment level, and whether to adjust payment of awards downward based upon individual performance. For further discussion of the specific 2016 incentive plan performance measures and results, see "Annual Incentives" in the section entitled "[Compensation Discussion and Analysis](#)."

Long-Term Incentive

The compensation committee recommended long-term incentive award opportunities for the named executive officers in the form of performance shares, and the board approved the award opportunities at its meeting on February 11, 2016. The long-term incentive opportunities are presented as the number of performance shares at threshold, target, and maximum in columns (f), (g), and (h) of the Grants of Plan-Based Awards table. The value of the long-term performance-based incentive opportunities is based on the aggregate grant date fair value and is reflected in column (e) of the Summary Compensation Table and column (l) of the Grant of Plan-Based Awards table.

Depending on our 2016-2018 total stockholder return compared to the total three-year stockholder returns of our peer group companies, executives will receive from 0% to 200% of the target awards in February 2019. We also will pay dividend equivalents in cash on the number of shares actually vested for the performance period. The dividend equivalents will be paid in 2019 at the same time as the performance share awards vest. In the event the company's 2016-2018 total stockholder return is negative, the number of shares that would otherwise vest for the performance period will be reduced from 50% to 100%. For further discussion of the specific long-term incentive plan, see "Long-Term Incentives" in the section entitled "[Compensation Discussion and Analysis](#)."

Nonqualified Defined Contribution Plan

The compensation committee selects participants and approves contributions to the Nonqualified Defined Contribution Plan based on recommendations from the CEO. The purpose of the plan is to recognize outstanding performance coupled with enhanced retention as the Nonqualified Defined Contribution Plan requires a vesting period. The amount shown in column (i) - All Other Compensation of the Summary Compensation Table includes contributions of \$100,000 each for Messrs. Thiede and Fritz. For further information, see the section entitled "[Nonqualified Deferred Compensation for 2016](#)."

Salary and Bonus in Proportion to Total Compensation

The following table shows the proportion of salary and bonus to total compensation:

Name	Salary (\$)	Bonus (\$)	Total Compensation (\$)	Salary and Bonus as a % of Total Compensation
David L. Goodin	755,000	—	3,510,991	21.5%
Doran N. Schwartz	380,000	6,175	1,134,629	34.0%
David C. Barney	406,800	—	1,376,616	29.6%
Jeffrey S. Thiede	425,000	—	1,325,906	32.1%
Martin A. Fritz	400,000	52,520	1,243,248	36.4%

Outstanding Equity Awards at Fiscal Year-End 2016

Name (a)	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#) (g)	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	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j) ²
David L. Goodin	—	—	375,533	10,804,084
Doran N. Schwartz	—	—	77,671	2,234,595
David C. Barney	—	—	68,802	1,979,434
Jeffrey S. Thiede	—	—	72,676	2,090,889
Martin A. Fritz	—	—	70,742	2,035,247

¹ Below is a breakdown by year of the outstanding performance share plan awards:

Performance Period End	2014 Award	2015 Award	2016 Award	Total
	12/31/2016	12/31/2017	12/31/2018	
David L. Goodin	33,677	144,328	197,528	375,533
Doran N. Schwartz	8,849	29,056	39,766	77,671
David C. Barney	7,472	23,490	37,840	68,802
Jeffrey S. Thiede	7,866	25,276	39,534	72,676
Martin A. Fritz	—	28,882	41,860	70,742

Shares for the 2014 award are shown at the target level (100%) based on results for the 2014-2016 performance cycle between threshold and target.

Shares for the 2015 award are shown at the maximum level (200%) based on results for the first two years of the 2015-2017 performance cycle above target.

Shares for the 2016 award are shown at the maximum level (200%) based on results for the first year of the 2016-2018 performance cycle above target.

² Value based on the number of performance shares reflected in column (i) multiplied by \$28.77, the year-end per share closing stock price for 2016.

While for purposes of the Outstanding Equity Awards at Fiscal Year End 2016 table, the number of shares and value shown for the 2014-2016 performance cycle is at 100% of target, the actual results for the performance period certified by the compensation committee and approved by the board of directors on February 16, 2017 resulted in vesting at 68% of target. For further information, see “Long-Term Incentives” in the section entitled “[Compensation Discussion and Analysis](#).”

Option Exercises and Stock Vested During 2016

Name (a)	Stock Awards	
	Number of Shares Acquired on Vesting (#) (d) ¹	Value Realized on Vesting (\$) (e) ²
David L. Goodin	13,264	244,787
Doran N. Schwartz	3,661	67,564
David C. Barney	—	—
Jeffrey S. Thiede	—	—
Martin A. Fritz	—	—

¹ Reflects performance shares for the 2013-2015 performance period that vested on December 31, 2015, and were approved February 11, 2016.

² Reflects the value of vested performance shares based on the closing stock price of \$16.31 per share on February 11, 2016, and the dividend equivalents paid on the vested shares.

Proxy Statement

Pension Benefits for 2016

Name (a)	Plan Name (b)	Number of Years Credited Service (#) (c) ¹	Present Value of Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$) (e)
David L. Goodin	Pension	26	1,107,307	—
	Basic SISP ²	10	2,285,113	—
	Excess SISP ³	26	36,888	—
Doran N. Schwartz	Pension	4	110,012	—
	Basic SISP ²	9	821,142	—
	Excess SISP ³	n/a	—	—
David C. Barney	Pension ³	n/a	—	—
	Basic SISP ²	10	1,383,697	—
	Excess SISP ³	n/a	—	—
Jeffrey S. Thiede	Pension ³	n/a	—	—
	Basic SISP ³	n/a	—	—
	Excess SISP ³	n/a	—	—
Martin A. Fritz	Pension ³	n/a	—	—
	Basic SISP ³	n/a	—	—
	Excess SISP ³	n/a	—	—

¹ Years of credited service related to the pension plan reflects the years of participation in the plan as of December 31, 2009, when the pension plan was frozen. Years of credited service related to the Basic SISP reflects the years toward full vesting of the benefit which is 10 years. Years of credited service related to Excess SISP reflects the same number of credited years of services as the pension plan.

² The present value of accumulated benefits for the Basic SISP assumes the named executive officer would be fully vested in the benefit on the benefit commencement date; therefore, no reduction was made to reflect actual vesting levels.

³ Messrs. Barney, Thiede, and Fritz are not eligible to participate in the pension plans. Messrs. Thiede and Fritz do not participate in the SISP. Mr. Goodin is the only named executive officer eligible to participate in the Excess SISP

The amounts shown for the pension plan, Basic SISP, and Excess SISP represent the actuarial present values of the executives' accumulated benefits accrued as of December 31, 2016, calculated using:

- a 3.54% discount rate for the Basic SISP and Excess SISP;
- a 3.80% discount rate for the pension plan;
- the Society of Actuaries RP-2014 Adjusted to 2006 Total Dataset Mortality with Scale MP-2016 for post-retirement mortality; and
- no recognition of future salary increases or pre-retirement mortality.

The actuary assumed a retirement age of 60 for the pension, Basic SISP, and Excess SISP benefits and assumed retirement benefits commence at age 60 for the pension and 65 for Basic and Excess SISP benefits.

Pension Plan

The MDU Resources Group, Inc. Pension Plan for Non-Bargaining Unit Employees (pension plan) applies to employees hired before 2006 and was amended to cease benefit accruals as of December 31, 2009. The benefits under the pension plan are based on a participant's average annual salary over the 60 consecutive month period where the participant received the highest annual salary between 1999 and 2009. Benefits are paid as straight life annuities for single participants and as actuarially reduced annuities with a survivor benefit for married participants unless they choose otherwise.

Supplemental Income Security Plan

The Supplemental Income Security Plan (SISP), a defined benefit nonqualified retirement plan, is offered to select key managers and executives. SISP benefits are determined by reference to levels defined within the plan. Our compensation committee, after receiving recommendations from our CEO, determined each participant's level within the plan. On February 11, 2016, the SISP plan was amended so no new participants would be added to the plan and current benefit levels were frozen for existing participants.

Basic SISP Benefits

Basic SISP is a supplemental retirement benefit intended to augment the retirement income provided under the pension plans. The Basic SISP benefits are subject to the following ten-year vesting schedule:

- 0% vesting for less than three years of participation;
- 20% vesting for three years of participation;
- 40% vesting for four years of participation; and
- an additional 10% vesting for each additional year of participation up to 100% vesting for ten years of participation.

Participants can elect to receive the Basic SISP as:

- monthly retirement benefits only;
- monthly death benefits paid to a beneficiary only; or
- a combination of retirement and death benefits, where each benefit is reduced proportionately.

Regardless of the election, if the participant dies before the SISP retirement benefit commences, only the SISP death benefit is provided.

Basic SISP benefits vested as of December 31, 2004, are grandfathered under Section 409A of the Internal Revenue Code (Section 409A) and are subject to the SISP provisions then in effect. Typically, the grandfathered Section 409A SISP benefits are paid over 15 years, with benefits commencing when the participant attains age 65 or when the participant retires if they work beyond age 65. Basic SISP benefits vesting after December 31, 2004 are governed by amended provisions in the plan intended to comply with Section 409A. The SISP benefits for key employees as defined by Section 409A commence six months after the participant attains age 65 or when the participant retires if they work beyond age 65. The benefits are paid over a 173 month period where the first payment includes the equivalent of six-months of payments plus interest equal to one-half of the annual prime interest rate on the participant's last date of employment.

The following are Messrs. Goodin and Barney's benefits under the grandfathered provision and those subject to Section 409A.

	Grandfathered (\$)	Subject to §409A (\$)	Total (\$)
David L. Goodin	247,951	2,037,162	2,285,113
David C. Barney	339,092	1,044,605	1,383,697

Excess SISP Benefits

Excess SISP is an excess retirement benefit relating to Internal Revenue Code limitations on retirement benefits provided under the pension plans. Excess SISP benefits are equal to the difference between the monthly retirement benefits that would have been payable to the participant under the pension plans absent the limitations under the Internal Revenue Code and the actual benefits payable to the participant under the pension plans. Participants are only eligible for the Excess SISP benefits if the participant is fully vested under the pension plan, their employment terminates prior to age 65, and benefits under the pension plan are reduced due to limitations under the Internal Revenue Code on plan compensation.

In 2009, the SISP was amended to limit eligibility for the Excess SISP benefit. Mr. Goodin is the only named executive officer eligible for the Excess SISP benefit and must remain employed with the company until age 60 in order to receive the benefit. Benefits generally commence six months after the participant's employment terminates and continue to age 65 or until the death of the participant, if prior to age 65.

Both Basic and Excess SISP benefits are forfeited if the participant's employment is terminated for cause.

Nonqualified Deferred Compensation for 2016

Deferred Annual Incentive Compensation

Executives participating in the annual incentive compensation plans may elect to defer up to 100% of their annual incentive awards. Deferred amounts accrue interest at a rate determined annually by the compensation committee. The interest rate in effect for 2016 was 4.5% based on an average of the Moody’s U.S. Long-Term Corporate Bond Yield Average for “A” and “Baa” rated companies. The deferred amount will be paid in accordance with the participant’s election, following termination of employment or beginning in the fifth year following the year the award was earned. The amounts are paid in accordance with the participant’s election in either a lump sum or in monthly installments not to exceed 120 months. In the event of a change of control, all amounts deferred would immediately become payable. For purposes of deferred annual incentive compensation, a change of control is defined as:

- an acquisition during an 12-month period of 30% or more of the total voting power of our stock;
- an acquisition of our stock that, together with stock already held by the acquirer, constitutes more than 50% of the total fair market value or total voting power of our stock;
- replacement of a majority of the members of our board of directors during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of our board of directors; or
- acquisition of our assets having a gross fair market value at least equal to 40% of the gross fair market value of all of our assets.

Nonqualified Defined Contribution Plan

The company adopted the Nonqualified Defined Contribution Plan, effective January 1, 2012, to provide deferred compensation for a select group of employees. The compensation committee determines the amount of employer contributions under the Nonqualified Defined Contribution Plan and the obligations under the plan constitute an unsecured promise of the company to make such payments. The company credits contributions to plan accounts which capture the hypothetical investment experience based on the participant’s elections which individually vest four years after each contribution in accordance with the terms of the plan. Amounts shown as aggregate earnings in the table below for Messrs. Thiede and Fritz reflect the change in investment value at market rates. Participants may elect to receive their vested contributions and investment earnings either in a lump sum upon separation from service with the company or in annual installments over a period of years upon the later of (i) separation from service and (ii) age 65. Plan benefits become fully vested if the participant dies while actively employed. Benefits are forfeited if the participant’s employment is terminated for cause.

The table below includes individual contributions from deferrals of annual incentive compensation and company contributions under the Nonqualified Defined Contribution Plan:

Name (a)	Executive Contributions in Last FY (\$) (b)	Registrant Contributions in Last FY (\$) (c)	Aggregate Earnings in Last FY (\$) (d)	Aggregate Withdrawals/ Distributions (\$) (e)	Aggregate Balance at Last FYE (\$) (f)
David L. Goodin	188,373	—	7,305	—	195,677 ¹
Doran N. Schwartz	—	—	—	—	—
David C. Barney	—	—	—	—	—
Jeffrey S. Thiede	—	100,000	28,044	—	396,929 ²
Martin A. Fritz	—	100,000	13,936	—	211,748 ²

¹ Mr. Goodin deferred 50% of his 2015 annual incentive compensation which was \$376,745 as reported in the Summary Compensation Table for 2015.

² Messrs. Thiede and Fritz each received \$100,000 under the Nonqualified Defined Contribution Plan for 2016. Mr. Thiede’s balance also includes contributions of \$150,000 for 2015, \$75,000 for 2014, and \$33,000 for 2013. Mr. Fritz’s balance includes contributions of \$100,000 for 2015. Each of these amounts is reported in column (i) of the Summary Compensation Table in the Proxy Statement for its respective year, where applicable.

Potential Payments upon Termination or Change of Control

The Potential Payments upon Termination or Change of Control table shows the payments and benefits our named executive officers would receive in connection with a variety of employment termination scenarios or upon a change of control. For the named executive officers, the information assumes the terminations or the change of control occurred on December 31, 2016.

The table excludes compensation and benefits that our named executive officers would have already earned during their employment with us whether or not a termination or change of control event had occurred or provided under plans or arrangements that do not discriminate in favor of the named executive officers and that are generally available to all salaried employees, such as benefits under our qualified defined benefit pension plan (for employees hired before 2006), accrued vacation pay, continuation of health care benefits, and life insurance benefits. The tables also do not include nonqualified defined contribution or deferred annual compensation amounts which are shown and explained in the Nonqualified Deferred Compensation for 2016 table.

Compensation

Upon a change of control, annual incentives granted under our Long-Term Performance-Based Incentive Plan (LTIP) would vest at target and be paid in cash. Messrs. Goodin, Barney, and Thiede were awarded their annual incentives for 2016 under the LTIP and would receive the value of their annual incentive compensation at the target amount under the change of control scenarios. No amounts are shown for annual incentives in the tables for Messrs. Goodin, Barney, and Thiede under termination scenarios, as they would be eligible to receive their annual incentives at the level of performance measures were achieved for the performance period regardless of termination scenarios occurring on December 31, 2016.

Messrs. Schwartz and Fritz were granted their annual incentive awards under the Executive Incentive Compensation Plan (EICP) which has no change of control provision in regards to annual incentive compensation other than for deferred compensation and requires participants to remain employed with the company through the service year to be eligible for a payout. No amounts are shown for annual incentives in the tables for Messrs. Schwartz and Fritz, as they would be eligible to receive their annual incentive at the level performance measures were achieved for the performance period regardless of termination or change of control scenarios occurring on December 31, 2016.

Upon a change of control, performance share awards under the LTIP would be deemed fully earned and vest at their target levels for all named executive officers. For this purpose, the term “change of control” is defined in the LTIP as:

- the acquisition by an individual, entity, or group of 20% or more of our outstanding common stock;
- a majority of our board of directors whose election or nomination was not approved by a majority of the incumbent board members;
- consummation of a merger or similar transaction or sale of all or substantially all of our assets, unless our stockholders immediately prior to the transaction beneficially own more than 60% of the outstanding common stock and voting power of the resulting corporation in substantially the same proportions as before the merger, no person owns 20% or more of the resulting corporation's outstanding common stock or voting power except for any such ownership that existed before the merger and at least a majority of the board of the resulting corporation is comprised of our directors; or
- stockholder approval of our liquidation or dissolution.

For termination scenarios, performance share awards are forfeited if the participant's employment terminates for any reason before the participant has reached age 55 and completed 10 years of service. If a participant's employment is terminated other than for cause after reaching age 55 and completing 10 years of service, performance shares are prorated as follows:

- termination of employment during the first year of the performance period = shares are forfeited;
- termination of employment during the second year of the performance period = performance shares earned are prorated based on the number of months employed during the performance period; and
- termination of employment during the third year of the performance period = full amount of any performance shares earned are received.

Proxy Statement

Based on the above criteria, the named executive officers would earn performance shares upon termination or a change of control as follows:

	David L. Goodin	Doran N. Schwartz	David C. Barney	Jeffrey S. Thiede	Martin A. Fritz
As of December 31, 2016, has the participant reached age 55 and have 10 years of service?	Yes	No	Yes	No	No
Performance Share Cycle 2014-2016	Fully Earned	Forfeited	Fully Earned	Forfeited	Forfeited
Performance Share Cycle 2015-2017	Prorated	Forfeited	Prorated	Forfeited	Forfeited
Performance Share Cycle 2016-2018	Forfeited	Forfeited	Forfeited	Forfeited	Forfeited

For purposes of calculating the performance share value, the number of vesting shares was multiplied by the closing stock price for the last market day of the year, which was December 30, 2016. Dividend equivalents based on the number of vesting shares are also included in the amounts presented.

Benefits and Perquisites

Basic SISP benefits presented in the table represent the present value of vested Basic SISP as of December 31, 2016 commencing at age 65 and payable for 15 years. Only Messrs. Goodin, Schwartz, and Barney are eligible for Basic SISP benefits. Present value was determined using a 3.54% discount rate. The terms of the Basic SISP benefit are described following the Pension Benefits for 2016 table. In the event of death, Messrs. Goodin, Schwartz, and Barney's beneficiaries would receive monthly death benefit payments for 15 years.

The monthly SISP retirement and death benefits used in the present value calculations were:

	Monthly SISP Retirement Payment (\$)	Monthly SISP Death Payment (\$)
David L. Goodin	23,040	46,080
Doran N. Schwartz	8,744	21,872
David C. Barney	9,125	21,872

The Basic SISP amounts under a disability scenario as shown for Messrs. Schwartz and Barney reflect credit for an additional year of vesting of their 2014 SISP upgrades which would result in full vesting of the upgrade.

We provide disability benefits to some of our salaried employees equal to 60% of their base salary, subject to a salary limit of \$200,000 for officers and \$100,000 for other salaried employees when calculating benefits. For all eligible employees, disability payments continue until age 65 if disability occurs at or before age 60 and for five years if disability occurs between the ages of 60 and 65. Disability benefits are reduced for amounts paid as retirement benefits. The disability amounts in the table reflect the present value of the disability benefits attributable to the additional \$100,000 of base salary recognized for executives under our disability program, subject to the 60% limitation, after reduction for amounts that would be paid as retirement benefits. For Messrs. Goodin and Schwartz, who participate in the pension plan, the amount represents the present value of the disability benefit after reduction for retirement benefits using a discount rate of 3.8%. Because Mr. Goodin's retirement benefit is greater than the disability benefit, the amount shown is zero. For Messrs. Barney, Thiede, and Fritz, who do not participate in the pension plan, the amount represents the present value of the disability benefit without reduction for retirement benefits using the discount rate of 3.54% which is associated with the SISP plan which is considered a reasonable rate for purposes of the calculation.

Severance

The compensation committee generally considers providing severance benefits on a case-by-case basis. Because severance payments are at the discretion of the compensation committee, no amounts are presented in the tables with the exception of Mr. Fritz. Mr. Fritz's offer letter provided for a lump sum payment if his employment terminates during the two years after his date of hire as a result of: (1) a change of control of the company; (2) the company divests WBI Holdings, Inc. or a significant portion of its assets; (3) a material diminution of his authority or job duties and/or a change to whom he reports; or (4) a reduction in his base salary other than a reduction in base salary imposed on all senior officers.

Potential Payments upon Termination or Change of Control Table

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	Death (\$)	Disability (\$)	Change of Control (With Termination) (\$)	Change of Control (Without Termination) (\$)
David L. Goodin						
Compensation:						
Annual Incentive	—	—	—	—	755,000	755,000
Performance Shares	2,498,923	2,498,923	2,498,923	2,498,923	6,142,835	6,142,835
Benefits and Perquisites:						
Basic SISP	2,283,801	2,283,801	—	2,283,801	2,283,801	—
SISP Death Benefits	—	—	6,447,100	—	—	—
Disability Benefits	—	—	—	—	—	—
Total	4,782,724	4,782,724	8,946,023	4,782,724	9,181,636	6,897,835
Doran N. Schwartz						
Compensation:						
Annual Incentive	—	—	—	—	—	—
Performance Shares	—	—	—	—	1,300,761	1,300,761
Benefits and Perquisites:						
Basic SISP	659,072	659,072	—	824,254	659,072	—
SISP Death Benefits	—	—	3,060,134	—	—	—
Disability Benefits	—	—	—	713,381	—	—
Total	659,072	659,072	3,060,134	1,537,635	1,959,833	1,300,761
David C. Barney						
Compensation:						
Annual Incentive	—	—	—	—	305,100	305,100
Performance Shares	468,381	468,381	468,381	468,381	1,145,462	1,145,462
Benefits and Perquisites:						
Basic SISP	1,141,490	1,141,490	—	1,368,036	1,141,490	—
SISP Death Benefits	—	—	3,060,134	—	—	—
Disability Benefits	—	—	—	275,389	—	—
Total	1,609,871	1,609,871	3,528,515	2,111,806	2,592,052	1,450,562
Jeffrey S. Thiede						
Compensation:						
Annual Incentive	—	—	—	—	318,750	318,750
Performance Shares	—	—	—	—	1,209,696	1,209,696
Benefits and Perquisites:						
Disability Benefits	—	—	—	506,165	—	—
Total	—	—	—	506,165	1,528,446	1,528,446
Martin A. Fritz						
Compensation:						
Annual Incentive	—	—	—	—	—	—
Performance Shares	—	—	—	—	1,054,943	1,054,943
Benefits and Perquisites:						
Disability Benefits	—	—	—	600,673	—	—
Severance						
	—	500,000	—	—	500,000	—
Total	—	500,000	—	600,673	1,554,943	1,054,943

AUDIT MATTERS

ITEM 4: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017

The audit committee at its February 2017 meeting appointed Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2017. The board of directors concurred with the audit committee's decision. Deloitte & Touche LLP has served as our independent registered public accounting firm since fiscal year 2002.

Although your ratification vote will not affect the appointment or retention of Deloitte & Touche LLP for 2017, the audit committee will consider your vote in determining its appointment of our independent registered public accounting firm for the next fiscal year. The audit committee, in appointing our independent registered public accounting firm, 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 annual 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 the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2017.

Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2017 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the annual meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal.

Annual Evaluation and Selection of Deloitte & Touche LLP

The audit committee annually evaluates the performance of its independent registered public accounting firm, including the senior audit engagement team, and determines whether to re-engage the current independent accounting firm or consider other firms. Factors considered by the audit committee in deciding whether to retain the current independent accounting firm include:

- Deloitte & Touche LLP's capabilities considering the complexity of our business and the resulting demands placed on Deloitte & Touche LLP in terms of technical expertise and knowledge of our industry and business;
- the quality and candor of Deloitte & Touche LLP's communications with the audit committee and management;
- Deloitte & Touche LLP's independence;
- the quality and efficiency of the services provided by Deloitte & Touche LLP, including input from management on Deloitte & Touche LLP's performance and how effectively Deloitte & Touche LLP demonstrated its independent judgment, objectivity, and professional skepticism;
- external data on audit quality and performance, including recent Public Company Accounting Oversight Board reports on Deloitte & Touche LLP and its peer firms; and
- the appropriateness of Deloitte & Touche LLP's fees, tenure as our independent auditor, including the benefits of a longer tenure, and the controls and processes in place that help ensure Deloitte & Touche LLP's continued independence.

Based on this evaluation, the audit committee and the board believe that retaining Deloitte & Touche LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2017, is in the best interests of our company and its stockholders.

The audit committee also oversees the process for, and ultimately approves, the selection of our independent registered public accounting firm's lead engagement partner at the five-year mandatory rotation period. Prior to the mandatory rotation period in 2017, at the audit committee's instruction, Deloitte & Touche LLP selected candidates to be considered for the lead engagement partner role, who were then interviewed by members of our company's senior management. After considering the candidates recommended by Deloitte & Touche LLP,

senior management made a recommendation to the audit committee regarding the new engagement partner. After discussing the qualifications of the proposed lead engagement partner with the current lead engagement partner, the audit committee chair interviewed the leading candidate, and the audit committee then considered the appointment and voted as an audit committee on the selection. The change in lead engagement partner after the current five-year rotation period occurred in February 2017.

Audit Fees and Non-Audit Fees

The following table summarizes the aggregate fees that our independent registered public accounting firm, Deloitte & Touche LLP, billed or is expected to bill us for professional services rendered for 2016 and 2015:

	2016	2015
Audit Fees ^a	\$ 2,526,900	\$ 2,755,400
Audit-Related Fees ^b	16,710	437,979
Tax Fees ^c	—	36,400
All Other Fees ^d	3,087	47,569
Total Fees ^e	\$ 2,546,697	\$ 3,277,348
Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	0.1 %	2.6 %

^a Audit fees for 2016 and 2015 consisted of fees for services rendered for the audit of our annual financial statements, reviews of quarterly financial statements, subsidiary, statutory and regulatory audits, filing a Form S-8 Registration Statement (2016), and discontinued operations for Dakota Prairie Refining, LLC (DPR) (2016).

^b Audit-related fees for 2016 and 2015 are associated with accounting research assistance, Intermountain Gas Company public utility review (2016), agreed upon procedures associated report for Knife River Corporation's JTL Group, Inc. (Wyoming) (2015), and due diligence work associated with a potential acquisition (2015).

^c Tax fees for 2015 include the preparation of federal and state tax returns for DPR. The fees associated with DPR were paid by DPR, but are included in this table because DPR was considered a variable interest entity with respect to MDU Resources Group, Inc. and is consolidated in its financial statements.

^d All other fees for 2016 are associated with a pollution control project at Big Stone electric generating facility. All other fees for 2015 are associated with a cost segregation study and research on R&D credits, in each case for DPR. The fees associated with DPR were paid by DPR, but are included in this table because DPR was considered a variable interest entity with respect to MDU Resources Group, Inc. and consolidated in its financial statements.

^e Total fees reported above include out-of-pocket expenses related to the services provided of \$350,000 for 2016 and \$382,965 for 2015.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2016 in accordance with the pre-approval policy and procedures the audit committee adopted in 2003. 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 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 included as an exhibit thereto or may be delivered in a separate written statement.

AUDIT COMMITTEE REPORT

In connection with our financial statements for the year ended December 31, 2016, the audit committee has (1) reviewed and discussed the audited financial statements with management; (2) discussed with the independent registered public accounting firm (the “Auditors”) the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 1301, Communications with Audit Committees; and (3) received the written disclosures and the letter from the Auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the Auditors’ communications with the audit committee concerning independence, and has discussed with the Auditors their independence.

Based on the review and discussions referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the Securities and Exchange Commission.

Dennis W. Johnson, Chairman

Mark A. Hellerstein

A. Bart Holaday

John K. Wilson

OTHER MATTERS**ITEM 5. ADVISORY VOTE TO APPROVE AN AMENDMENT TO THE COMPANY'S BYLAWS TO ADOPT AN EXCLUSIVE FORUM FOR INTERNAL CORPORATE CLAIMS****Description of the Amendment**

On November 17, 2016, the board approved an amendment (the "Amendment") to the company's bylaws adding a new Section 7.09 which provides that Internal Corporate Claims (as defined in the Amendment) may only be brought in Delaware courts. Stockholder ratification of the Amendment is not required under Delaware law, our bylaws, or otherwise. The board believes, however, that a stockholder vote on this matter is appropriate because of the importance of this issue. For the reasons described below, the board recommends that stockholders vote in favor of the proposal to ratify the Amendment. Broker non-vote shares are not entitled to vote on this item and, therefore, are not counted in the vote. The full text of the Amendment is set forth below and on Exhibit A to this Proxy Statement.

7.09 Forum Selection.

(a) **Forum Selection.** Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, all Internal Corporate Claims shall be brought solely and exclusively in the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, another state court located within the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the United States District Court for the District of Delaware). "Internal Corporate Claims" means claims, including claims in the right of the Corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity or (ii) as to which the General Corporation Law of the State of Delaware confers jurisdiction upon the Court of Chancery of the State of Delaware.

(b) **Personal Jurisdiction.** If any action the subject matter of which is within the scope of Section 7.09(a) is filed in a court other than a court located within the State of Delaware (a "Foreign Action") by or in the name of any stockholder (including in the right of the Corporation), such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce Section 7.09(a) and (ii) having service of process made upon such stockholder in any such action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder.

Purposes of the Amendment**The Amendment's requirement to bring internal litigation claims in Delaware avoids the waste of corporate assets that would arise from litigation of the same claims in multiple jurisdictions.**

Public companies, particularly if involved in merger and acquisition transactions, are often targeted in litigation brought purportedly on behalf of stockholders in multiple jurisdictions with respect to similar, if not identical, corporate claims. The company has historically entered into a number of merger and acquisition transactions to foster growth at its business segments. Although the company has not yet faced internal corporate claims arising from these transactions, a forum selection bylaw would avoid such multi-jurisdiction litigation and the waste of corporate assets and diversion of management time that results from litigating essentially duplicative cases in multiple jurisdictions. By requiring internal corporate claims to be brought in a single jurisdiction, a forum selection bylaw serves the interests of stockholders in resolving claims efficiently and without the waste of financial and other resources that are better devoted to the company's business.

The Delaware Courts designated by the Amendment can provide the most authoritative and efficient resolution of internal corporate claims.

Because the company, like many public companies, is incorporated in Delaware, the law applicable to any internal corporate claims would be the Delaware General Corporation Law. By requiring corporate claims to be brought in Delaware courts, a forum selection bylaw avoids the risk that Delaware General Corporation Law will be misapplied by a court in another jurisdiction, a risk that would be compounded if internal corporate claims were pending in multiple jurisdictions outside Delaware which could reach inconsistent interpretations. Additionally, Delaware offers a system of specialized chancery courts to deal with corporate law questions, with streamlined procedures and processes that help provide relatively quick decisions. This serves the interests of all stockholders in limiting the time, cost, and uncertainty of protracted litigation.

Proxy Statement

Approval of the Amendment at this time will discourage potentially harmful litigation practices in the future.





The board believes it is in the best interests of the company's stockholders to approve the amendment at this time. Following a series of Delaware court decisions upholding similar corporate provisions, the Delaware legislature in June 2015 enacted a law explicitly authorizing Delaware corporations to adopt bylaw provisions designating Delaware courts as the exclusive forum for resolving internal corporate claims. By adopting the forum selection bylaw at this time as authorized by the Delaware courts and the 2015 legislation, and subject to an advisory vote of the stockholders at the 2017 annual meeting, the company can discourage future litigation that is brought in a particular jurisdiction on the basis of tactical maneuvering rather than efficiency and predictable and authoritative outcomes.

For the foregoing reasons, the board of directors believes the Amendment is in the best interests of the company and its stockholders and recommends that stockholders vote in favor of the proposal to ratify the Amendment.

The board of directors recommends a vote “for” the advisory vote to approve an amendment to the company’s bylaws to adopt an exclusive forum for internal corporate claims.

If ratification of the bylaws is not approved by a majority of the shares of common stock represented at the annual meeting and entitled to vote on this item, the board intends to rescind the Amendment. Abstentions will count as votes against the Amendment.

INFORMATION ABOUT THE ANNUAL MEETING

Who can Vote?	Stockholders of record at the close of business on March 10, 2017, are entitled to vote each share they owned on that date on each matter presented at the meeting and any adjournment(s) thereof. As of March 10, 2017, we had 195,304,376 shares of common stock outstanding entitled to one vote per share.
Distribution of our Proxy Materials using Notice and Access	We distributed proxy materials to certain of our stockholders via the Internet under the Securities and Exchange Commission's "Notice and Access" rules to reduce our costs and decrease the environmental impact of our proxy materials. Using this method of distribution, on or about March 24, 2017, we mailed a Notice Regarding the Availability of Proxy Materials (Notice) that contains basic information about our 2017 annual meeting and instructions on how to view all proxy materials, and vote electronically, on the Internet. If you received the Notice and prefer to receive a paper copy of the proxy materials, follow the instructions in the Notice for making this request and the materials will be sent promptly to you via the preferred method. Stockholders who do not receive the Notice will receive a paper copy of our proxy materials, which will be sent on or about March 30, 2017.
How to Vote	<p>You are encouraged to vote in advance of the meeting using one of the following voting methods, even if you are planning to attend the 2017 Annual Meeting of Stockholders.</p> <p>Registered Stockholders: Stockholders of record who hold their shares directly with our stock registrar can vote any one of four ways:</p> <p> <i>Via the Internet:</i> Go to www.proxypush.com/mdu and follow the instructions on the website.</p> <p> <i>By Telephone:</i> Call 877-536-3553 and follow the instructions given by the voice prompts.</p> <p>Voting via the Internet or by telephone authorizes the named proxies to vote your shares in the same manner as if you marked, signed, dated, and returned a Proxy Card by mail. Your voting instructions may be transmitted up until 11:59 p.m. CDT on May 8, 2017.</p> <p> <i>By Mail:</i> If you received paper copies of the Proxy Statement, Annual Report, and Proxy Card, mark, sign, date, and return the Proxy Card in the postage-paid envelope provided.</p> <p> <i>In Person:</i> Attend the annual meeting, or send a personal representative with an appropriate proxy, to vote by ballot at the meeting. (See "Notice of Annual Meeting" and "Annual Meeting Admission.")</p> <p>Beneficial Stockholders: Stockholders whose shares are held beneficially in the name of a bank, broker, or other holder of record (sometimes referred to as holding shares "in street name"), will receive voting instructions from said bank, broker, or other holder of record. If you wish to vote in person at the meeting, you must obtain a legal proxy from your bank, broker, or other holder of record of your shares and present it at the meeting.</p> <p>See discussion below in the MDU Resources Group, Inc. 401(k) Plan for voting instructions for shares held under our 401(k) plans.</p>
Revoking Your Proxy or Changing Your Vote	<p>You may change your vote at any time before the proxy is exercised.</p> <p>Registered Stockholders:</p> <ul style="list-style-type: none"> • If you voted by mail: you may revoke your proxy by executing and delivering a timely and valid later dated proxy, by voting by ballot at the meeting, or by giving written notice of revocation to the corporate secretary. • If you voted via the Internet or by telephone: you may change your vote with a timely and valid later Internet or telephone vote, as the case may be, or by voting by ballot at the meeting. • Attendance at the meeting will not have the effect of revoking a proxy unless (1) you give proper written notice of revocation to the corporate secretary before the proxy is exercised, or (2) you vote by ballot at the meeting. <p>Beneficial Stockholders: Follow the specific directions provided by your bank, broker, or other holder of record to change or revoke any voting instructions you have already provided. Alternatively, you may vote your shares by ballot at the meeting if you obtain a legal proxy from your bank, broker, or other holder of record and present it at the meeting.</p>

Proxy Statement

Discretionary Voting Authority

If you complete and submit your proxy voting instructions, the individuals named as proxies will follow your instructions. If you are a stockholder of record and you submit proxy voting instructions but do not direct how to vote on each item, the individuals named as proxies will vote as the board recommends on each proposal. The individuals named as proxies will vote on any other matters properly presented at the annual meeting in accordance with their discretion. Our bylaws set forth requirements for advance notice of any nominations or agenda items to be brought up for voting at the annual meeting, and we have not received timely notice of any such matters, other than the items from the board of directors described in this Proxy Statement.

Voting Standards

A majority of outstanding shares of stock entitled to vote must be present in person or represented by proxy to hold the meeting.

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

Approval of each of the other matters on the agenda, other than Item 2, requires the affirmative vote of a majority of the shares of common stock present or represented by proxy during the meeting. For each of these proposals, abstentions have the same effect as “against” votes. For Item 2, the frequency that receives the most votes will be the frequency deemed recommended by our stockholders. Abstentions have no effect on Item 2. If you are a beneficial holder and do not provide specific voting instruction to your broker, the organization that holds your shares will not be authorized to vote your shares, which would result in “broker non-votes,” on proposals other than the ratification of the selection of our independent registered public accounting firm for 2017. Abstentions and broker non-votes are counted for purposes of determining whether a quorum is present at the annual meeting.

The following chart describes the proposals to be considered at the annual meeting, the vote required to elect directors and to adopt each other proposal, and the manner in which votes will be counted:

Item No.	Proposal	Voting Options	Vote Required to Adopt the Proposal	Effect of Abstentions	Effect of “Broker Non-Votes”
1	Election of Directors	For, against, or abstain on each nominee	A nominee for director will be elected if the votes cast for such nominee exceed the votes cast against such nominee	No effect	No effect
2	Advisory Vote To Approve the Frequency of the Vote to Approve the Compensation Paid to the Company’s Named Executive Officers	One year, two years, three years, or abstain	The frequency that receives the most votes will be deemed the frequency recommended by our stockholders	No effect	No effect
3	Advisory Vote to Approve the Compensation Paid to the Company’s Named Executive Officers	For, against, or abstain	The affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon	Same effect as votes against	No effect
4	Ratification of the Appointment of Deloitte & Touche LLP as the Company’s Independent Registered Public Accounting Firm for 2017	For, against, or abstain	The affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon	Same effect as votes against	Brokers have discretion to vote
5	Advisory Vote to Approve an Amendment to the Company’s Bylaws to Adopt an Exclusive Forum for Internal Corporate Claims	For, against, or abstain	The affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon	Same effect as votes against	No effect

Proxy Solicitation	The board of directors is furnishing proxy materials to solicit proxies for use at the Annual Meeting of Stockholders on May 9, 2017 and any adjournment(s) thereof. Proxies are solicited principally by mail, but directors, officers, and employees of MDU Resources Group, Inc. or its subsidiaries may solicit proxies personally, by telephone, or by electronic media, without compensation other than their regular compensation. Okapi Partners, LLC additionally will solicit proxies for approximately \$8,000 plus out-of-pocket expenses. We will pay the cost of soliciting proxies and will reimburse brokers and others for forwarding proxy materials to stockholders.
Electronic Delivery of Proxy Statement and Annual Report Documents	<p>For stockholders receiving proxy materials by mail, you can elect to receive an email in the future that will provide electronic links to these documents. Opting to receive your proxy materials online will save the company the cost of producing and mailing documents to your home or business and will also give you an electronic link to the proxy voting site.</p> <ul style="list-style-type: none"> • Registered Stockholders: If you vote on the Internet at www.proxypush.com/mdu, simply follow the prompts for enrolling in the electronic proxy delivery service. You may enroll in the electronic proxy delivery service at any time in the future by going directly to www.shareowneronline.com or by calling Wells Fargo Stockholder Services at 877-536-3553 to request electronic delivery. You may also revoke an electronic delivery election at this site at any time. • Beneficial Stockholders: If you hold your shares in a brokerage account, you may also have the opportunity to receive copies of the proxy materials electronically. Please check the information provided in the proxy materials mailed to you by your bank or broker regarding the availability of this service or contact your bank or broker to request electronic delivery.
Householding of Proxy Materials	<p>In accordance with a Notice sent to eligible stockholders who share a single address, we are sending only one Annual Report to Stockholders and one Proxy Statement to that address unless we received instructions to the contrary from any stockholder at that address. This practice, known as “householding,” is designed to reduce our printing and postage costs. However, if a stockholder of record wishes to receive a separate Annual Report to Stockholders and Proxy Statement in the future, he or she may contact the Office of the Treasurer at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650, Telephone Number: (701) 530-1000. Eligible stockholders of record who receive multiple copies of our Annual Report to Stockholders and Proxy Statement can request householding by contacting us in the same manner. Stockholders who own shares through a bank, broker, or other nominee can request householding by contacting the nominee.</p> <p>We will promptly deliver, upon written or oral request, a separate copy of the Annual Report to Stockholders and Proxy Statement to a stockholder at a shared address to which a single copy of the document was delivered.</p>
MDU Resources Group, Inc. 401(k) Plan	This Proxy Statement is being used to solicit voting instructions from participants in the MDU Resources Group, Inc. 401(k) Plan with respect to shares of our common stock that are held by the trustee of the plan for the benefit of plan participants. If you are a plan participant and also own other shares as a registered stockholder or beneficial owner, you will separately receive a Notice or proxy materials to vote those other shares you hold outside of the MDU Resources Group, Inc. 401(k) Plan. If you are a plan participant, you must instruct the plan trustee to vote your shares by utilizing one of the methods described on the voting instruction form that you receive in connection with shares held in the plan. If you do not give voting instructions, the trustee generally will vote the shares allocated to your personal account in accordance with the recommendations of the board of directors.
Annual Meeting Admission	All stockholders as of the record date of March 10, 2017, are cordially invited and urged to attend the meeting in person. Registered stockholders who receive a full set of proxy materials will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Registered stockholders who receive a Notice and 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) if shares are held in the name of a bank or broker, obtain a statement from their bank or broker showing proof of stock ownership as of March 10, 2017, and (3) present their admission tickets(s), the stock ownership statement, and photo identification, such as a driver’s license, at the annual meeting.

Proxy Statement

Conduct of the Meeting

Neither the board of directors nor management intends to bring before the meeting any business other than the matters referred to in the Notice of Annual Meeting and this Proxy Statement. We have not been informed that any other matter will be presented at the meeting by others. However, if any other matters are properly brought before the annual meeting, or any adjournment(s) thereof, your proxies include discretionary authority for the persons named in the proxy to vote or act on such matters in their discretion.

Stockholder Proposals, Director Nominations, and Other Items of Business for 2018 Annual Meeting

Stockholder Proposals for Inclusion in Next Year's Proxy Statement. To be included in the proxy materials for our 2018 annual meeting, a stockholder proposal must be received by the corporate secretary no later than November 24, 2017, and must comply with all applicable requirements of Rule 14a-18 under the Securities and Exchange Act of 1934.

Director Nominations and Other Stockholder Proposals Raised From the Floor at the 2018 Annual Meeting of Stockholders. Under our bylaws, if a stockholder intends to nominate a person as a director, or present other items of business at an annual meeting, the stockholder must provide written notice of the director nomination or stockholder proposal at least 90 days prior to the anniversary of the most recent annual meeting. Notice of director nominations or stockholder proposals for our 2018 annual meeting must be received by February 9, 2018, and meet all the requirements and contain all the information, including the completed questionnaire for director nominations, provided by our bylaws. The requirements for such notice can be found in our bylaws, a copy of which is on our website, at <http://www.mdu.com/integrity/governance/guidelines-and-bylaws>.

We will make available to our stockholders to whom we furnish this Proxy Statement a copy of our Annual Report on Form 10-K, excluding exhibits, for the year ended December 31, 2016, which is required to be filed with the Securities and Exchange Commission. You may obtain a copy, without charge, upon written or oral request to the Office of the Treasurer of MDU Resources Group, Inc., 1200 West Century Avenue, Mailing Address: P.O. Box 5650, Bismarck, ND 58506-5650, Telephone Number: (701) 530-1000. You may also access our Annual Report on Form 10-K through our website at www.mdu.com.

By order of the Board of Directors,



Daniel S. Kuntz
Secretary
March 24, 2017

EXHIBIT A

**AMENDMENT TO THE BYLAWS
OF
MDU RESOURCES GROUP, INC.**

7.09 Forum Selection.

(a) **Forum Selection.** Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, all Internal Corporate Claims shall be brought solely and exclusively in the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, another state court located within the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the United States District Court for the District of Delaware). “Internal Corporate Claims” means claims, including claims in the right of the Corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity or (ii) as to which the General Corporation Law of the State of Delaware confers jurisdiction upon the Court of Chancery of the State of Delaware.

(b) **Personal Jurisdiction.** If any action the subject matter of which is within the scope of Section 7.09(a) is filed in a court other than a court located within the State of Delaware (a “Foreign Action”) by or in the name of any stockholder (including in the right of the Corporation), such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce Section 7.09(a) and (ii) having service of process made upon such stockholder in any such action by service upon such stockholder’s counsel in the Foreign Action as agent for such stockholder.

Stockholder Information

Corporate Headquarters

MDU Resources Group, Inc.
Street Address: 1200 W. Century Ave.
Bismarck, ND 58503

Mailing Address: P.O. Box 5650
Bismarck, ND 58506-5650

Telephone: 701-530-1000
Toll-Free Telephone: 866-760-4852
www.mdu.com

The company has filed as exhibits to its Annual Report on Form 10-K the CEO and CFO certifications as required by Section 302 of the Sarbanes-Oxley Act.

The company also submitted the required annual CEO certification to the New York Stock Exchange.

Common Stock

MDU Resources' common stock is listed on the NYSE under the symbol MDU. The stock began trading on the NYSE in 1948 and is included in the Standard & Poor's MidCap 400 index. Average daily trading volume in 2016 was 1,095,215 shares.

Common Stock Prices

	High	Low	Close
2016			
First Quarter	\$19.55	\$15.57	\$19.46
Second Quarter	24.01	18.70	24.00
Third Quarter	25.79	22.47	25.44
Fourth Quarter	29.92	24.49	28.77
2015			
First Quarter	\$24.51	\$20.01	\$21.34
Second Quarter	23.12	19.22	19.53
Third Quarter	19.73	16.15	17.20
Fourth Quarter	19.66	16.26	18.32

Shareowner Service Plus Plan

The Shareowner Service Plus Plan provides interested investors the opportunity to purchase shares of MDU Resources' common stock and to reinvest all or a percentage of dividends without incurring brokerage commissions or service charges. The plan is sponsored and administered by Wells Fargo Shareowner Services, transfer agent and registrar for MDU Resources. For more information, contact Shareowner Services at 877-536-3553 or visit www.shareowneronline.com.

2017 Key Dividend Dates

	Ex-Dividend Date	Record Date	Payment Date
First Quarter	March 7	March 9	April 1
Second Quarter	June 6	June 8	July 1
Third Quarter	September 12	September 14	October 1
Fourth Quarter	December 12	December 14	January 1, 2018

Key dividend dates are subject to the discretion of the Board of Directors.

Annual Meeting

11 a.m. CDT May 9, 2017
Montana-Dakota Utilities Co. Service Center
909 Airport Road
Bismarck, North Dakota

Shareholder Information and Inquiries

Registered shareholders have electronic access to their accounts by visiting www.shareowneronline.com. Shareowner Online allows shareholders to view their account balance, dividend information, reinvestment details and more. The stock transfer agent maintains stockholder account information.

Communications regarding stock transfer requirements, lost certificates, dividends or change of address should be directed to the stock transfer agent.

Company information, including financial reports, is available at www.mdu.com.

Shareholder Contact

Dustin J. Senger
Telephone: 866-866-8919
Email: investor@mduresources.com

Analyst Contact

Doran N. Schwartz
Telephone: 701-530-1750
Email: Doran.Schwartz@mduresources.com

Transfer Agent and Registrar for All Classes of Stock

Wells Fargo Bank, N.A.
Stock Transfer Department
P.O. Box 64874
St. Paul, MN 55164-0874
Telephone: 651-450-4064
Toll-Free Telephone: 877-536-3553
www.shareowneronline.com

Independent Registered Public Accounting Firm

Deloitte & Touche LLP
50 S. Sixth St., Suite 2800
Minneapolis, MN 55402-1538

Note: This information is not given in connection with any sale or offer for sale or offer to buy any security.



2016

Building a Strong America®

Street Address

1200 W. Century Ave.
Bismarck, ND 58503

Mailing Address

P.O. Box 5650
Bismarck, ND 58506-5650

701-530-1000
866-760-4852

Trading Symbol: MDU
www.mdu.com

MDU
LISTED
NYSE

 **MDU RESOURCES**
GROUP, INC.