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MDU RESOURCES GROUP INC

FORM 10-Q
(Quarterly Report)

Filed 08/04/17 for the Period Ending 06/30/17

Address	1200 WEST CENTURY AVENUE BISMARCK, ND 58503
Telephone	701-530-1059
CIK	0000067716
Symbol	MDU
SIC Code	1400 - Mining & Quarrying of Nonmetallic Minerals (No Fuels)
Industry	Multiline Utilities
Sector	Utilities
Fiscal Year	12/31

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 1-03480

MDU RESOURCES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	41-0423660
(State or other jurisdiction of incorporation or organization)	(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)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 28, 2017 : 195,304,376 shares.

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Definitions

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

Abbreviation or Acronym	
2016 Annual Report	Company's Annual Report on Form 10-K for the year ended December 31, 2016
AFUDC	Allowance for funds used during construction
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
ATBs	Atmospheric tower bottoms
Brazilian Transmission Lines	Company's former investment in companies owning three electric transmission lines in Brazil
Calumet	Calumet Specialty Products Partners, L.P.
Capital Electric	Capital Electric Construction Company, Inc., a direct wholly owned subsidiary of MDU Construction Services
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
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 Resources	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial
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)
dk	Decatherm
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPA	United States Environmental Protection Agency
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)
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
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
kWh	Kilowatt-hour
LWG	Lower Willamette Group
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
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
MISO	Midcontinent Independent System Operator, Inc.
MMdk	Million dk
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
MTPSC	Montana Public Service Commission

MW	Megawatt
NDPSC	North Dakota Public Service Commission
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's 50 percent ownership interests were sold effective January 1, 2017)
PRP	Potentially Responsible Party
RIN	Renewable Identification Number
ROD	Record of Decision
SEC	United States Securities and Exchange Commission
Tesoro	Tesoro Refining & Marketing Company LLC
Tesoro Logistics	QEP Field Services, LLC doing business as Tesoro Logistics Rockies LLC
VIE	Variable interest entity
Washington DOE	Washington State Department of Ecology
WBI Energy	WBI Energy, Inc., a direct 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
WYPSC	Wyoming Public Service Commission

Forward-Looking Statements

This Form 10-Q 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 not 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 Part I, Item 2 - 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 reported in Part I, Item 1A - Risk Factors in the 2016 Annual Report and subsequent filings with the SEC.

Introduction

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.

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

Part I -- Financial Information

Item 1. Financial Statements

MDU Resources Group, Inc.
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Operating revenues:				
Electric, natural gas distribution and regulated pipeline and midstream	$ 225,485	$ 206,052	$ 659,100	$ 591,918
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	842,154	837,896	1,346,465	1,312,245
Total operating revenues	1,067,639	1,043,948	2,005,565	1,904,163
Operating expenses:				
Electric fuel and purchased power	16,752	15,914	38,638	37,925
Purchased natural gas sold	57,668	47,439	250,617	208,474
Operation and maintenance:				
Electric, natural gas distribution and regulated pipeline and midstream	77,273	77,078	156,013	151,703
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	743,656	722,742	1,222,132	1,165,243
Depreciation, depletion and amortization	51,658	54,248	102,983	109,132
Taxes, other than income	40,953	37,562	88,391	80,736
Total operating expenses	987,960	954,983	1,858,774	1,753,213
Operating income	79,679	88,965	146,791	150,950
Other income	782	872	1,798	1,921
Interest expense	20,766	22,219	41,068	45,087
Income before income taxes	59,695	67,618	107,521	107,784
Income taxes	15,290	21,320	27,478	29,620
Income from continuing operations	44,405	46,298	80,043	78,164
Loss from discontinued operations, net of tax (Note 8)	(3,190)	(276,102)	(1,504)	(294,138)
Net income (loss)	41,215	(229,804)	78,539	(215,974)
Loss from discontinued operations attributable to noncontrolling interest (Note 8)	—	(120,651)	—	(131,691)
Loss on redemption of preferred stocks	600	—	600	—
Dividends declared on preferred stocks	—	171	171	343
Earnings (loss) on common stock	$ 40,615	$ (109,324)	$ 77,768	$ (84,626)
Earnings (loss) per common share - basic:				
Earnings before discontinued operations	$ .22	$ .24	$ .41	$ .40
Discontinued operations attributable to the Company, net of tax	(.01)	(.80)	(.01)	(.83)
Earnings (loss) per common share - basic	$ .21	$ (.56)	$ .40	$ (.43)
Earnings (loss) per common share - diluted:				
Earnings before discontinued operations	$ .22	$ .24	$ .40	$ .40
Discontinued operations attributable to the Company, net of tax	(.01)	(.80)	—	(.83)
Earnings (loss) per common share - diluted	$ .21	$ (.56)	$ .40	$ (.43)
Dividends declared per common share	$ .1925	$ .1875	$ .3850	$ .3750
Weighted average common shares outstanding - basic	195,304	195,304	195,304	195,294
Weighted average common shares outstanding - diluted	195,973	195,699	195,993	195,678

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

MDU Resources Group, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net income (loss)	$ 41,215	$ (229,804)	$ 78,539	$ (215,974)
Other comprehensive income (loss):				
Reclassification adjustment for loss on derivative instruments included in net income (loss), net of tax of $56 and $56 for the three months ended and $112 and $114 for the six months ended in 2017 and 2016, respectively	92	91	183	183
Postretirement liability adjustment:				
Amortization of postretirement liability (gains) losses included in net periodic benefit cost (credit), net of tax of $190 and $150 for the three months ended and $406 and $(819) for the six months ended in 2017 and 2016, respectively	312	248	669	(1,347)
Reclassification of postretirement liability adjustment from regulatory asset, net of tax of $0 and $0 for the three months ended and $(725) and $0 for the six months ended in 2017 and 2016, respectively	—	—	(917)	—
Postretirement liability adjustment	312	248	(248)	(1,347)
Foreign currency translation adjustment recognized during the period, net of tax of $(9) and $19 for the three months ended and $(3) and $33 for the six months ended in 2017 and 2016, respectively	(15)	31	(6)	56
Net unrealized gain on available-for-sale investments:				
Net unrealized loss on available-for-sale investments arising during the period, net of tax of $(13) and $(16) for the three months ended and $(28) and $(10) for the six months ended in 2017 and 2016, respectively	(24)	(30)	(51)	(19)
Reclassification adjustment for loss on available-for-sale investments included in net income (loss), net of tax of $17 and $19 for the three months ended and $36 and $37 for the six months ended in 2017 and 2016, respectively	31	36	66	69
Net unrealized gain on available-for-sale investments	7	6	15	50
Other comprehensive income (loss)	396	376	(56)	(1,058)
Comprehensive income (loss)	41,611	(229,428)	78,483	(217,032)
Comprehensive loss from discontinued operations attributable to noncontrolling interest	—	(120,651)	—	(131,691)
Comprehensive income (loss) attributable to common stockholders	$ 41,611	$ (108,777)	$ 78,483	$ (85,341)

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

MDU Resources Group, Inc.
Consolidated Balance Sheets
(Unaudited)

	June 30, 2017	June 30, 2016	December 31, 2016
	(In thousands, except shares and per share amounts)		
Assets			
Current assets:			
Cash and cash equivalents	$ 40,048	$ 85,117	$ 46,107
Receivables, net	661,771	637,166	630,243
Inventories	249,870	265,849	238,273
Prepayments and other current assets	63,953	50,309	48,461
Current assets held for sale	328	37,625	14,391
Total current assets	1,015,970	1,076,066	977,475
Investments	131,726	124,531	125,866
Property, plant and equipment	6,591,382	6,526,563	6,510,229
Less accumulated depreciation, depletion and amortization	2,638,098	2,551,941	2,578,902
Net property, plant and equipment	3,953,284	3,974,622	3,931,327
Deferred charges and other assets:			
Goodwill	631,791	641,527	631,791
Other intangible assets, net	4,785	7,160	5,925
Other	416,759	360,520	415,419
Noncurrent assets held for sale	76,183	167,100	196,664
Total deferred charges and other assets	1,129,518	1,176,307	1,249,799
Total assets	$ 6,230,498	$ 6,351,526	$ 6,284,467
Liabilities and Stockholders' Equity			
Current liabilities:			
Long-term debt due within one year	$ 83,499	$ 58,598	$ 43,598
Accounts payable	279,211	275,791	279,962
Taxes payable	55,037	45,749	48,164
Dividends payable	37,596	36,791	37,767
Accrued compensation	52,951	56,390	65,867
Other accrued liabilities	181,030	196,701	184,377
Current liabilities held for sale	4,481	28,237	9,924
Total current liabilities	693,805	698,257	669,659
Long-term debt	1,677,977	1,928,709	1,746,561
Deferred credits and other liabilities:			
Deferred income taxes	668,239	666,601	668,226
Other	887,525	820,349	883,777
Total deferred credits and other liabilities	1,555,764	1,486,950	1,552,003
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 Shares issued - 195,843,297 at June 30, 2017 and 2016 and December 31, 2016	195,843	195,843	195,843
Other paid-in capital	1,231,892	1,230,342	1,232,478
Retained earnings	914,632	838,257	912,282
Accumulated other comprehensive loss	(35,789)	(38,206)	(35,733)
Treasury stock at cost - 538,921 shares	(3,626)	(3,626)	(3,626)
Total common stockholders' equity	2,302,952	2,222,610	2,301,244
Total stockholders' equity	2,302,952	2,237,610	2,316,244
Total liabilities and stockholders' equity	$ 6,230,498	$ 6,351,526	$ 6,284,467

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

MDU Resources Group, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Operating activities:		
Net income (loss)	$ 78,539	$ (215,974)
Loss from discontinued operations, net of tax	(1,504)	(294,138)
Income from continuing operations	80,043	78,164
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	102,983	109,132
Deferred income taxes	(5,293)	3,608
Changes in current assets and liabilities, net of acquisitions:		
Receivables	(43,478)	(44,909)
Inventories	(13,573)	(23,189)
Other current assets	(15,799)	(20,555)
Accounts payable	11,611	7,339
Other current liabilities	(6,387)	33,214
Other noncurrent changes	(4,460)	(14,626)
Net cash provided by continuing operations	105,647	128,178
Net cash provided by (used in) discontinued operations	33,846	(25,529)
Net cash provided by operating activities	139,493	102,649
Investing activities:		
Capital expenditures	(143,764)	(220,098)
Net proceeds from sale or disposition of property and other	119,361	14,778
Investments	(358)	(262)
Net cash used in continuing operations	(24,761)	(205,582)
Net cash provided by discontinued operations	2,234	28,040
Net cash used in investing activities	(22,527)	(177,542)
Financing activities:		
Issuance of long-term debt	63,827	387,625
Repayment of long-term debt	(93,275)	(196,771)
Dividends paid	(75,535)	(73,575)
Redemption of preferred stock	(15,600)	—
Repurchase of common stock	(1,684)	—
Tax withholding on stock-based compensation	(757)	(323)
Net cash provided by (used in) continuing operations	(123,024)	116,956
Net cash used in discontinued operations	—	(40,852)
Net cash provided by (used in) financing activities	(123,024)	76,104
Effect of exchange rate changes on cash and cash equivalents	(1)	3
Increase (decrease) in cash and cash equivalents	(6,059)	1,214
Cash and cash equivalents -- beginning of year	46,107	83,903
Cash and cash equivalents -- end of period	$ 40,048	$ 85,117

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

MDU Resources Group, Inc.
Notes to Consolidated
Financial Statements

June 30, 2017 and 2016
(Unaudited)

Note 1 - Basis of presentation

The accompanying consolidated interim financial statements were prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Interim financial statements do not include all disclosures provided in annual financial statements and, accordingly, these financial statements should be read in conjunction with those appearing in the 2016 Annual Report. The information is unaudited but includes all adjustments that are, in the opinion of management, necessary for a fair presentation of the accompanying consolidated interim financial statements and are of a normal recurring nature. 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 June 30, 2017 , up to the date of issuance of these consolidated interim financial statements.

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 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 8 .

Note 2 - Seasonality of operations

Some of the Company's operations are highly seasonal and revenues from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Accordingly, the interim results for particular businesses, and for the Company as a whole, may not be indicative of results for the full fiscal year.

Note 3 - Accounts receivable and allowance for doubtful accounts

Accounts receivable consist 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. The total balance of receivables past due 90 days or more was $32.7 million , $31.7 million and $29.2 million at June 30, 2017 and 2016 , and December 31, 2016 , 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 June 30, 2017 and 2016 , and December 31, 2016 , was $9.2 million , $11.0 million and $10.5 million , respectively.

Note 4 - Inventories and natural gas in storage

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

	June 30, 2017	June 30, 2016	December 31, 2016
		(In thousands)	
Aggregates held for resale	$ 123,316	$ 130,544	$ 115,471
Asphalt oil	46,852	42,591	29,103
Materials and supplies	22,657	20,765	18,372
Merchandise for resale	16,164	18,439	16,437
Natural gas in storage (current)	14,126	19,689	25,761
Other	26,755	33,821	33,129
Total	$ 249,870	$ 265,849	$ 238,273

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 , $ 49.1 million and $ 49.5 million at June 30, 2017 and 2016 , and December 31, 2016 , respectively.

Note 5 - 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 applicable period. 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 applicable period, plus the effect of outstanding performance share awards. 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 calculations was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Weighted average common shares outstanding - basic	195,304	195,304	195,304	195,294
Effect of dilutive performance share awards	669	395	689	384
Weighted average common shares outstanding - diluted	195,973	195,699	195,993	195,678
Shares excluded from the calculation of diluted earnings per share	—	—	—	—

Note 6 - New accounting standards

Recently adopted accounting standards

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 requires all deferred tax assets and liabilities to be classified as noncurrent. These amendments align GAAP with IFRS. 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 $33.9 million from current assets - deferred income taxes to deferred credits and other liabilities - deferred income taxes on its Consolidated Balance Sheet at June 30, 2016.

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. The Company adopted the guidance on January 1, 2017, on a prospective basis. The guidance did not have a material effect on the Company's results of operations, financial position, cash flows or 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 affects the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and calculation of dilutive shares. 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 adoption of the guidance impacted the Consolidated Statement of Income and the Consolidated Balance Sheet in the first quarter of 2017 due to the taxes related to the stock-based compensation award that vested in February 2017 being recognized as income tax expense as compared to a reduction to additional paid-in capital under the previous guidance. Adoption of the guidance also increased the number of shares included in the diluted earnings per share calculation due to the exclusion of tax benefits in the incremental shares calculation. The change in the weighted average common shares outstanding - diluted did not result in a material effect on the earnings per common share - diluted.

Recently issued accounting standards not yet adopted

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. In August 2015, the FASB issued guidance deferring the effective date of the revenue guidance 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.

The Company plans to adopt the guidance on January 1, 2018, and to use the modified retrospective approach. 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 guidance will require expanded disclosures, both quantitative and qualitative, related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company does not anticipate a significant change in the timing of revenue recognition and

continues to evaluate all revenue streams to determine what effect the guidance will have on its results of operations, financial position, cash flows and disclosures.

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.

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 and whether an entity has acquired or sold a business. 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 expects to adopt this guidance as required and does not expect the guidance to have a material effect on its results of operations, financial position, cash flows and disclosures.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost In March 2017, the FASB issued guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The guidance requires the service cost component to be presented in the income statement in the same line item or items as other compensation costs arising from services performed during the period. Other components of net benefit cost shall be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The guidance also only allows the service cost component to be capitalized. The guidance will be effective for the Company on January 1, 2018, including interim periods, with early adoption permitted as of the beginning of an annual period for which the financial statements have not been issued. The guidance shall be applied on a retrospective basis for the financial statement presentation and on a prospective basis for the capitalization of the service cost component. 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 lease liability and a right-of-use asset on the balance sheet for operating and financing leases with terms of more than 12 months. The guidance remains largely the same for lessors, although some changes were made to better align lessor accounting with the new lessee accounting and to align with the revenue recognition standard. The guidance also requires additional disclosures, both quantitative and qualitative, related to operating and finance leases for the lessee and sales-type, direct financing and operating leases for the lessor. 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. There continues to be industry-specific implementation issues that are unresolved and the final resolution of these issues could significantly impact the number of contracts that would be considered a lease for the Company under the new guidance. Due to the uncertainty of these issues, the Company cannot estimate the potential impact the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures. The Company is planning to adopt the standard on January 1, 2019, utilizing the practical expedient that allows the Company to not reassess whether an expired or existing contract contains a lease, the classification of leases or initial direct costs.

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.

Note 7 - Comprehensive income (loss)

The after-tax changes in the components of accumulated other comprehensive loss were as follows:

Three Months Ended June 30, 2017	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss
			(In thousands)		
Balance at beginning of period	$ (2,209)	$ (33,781)	$ (140)	$ (55)	$ (36,185)
Other comprehensive loss before reclassifications	—	—	(15)	(24)	(39)
Amounts reclassified from accumulated other comprehensive loss	92	312	—	31	435
Net current-period other comprehensive income (loss)	92	312	(15)	7	396
Balance at end of period	$ (2,117)	$ (33,469)	$ (155)	$ (48)	$ (35,789)

Three Months Ended June 30, 2016	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss
			(In thousands)		
Balance at beginning of period	$ (2,575)	$ (35,852)	$ (175)	$ 20	$ (38,582)
Other comprehensive income (loss) before reclassifications	—	—	31	(30)	1
Amounts reclassified from accumulated other comprehensive loss	91	248	—	36	375
Net current-period other comprehensive income	91	248	31	6	376
Balance at end of period	$ (2,484)	$ (35,604)	$ (144)	$ 26	$ (38,206)

Six Months Ended June 30, 2017	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss
			(In thousands)		
Balance at beginning of period	$ (2,300)	$ (33,221)	$ (149)	$ (63)	$ (35,733)
Other comprehensive loss before reclassifications	—	—	(6)	(51)	(57)
Amounts reclassified from accumulated other comprehensive loss	183	669	—	66	918
Amounts reclassified to accumulated other comprehensive loss from a regulatory asset	—	(917)	—	—	(917)
Net current-period other comprehensive income (loss)	183	(248)	(6)	15	(56)
Balance at end of period	$ (2,117)	$ (33,469)	$ (155)	$ (48)	$ (35,789)

Six Months Ended June 30, 2016		Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges		Postretirement Liability Adjustment		Foreign Currency Translation Adjustment		Net Unrealized Gain (Loss) on Available-for-sale Investments		Total Accumulated Other Comprehensive Loss
					(In thousands)					
Balance at beginning of period	$	(2,667)	$	(34,257)	$	(200)	$	(24)	$	(37,148)
Other comprehensive income (loss) before reclassifications		—		—		56		(19)		37
Amounts reclassified from accumulated other comprehensive loss		183		(1,347)		—		69		(1,095)
Net current-period other comprehensive income (loss)		183		(1,347)		56		50		(1,058)
Balance at end of period	$	(2,484)	$	(35,604)	$	(144)	$	26	$	(38,206)

Reclassifications out of accumulated other comprehensive loss were as follows:

		Three Months Ended June 30,				Six Months Ended June 30,			Location on Consolidated Statements of Income
		2017		2016		2017		2016	
				(In thousands)					
Reclassification adjustment for loss on derivative instruments included in net income (loss)	$	(148)	$	(147)	$	(295)	$	(297)	Interest expense
		56		56		112		114	Income taxes
		(92)		(91)		(183)		(183)	
Amortization of postretirement liability gains (losses) included in net periodic benefit cost (credit)		(502)		(398)		(1,075)		2,166	(a)
		190		150		406		(819)	Income taxes
		(312)		(248)		(669)		1,347	
Reclassification adjustment for loss on available-for-sale investments included in net income (loss)		(48)		(55)		(102)		(106)	Other income
		17		19		36		37	Income taxes
		(31)		(36)		(66)		(69)	
Total reclassifications	$	(435)	$	(375)	$	(918)	$	1,095	

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

Note 8 - Assets held for sale and discontinued operations

Assets held for sale

The assets and liabilities of Pronghorn were classified as held for sale in the fourth quarter of 2016. Pronghorn's results of operations for 2016 were included in the pipeline and midstream segment.

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, which generated approximately $100 million of proceeds for the Company. 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 were classified as held for sale associated with Pronghorn on the Company's Consolidated Balance Sheets were as follows:

	December 31, 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

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 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.

In connection with the sale, WBI Energy had cash in an escrow account for RINs obligations, which was included in current assets held for sale on the Consolidated Balance Sheet at June 30, 2016 . The Company retained certain liabilities of Dakota Prairie Refining which were reflected in current liabilities held for sale on the Consolidated Balance Sheets. 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 from the guarantee. For more information related to the guarantee, see Note 16 .

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 were as follows:

	June 30, 2017	June 30, 2016	December 31, 2016
		(In thousands)	
Assets			
Current assets:			
Receivables, net	$ —	$ 433	$ —
Income taxes receivable	5,552 (a)	12,550	13,987
Prepayments and other current assets	—	11,083	—
Total current assets held for sale	5,552	24,066	13,987
Noncurrent assets:			
Deferred income taxes	—	57,644	—
Total noncurrent assets held for sale	—	57,644	—
Total assets held for sale	$ 5,552	$ 81,710	$ 13,987
Liabilities			
Current liabilities:			
Accounts payable	$ —	$ 7,170	$ 7,425
Other accrued liabilities	—	8,303	—
Total current liabilities held for sale	—	15,473	7,425
Noncurrent liabilities:			
Deferred income taxes (b)	55	—	14
Total noncurrent liabilities held for sale	55	—	14
Total liabilities held for sale	$ 55	$ 15,473	$ 7,439

(a) On the Company's Consolidated Balance Sheets, this amount was reclassified to income taxes payable and is reflected in current liabilities held for sale.
(b) 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.

In the first quarter of 2017, the Company recorded a reversal of a previously accrued liability of $7.0 million ($4.3 million after tax) due to the resolution of a legal matter. At June 30, 2017 , Dakota Prairie Refining had not incurred any material exit and disposal costs, and does not expect to incur any material exit and disposal costs.

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 has been categorized as Level 3 in the fair value hierarchy.

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 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 were as follows:

	June 30, 2017	June 30, 2016	December 31, 2016
		(In thousands)	
Assets			
Current assets:			
Receivables, net	$ 328	$ 8,207	$ 355
Income taxes receivable	—	5,348	—
Prepayments and other current assets	—	4	—
Total current assets held for sale	328	13,559	355
Noncurrent assets:			
Net property, plant and equipment	2,064	5,507	5,507
Deferred income taxes	74,013	104,726	91,098
Other	161	161	161
Less allowance for impairment of assets held for sale	—	938	938
Total noncurrent assets held for sale	76,238	109,456	95,828
Total assets held for sale	$ 76,566	$ 123,015	$ 96,183
Liabilities			
Current liabilities:			
Accounts payable	$ 138	$ 456	$ 141
Taxes payable	7,171	—	19 (a)
Accrued compensation	—	1,459	—
Other accrued liabilities	2,724	10,849	2,358
Total current liabilities held for sale	10,033	12,764	2,518
Total liabilities held for sale	$ 10,033	$ 12,764	$ 2,518

(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.

The Company reclassified current income tax assets of $47.5 million and current income tax liabilities of $4.1 million to noncurrent assets - deferred income taxes at June 30, 2016, pursuant to the retrospective application of the adoption of the ASU related to the balance sheet classification of deferred taxes. For more information on this ASU, see Note 6 .

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. The impairment and impairment reversal 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. 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 $3.8 million and $5.6 million of exit and disposal costs for the three and six months ended
June 30, 2016 , respectively, and has incurred $10.5 million of exit and disposal costs to date. Fidelity incurred no exit and disposal costs for the three and six months ended June 30, 2017 , and 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 in 2016. The Company incurred lease payments of approximately $400,000 and $900,000 for the three and six months ended June 30, 2016 , respectively. A lease termination payment of $3.2 million was made during the second quarter of 2016. Existing office furniture and fixtures were relinquished to the lessor in the second quarter of 2016.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
		(In thousands)		
Operating revenues	$ 130	$ 74,756	$ 235	$ 122,732
Operating expenses	1,205	443,756	(5,372)	513,526
Operating income (loss)	(1,075)	(369,000)	5,607	(390,794)
Other income (expense)	3	183	(13)	387
Interest expense	239	832	239	1,753
Income (loss) from discontinued operations before income taxes	(1,311)	(369,649)	5,355	(392,160)
Income taxes	1,879	(93,547)	6,859	(98,022)
Loss from discontinued operations	(3,190)	(276,102)	(1,504)	(294,138)
Loss from discontinued operations attributable to noncontrolling interest	—	(120,651)	—	(131,691)
Loss from discontinued operations attributable to the Company	$ (3,190)	$ (155,451)	$ (1,504)	$ (162,447)

The pretax income (loss) from discontinued operations attributable to the Company, related to the operations of and activity associated with Dakota Prairie Refining, were $0 and $(244.0) million for the three months ended and $6.9 million and $(253.9) million for the six months ended June 30, 2017 and 2016 , respectively.

Note 9 - Goodwill and other intangible assets

The changes in the carrying amount of goodwill were as follows:

Six Months Ended June 30, 2017	Balance at January 1, 2017	Goodwill Acquired During the Year	Balance at June 30, 2017
		(In thousands)	
Natural gas distribution	$ 345,736	$ —	$ 345,736
Construction materials and contracting	176,290	—	176,290
Construction services	109,765	—	109,765
Total	$ 631,791	$ —	$ 631,791

Six Months Ended June 30, 2016	Balance at January 1, 2016 *	Goodwill Acquired During the Year	Balance at June 30, 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	6,323	109,764
Total	$ 635,204	$ 6,323	$ 641,527

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

Year Ended December 31, 2016	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.

Other amortizable intangible assets were as follows:

	June 30, 2017	June 30, 2016	December 31, 2016
		(In thousands)	
Customer relationships	$ 15,745	$ 17,145	$ 17,145
Less accumulated amortization	13,302	13,108	13,917
	2,443	4,037	3,228
Noncompete agreements	2,430	2,430	2,430
Less accumulated amortization	1,732	1,585	1,658
	698	845	772
Other	7,086	7,764	7,768
Less accumulated amortization	5,442	5,486	5,843
	1,644	2,278	1,925
Total	$ 4,785	$ 7,160	$ 5,925

Amortization expense for amortizable intangible assets for the three and six months ended June 30, 2017 , was $600,000 and $1.2 million , respectively. Amortization expense for amortizable intangible assets for the three and six months ended June 30, 2016, was $600,000 and $1.3 million , respectively. Estimated amortization expense for amortizable 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 10 - 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 $73.1 million , $71.4 million and $70.9 million , at June 30, 2017 and 2016 , and December 31, 2016 , respectively, are classified as investments on the Consolidated Balance Sheets. The net unrealized gains on these investments were $2.1 million and $5.0 million for the three and six months ended June 30, 2017 . The net unrealized gains on these investments were $2.3 million and $3.9 million for the three and six months ended June 30, 2016 . 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:

June 30, 2017	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Mortgage-backed securities	$ 9,743	$ 13	$ (86)	$ 9,670
U.S. Treasury securities	613	—	—	613
Total	$ 10,356	$ 13	$ (86)	$ 10,283

June 30, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Mortgage-backed securities	$ 10,420	$ 52	$ (12)	$ 10,460
Total	$ 10,420	$ 52	$ (12)	$ 10,460

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

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 quarter, 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 six months ended June 30, 2017 and 2016 , there were no transfers between Levels 1 and 2.

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

	Fair Value Measurements at June 30, 2017, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
		(In thousands)		
Assets:				
Money market funds	$ —	$ 5,882	$ —	$ 5,882
Insurance contract*	—	73,126	—	73,126
Available-for-sale securities:				
Mortgage-backed securities	—	9,670	—	9,670
U.S. Treasury securities	—	613	—	613
Total assets measured at fair value	$ —	$ 89,291	$ —	$ 89,291

* The insurance contract invests approximately 50 percent in fixed-income investments, 23 percent in common stock of large-cap companies, 13 percent in common stock of mid-cap companies, 11 percent in common stock of small-cap companies, 2 percent in target date investments and 1 percent in cash equivalents.

	Fair Value Measurements at June 30, 2016, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
		(In thousands)		
Assets:				
Money market funds	$ —	$ 1,525	$ —	$ 1,525
Insurance contract*	—	71,355	—	71,355
Available-for-sale securities:				
Mortgage-backed securities	—	10,460	—	10,460
Total assets measured at fair value	$ —	$ 83,340	$ —	$ 83,340

* The insurance contract invests approximately 66 percent in fixed-income investments, 17 percent in common stock of large-cap companies, 9 percent in common stock of mid-cap companies, 6 percent in common stock of small-cap companies, 1 percent in target date investments and 1 percent in cash equivalents.

	Fair Value Measurements at December 31, 2016, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
	(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.

For information about fair value assessments of assets and liabilities classified as held for sale, see Note 8 .

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 was as follows:

	Carrying Amount	Fair Value
	(In thousands)	
Long-term debt at June 30, 2017	$ 1,761,476	$ 1,864,884
Long-term debt at June 30, 2016	$ 1,987,307	$ 2,134,708
Long-term debt at December 31, 2016	$ 1,790,159	$ 1,841,885

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

Note 11 - Equity

A summary of the changes in equity was as follows:

Six Months Ended June 30, 2017	Total Equity
	(In thousands)
Balance at December 31, 2016	$ 2,316,244
Net income	78,539
Other comprehensive loss	(56)
Dividends declared on preferred stocks	(171)
Dividends declared on common stock	(75,192)
Stock-based compensation	1,629
Repurchase of common stock	(1,684)
Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings	(757)
Redemption of preferred stock	(15,600)
Balance at June 30, 2017	$ 2,302,952

Effective April 1, 2017, all outstanding preferred stock, including $300,000 of redeemable preferred stock classified as long-term debt, was redeemed for a repurchase price of approximately $15.9 million .

Six Months Ended June 30, 2016	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
		(In thousands)	
Balance at December 31, 2015	$ 2,396,505	$ 124,043	$ 2,520,548
Net loss	(84,283)	(131,691)	(215,974)
Other comprehensive loss	(1,058)	—	(1,058)
Dividends declared on preferred stocks	(343)	—	(343)
Dividends declared on common stock	(73,239)	—	(73,239)
Stock-based compensation	2,015	—	2,015
Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings	(323)	—	(323)
Net tax deficit on stock-based compensation	(1,664)	—	(1,664)
Contribution from noncontrolling interest	—	7,648	7,648
Balance at June 30, 2016	$ 2,237,610	$ —	$ 2,237,610

Note 12 - Cash flow information

Cash expenditures for interest and income taxes were as follows:

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Interest, net of amount capitalized and AFUDC - borrowed of $418 and $548 in 2017 and 2016, respectively	$ 39,207	$ 44,860
Income taxes paid, net*	$ 32,388	$ 29,891

* Income taxes refunded, net of discontinued operations, were $ (3.6) million and $ (500,000) for the six months ended June 30, 2017 and 2016, respectively.

Noncash investing transactions were as follows:

	June 30,	
	2017	2016
	(In thousands)	
Property, plant and equipment additions in accounts payable	$ 10,449	$ 18,449

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 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. For information on the Company's natural gas and oil gathering and processing facility sold on January 1, 2017, see Note 8 .

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, pollution liability and other 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 Brazil.

Discontinued operations includes the results and supporting activities 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. For more information on discontinued operations, see Note 8 .

The information below follows the same accounting policies as described in Note 1 of the Company's Notes to Consolidated Financial Statements in the 2016 Annual Report. Information on the Company's businesses was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
External operating revenues:				
Regulated operations:				
Electric	$ 74,574	$ 73,832	$ 162,799	$ 156,755
Natural gas distribution	131,592	112,770	474,111	412,165
Pipeline and midstream	19,319	19,450	22,190	22,998
	225,485	206,052	659,100	591,918
Nonregulated operations:				
Pipeline and midstream	4,520	10,268	8,163	18,966
Construction materials and contracting	501,426	541,257	702,203	751,108
Construction services	336,009	285,924	635,580	541,424
Other	199	447	519	747
	842,154	837,896	1,346,465	1,312,245
Total external operating revenues	$ 1,067,639	$ 1,043,948	$ 2,005,565	$ 1,904,163
Intersegment operating revenues:				
Regulated operations:				
Electric	$ —	$ —	$ —	$ —
Natural gas distribution	—	—	—	—
Pipeline and midstream	6,353	6,594	27,841	27,691
	6,353	6,594	27,841	27,691
Nonregulated operations:				
Pipeline and midstream	59	36	93	119
Construction materials and contracting	172	97	258	215
Construction services	295	77	301	539
Other	1,758	1,669	3,501	3,338
	2,284	1,879	4,153	4,211
Intersegment eliminations	(8,637)	(8,473)	(31,994)	(31,902)
Total intersegment operating revenues	$ —	$ —	$ —	$ —

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Earnings (loss) on common stock:				
Regulated operations:				
Electric	$ 7,859	$ 8,022	$ 22,191	$ 19,141
Natural gas distribution	(2,797)	(7,777)	25,064	17,464
Pipeline and midstream	5,492	5,564	10,048	10,852
	10,554	5,809	57,303	47,457
Nonregulated operations:				
Pipeline and midstream	(238)	737	(865)	739
Construction materials and contracting	21,168	33,696	1,255	19,225
Construction services	12,391	6,990	19,753	12,964
Other	(2,163)	(1,105)	(2,440)	(2,564)
	31,158	40,318	17,703	30,364
Intersegment eliminations*	2,093	—	4,266	—
Earnings on common stock before loss from discontinued operations	43,805	46,127	79,272	77,821
Loss from discontinued operations, net of tax*	(3,190)	(276,102)	(1,504)	(294,138)
Loss from discontinued operations attributable to noncontrolling interest	—	(120,651)	—	(131,691)
Total earnings (loss) on common stock	$ 40,615	$ (109,324)	$ 77,768	$ (84,626)

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

Note 14 - Employee benefit plans

Pension and other postretirement plans

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. Components of net periodic benefit cost (credit) for the Company's pension and other postretirement benefit plans were as follows:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended June 30,	2017	2016	2017	2016
	(In thousands)			
Components of net periodic benefit cost (credit):				
Service cost	$ —	$ —	$ 306	$ 374
Interest cost	4,089	4,220	825	895
Expected return on assets	(5,234)	(5,182)	(1,175)	(1,118)
Amortization of prior service credit	—	—	(343)	(343)
Amortization of net actuarial loss	1,385	1,514	100	299
Net periodic benefit cost (credit), including amount capitalized	240	552	(287)	107
Less amount capitalized	73	121	(114)	4
Net periodic benefit cost (credit)	$ 167	$ 431	$ (173)	$ 103

Six Months Ended June 30,	Pension Benefits 2017	Pension Benefits 2016	Other Postretirement Benefits 2017	Other Postretirement Benefits 2016
	(In thousands)			
Components of net periodic benefit cost (credit):				
Service cost	$ —	$ —	$ 753	$ 824
Interest cost	8,103	8,610	1,633	1,844
Expected return on assets	(10,263)	(10,462)	(2,320)	(2,267)
Amortization of prior service credit	—	—	(686)	(686)
Amortization of net actuarial loss	3,178	3,107	436	747
Net periodic benefit cost (credit), including amount capitalized	1,018	1,255	(184)	462
Less amount capitalized	180	202	(153)	38
Net periodic benefit cost (credit)	$ 838	$ 1,053	$ (31)	$ 424

Nonqualified benefit plans

In addition to the qualified plan defined pension benefits reflected in the table, 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 for the three and six months ended June 30, 2017 , was $1.1 million and $2.3 million , respectively. The Company's net periodic benefit cost for these plans for the three months ended June 30, 2016 , was $1.2 million . The Company's net periodic benefit credit for these plans for the six months ended June 30, 2016, was $700,000 , which reflects a curtailment gain of $3.3 million in the first quarter of 2016.

Note 15 - Regulatory matters

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. On April 6, 2017, the WYPSC issued a final order approving the stipulation and agreement with rates effective with service rendered on and after March 1, 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 January 17, 2017, Intermountain provided the IPUC with an updated revenue request of approximately $9.4 million . On April 28, 2017, the IPUC issued an order approving an increase of approximately $4.1 million or approximately 1.6 percent above current rates based on a 9.5 percent return on equity effective with service rendered on and after May 1, 2017. On May 18, 2017, Intermountain filed a petition for reconsideration with the IPUC requesting the reconsideration of certain items denied in the April 28 order. On June 15, 2017, the IPUC granted the request for reconsideration. The IPUC has 13 weeks to complete the reconsideration and until the middle of September 2017 to issue a final order of reconsideration.

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 natural 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. On May 30, 2017, the MTPSC granted Montana-Dakota's motion for reconsideration allowing the full amount of electric taxes covered in the stipulated tariffs to be recovered. The additional revenues of approximately $88,000 will be included in a true-up to be effective in 2018.

On December 21, 2016, Great Plains filed an application with the MNPUC requesting authority to implement a natural 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.

On April 1, 2017, Montana-Dakota implemented Phase 2 of the electric rate case approved by the MTPSC on March 25, 2016. The annual increase of $4.7 million is effective with service rendered on and after April 1, 2017.

On May 31, 2017, Cascade filed an application with the WUTC for an annual pipeline replacement cost recovery mechanism of approximately $1.6 million or approximately .75 percent of additional revenue. The requested increase includes incremental pipeline replacement investments associated with qualifying pipeline integrity projects. If approved, rates will be effective November 1, 2017. This matter is pending before the WUTC.

On June 30, 2017, Montana-Dakota filed an application for advance determination of prudence and a certificate of public convenience and necessity with the NDPSC to purchase an expansion of the Thunder Spirit Wind farm. The advance determination of prudence would provide Montana-Dakota with assurance that the project is prudent and in the best interest of the public and assists in the recovery of Montana-Dakota's investment upon completion of the project. The expansion is expected to serve customers by the end of 2018 and is estimated to cost approximately $85 million .

On July 21, 2017, Montana-Dakota filed an application with the NDPSC for a natural gas rate increase of approximately $5.9 million annually or approximately 5.4 percent above current rates. The requested increase is primarily to recover the increased investment in distribution facilities to enhance system safety and reliability and the depreciation and taxes associated with the increase in investment. Montana-Dakota is also introducing a System Safety Integrity Program and the proposed adjustment mechanism required to fund the System Safety Integrity Program. Montana-Dakota has requested an interim increase of approximately $4.6 million or approximately 4.2 percent , subject to refund. This matter is pending before the NDPSC.

On July 31, 2017, Cascade filed an application with the WUTC for a natural gas rate increase of approximately $5.9 million annually or approximately 2.7 percent above current rates. The requested increase includes costs associated with increased infrastructure investment and the associated operating expenses. Also included in the request is recovery of operation and maintenance costs associated with a maximum allowable operating pressure validation plan. This matter is pending before the WUTC.

Montana-Dakota previously filed an application with the NDPSC on October 14, 2016, for an electric rate increase which also included a requested return on equity to be used in the determination of applications previously filed by Montana-Dakota for a renewable resource cost adjustment rider, an electric generation resource recovery rider, and a transmission cost adjustment rider, as discussed in the following paragraphs. On April 7, 2017, Montana-Dakota, the NDPSC Advocacy Staff and the interveners in the case filed a settlement agreement resolving all issues in the general rate case. The settlement agreement included a net increase of approximately $7.5 million or 3.7 percent above previously approved final rates and a true-up of the return on equity used in the interim renewable resource cost adjustment, the electric generation resource recovery and transmission cost adjustment riders of 9.45 percent; a return on equity of 9.65 percent for base rates and the renewable resource cost adjustment rider on a go-forward basis; and a return on equity of 9.45 percent through December 31, 2019, for the natural gas-fired internal combustion engines and associated facilities included in the electric generation resource recovery rider. A hearing on the settlement agreement was held on April 10, 2017. On June 16, 2017, the NDPSC approved the settlement agreement. On June 26, 2017, Montana-Dakota submitted a compliance filing and on July 14, 2017, submitted updated tariff sheets and a refund plan. The NDPSC approved the compliance filing and refund plan on July 26, 2017, with final rates effective with service rendered on or after August 7, 2017. The final rates are less than the interim rates currently in effect. Therefore, Montana-Dakota will refund the difference to customers, which is approximately 19 percent of the amount collected from the general rate case interim increase, along with refunds to reflect true-ups for the various riders, as applicable. The background information related to the settlement agreement and related applications are discussed in the following paragraphs.

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 to be finalized upon approval of the electric rate case filed on October 14, 2016. The electric rate case settlement agreement filed on April 7, 2017, included a revised return on equity for the rider. The settlement agreement was approved on June 16, 2017, as previously 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 to be finalized upon the approval of the electric rate case filed on October 14, 2016. 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 electric rate case settlement agreement filed on April 7, 2017, included the net investment authorized for the natural gas-fired internal combustion engines and the return on equity on both investments. The settlement agreement was approved on June 16, 2017, as previously 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 to be finalized upon approval of the electric rate case filed on October 14, 2016. The electric rate case settlement agreement filed on April 7, 2017,

included a revised return on equity for the rider. The settlement agreement was approved on June 16, 2017, as previously discussed in this note.

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 and on November 30, 2016, the NDPSC approved 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, effective with service rendered on or after December 13, 2016. A settlement agreement was filed on April 7, 2017, and subsequently approved on June 16, 2017, as previously discussed in this note.

Note 16 - Contingencies

The Company is party to claims and lawsuits arising out of its business and that of its consolidated subsidiaries, which may include, but are not limited to, matters involving property damage, personal injury, and environmental, contractual, statutory and regulatory obligations. 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. Accruals are based on the best information available, but in certain situations management is unable to estimate an amount or range of a reasonably possible loss including, but not limited to when: (1) the damages are unsubstantiated or indeterminate, (2) the proceedings are in the early stages, (3) numerous parties are involved, or (4) the matter involves novel or unsettled legal theories. The Company had accrued liabilities of $33.7 million , $27.4 million and $31.8 million , which have not been discounted, including liabilities held for sale, for contingencies, including litigation, production taxes, royalty claims and environmental matters at June 30, 2017 and 2016 , and December 31, 2016 , respectively, including amounts that may have been accrued for matters discussed in Litigation and Environmental matters within this note. The Company will continue to monitor each matter and adjust accruals as might be warranted based on new information and further developments. Management believes that the outcomes with respect to probable and reasonably possible losses in excess of the amounts accrued, net of insurance recoveries, while uncertain, either can't be estimated or will not have a material effect upon the Company's financial position, results of operations or cash flows. Unless otherwise required by GAAP, legal costs are expensed as they are incurred.

Litigation

Construction Services Capital Electric provided employees in 2012 to perform work for a contractor on a project in Kansas. One of the Capital Electric employees was injured while working on the project and brought a lawsuit against the contractor. Judgment was entered in favor of the employee and his spouse on November 3, 2016, in the amount of $44.8 million following a court determination that the employee's injuries were caused by the contractor's negligence. The contractor claims that Capital Electric was contractually required, but failed, to name the contractor as an additional insured under any liability policy in effect at the time of the project and that such failure resulted in the entry of judgment against the contractor. In March 2017, Capital Electric filed a petition for declaratory judgment in the District Court of Wyandotte County, Kansas for a judicial determination that any agreement between Capital Electric and the contractor for the project did not require Capital Electric to include the contractor as an additional insured under any liability policy issued to Capital Electric and that if such an agreement was found to exist, it would be void and unenforceable under Kansas law. No accrual has been recorded for this matter.

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. The Oregon DEQ released a ROD in January 2015 that selected a remediation alternative for the site as recommended in an earlier staff report. The total estimated cost for the selected remediation, including long term maintenance, is approximately $3.5 million of which $320,000 has been incurred. It is not known at this time what share of the cleanup costs will actually be borne by Cascade; however, Cascade has paid 50 percent of the ongoing investigation and design costs and anticipates its proportional share of the final costs could be approximately 50 percent. Cascade has an accrual balance of $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. Current estimates for the cost to complete the remedial investigation and feasibility study are approximately $7.6 million of which $200,000 has been incurred. Cascade has accrued $7.4 million for the remedial investigation and feasibility study as well as $6.4 million for remediation of this site; however, the accrual for remediation costs will be reviewed and adjusted, if necessary, after completion of the remedial investigation and feasibility study. 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 not recorded an accrual for this site.

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 intends to 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.

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 $58.5 million at June 30, 2017 , 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 assets. The guarantee was required by the buyer as a condition to the sale of the Paradox Basin assets.

In 2009, multiple sale agreements were signed to sell the Company's ownership interests in the Brazilian Transmission Lines. In connection with the sale, Centennial 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.

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 June 30, 2017 , the fixed maximum amounts guaranteed under these agreements aggregated $106.2 million . The amounts of scheduled expiration of the maximum amounts guaranteed under these agreements aggregate $6.6 million in 2017 ; $24.8 million in 2018 ; $20.2 million in 2019 ; $47.4 million in 2020 ; $500,000 in 2021 ; $2.7 million thereafter; and $4.0 million , which has no scheduled maturity date. There were no amounts outstanding under the above guarantees at June 30, 2017 . 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 June 30, 2017 , the fixed maximum amounts guaranteed under these letters of credit aggregated $33.8 million . The amounts of scheduled expiration of the maximum amounts guaranteed under these letters of credit aggregate $33.1 million in 2017 and $700,000 in 2018. There were no amounts outstanding under the above letters of credit at June 30, 2017 . 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 or 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 June 30, 2017 .

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. At June 30, 2017 , approximately $765.5 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.

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 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 electric 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 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 June 30, 2017 , 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 $42.1 million .

Item 2. 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 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 Ongoing 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.

Additional Information

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 Part II, Item 1A - Risk Factors, as well as Part I, Item 1A - Risk Factors in the 2016 Annual Report. For more information on key growth strategies, projections and certain assumptions, see Prospective Information. For information pertinent to various commitments and contingencies, see Notes to Consolidated Financial Statements.

Earnings Overview

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions, except per share amounts)			
Electric	$ 7.8	$ 8.0	$ 22.2	$ 19.2
Natural gas distribution	(2.8)	(7.8)	25.1	17.5
Pipeline and midstream	5.3	6.3	9.2	11.6
Construction materials and contracting	21.2	33.7	1.3	19.2
Construction services	12.4	7.0	19.7	13.0
Other	(2.2)	(1.1)	(2.5)	(2.6)
Intersegment eliminations	2.1	—	4.3	—
Earnings before discontinued operations	43.8	46.1	79.3	77.9
Loss from discontinued operations, net of tax	(3.2)	(276.1)	(1.5)	(294.2)
Loss from discontinued operations attributable to noncontrolling interest	—	(120.7)	—	(131.7)
Earnings (loss) on common stock	$ 40.6	$ (109.3)	$ 77.8	$ (84.6)
Earnings (loss) per common share – basic:				
Earnings before discontinued operations	$ .22	$ .24	$ .41	$ .40
Discontinued operations attributable to the Company, net of tax	(.01)	(.80)	(.01)	(.83)
Earnings (loss) per common share – basic	$ .21	$ (.56)	$ .40	$ (.43)
Earnings (loss) per common share – diluted:				
Earnings before discontinued operations	$ .22	$ .24	$ .40	$ .40
Discontinued operations attributable to the Company, net of tax	(.01)	(.80)	—	(.83)
Earnings (loss) per common share – diluted	$ .21	$ (.56)	$ .40	$ (.43)

Three Months Ended June 30, 2017 and 2016 The Company recognized consolidated earnings of $40.6 million for the quarter ended June 30, 2017 , compared to a consolidated loss of $109.3 million from the comparable prior period largely due to:

- Discontinued operations which reflects the absence in 2017 of a loss associated with the sale of the refining business, which was sold in June 2016
- Higher inside workloads and margins at the construction services business
- Higher natural gas retail sales volumes at the natural gas distribution business

These increases were partially offset by lower asphalt product volumes and margins and lower construction margins at the construction materials and contracting business.

Six Months Ended June 30, 2017 and 2016 The Company recognized consolidated earnings of $77.8 million for the six months ended June 30, 2017 , compared to a consolidated loss of $84.6 million from the comparable prior period largely due to:

- Discontinued operations which reflects the absence in 2017 of a loss associated with the sale of the refining business, which was sold in June 2016
- Higher inside workloads and margins at the construction services business

- Higher natural gas retail sales volumes at the natural gas distribution business

These increases were partially offset by:

- Lower asphalt product volumes and margins and lower construction margins at the construction materials and contracting business
- Lower earnings due to the sale of Pronghorn in January 2017 at the pipeline and midstream business

Financial and Operating Data

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

Electric

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions, where applicable)			
Operating revenues	$ 74.6	$ 73.8	$ 162.8	$ 156.8
Operating expenses:				
Electric fuel and purchased power	16.8	15.9	38.6	37.9
Operation and maintenance	28.9	28.8	57.0	55.8
Depreciation, depletion and amortization	11.4	12.4	23.4	25.3
Taxes, other than income	3.9	3.3	7.4	6.6
	61.0	60.4	126.4	125.6
Operating income	13.6	13.4	36.4	31.2
Earnings	$ 7.8	$ 8.0	$ 22.2	$ 19.2
Retail sales (million kWh):				
Residential	225.7	235.5	581.5	559.1
Commercial	348.0	342.6	744.9	716.3
Industrial	120.4	132.2	262.3	275.9
Other	24.8	21.8	47.2	43.2
	718.9	732.1	1,635.9	1,594.5
Average cost of electric fuel and purchased power per kWh	$ .021	$ .020	$ .022	$ .022

Three Months Ended June 30, 2017 and 2016 Electric earnings decreased $200,000 (2 percent) compared to the comparable prior period largely due to:

- Higher taxes, other than income of $400,000 (after tax) due to higher property taxes in certain jurisdictions
- Lower retail sales margins due to lower retail sales volumes of 2 percent, primarily to industrial and residential customers, largely offset by the recovery of additional investment in a MISO project and approved final and interim rate increases offset in part by a true-up of interim rates to reflect the approved settlement of the North Dakota electric case in June 2017

Partially offsetting these decreases was lower depreciation, depletion and amortization expense due to lower depreciation rates implemented in conjunction with regulatory recovery activity.

Six Months Ended June 30, 2017 and 2016 Electric earnings increased $3.0 million (16 percent) compared to the comparable prior period due to:

- Higher retail sales margins, largely due to the recovery of additional investment in a MISO project, approved final and interim rate increases and increased retail sales volumes of 3 percent, primarily to commercial and residential customers
- Lower depreciation, depletion and amortization expense of $1.2 million (after tax) due to lower depreciation rates implemented in conjunction with regulatory recovery activity

Partially offsetting these increases were:

- Higher operation and maintenance expense, which includes $700,000 (after tax) due to higher payroll-related costs and timing of software maintenance costs
- Higher taxes, other than income, which includes $400,000 (after tax) due to higher property taxes in certain jurisdictions

Natural Gas Distribution

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions, where applicable)			
Operating revenues	$ 131.6	$ 112.8	$ 474.1	$ 412.2
Operating expenses:				
Purchased natural gas sold	64.1	54.0	278.5	236.1
Operation and maintenance	38.8	38.3	79.7	77.1
Depreciation, depletion and amortization	17.2	16.6	34.2	32.9
Taxes, other than income	10.4	9.6	29.1	26.4
	130.5	118.5	421.5	372.5
Operating income (loss)	1.1	(5.7)	52.6	39.7
Earnings (loss)	$ (2.8)	$ (7.8)	$ 25.1	$ 17.5
Volumes (MMdk)				
Sales:				
Residential	8.3	6.9	36.5	30.3
Commercial	6.0	5.1	25.1	20.7
Industrial	1.0	.9	2.5	2.2
	15.3	12.9	64.1	53.2
Transportation:				
Commercial	.4	.4	1.1	.9
Industrial	28.2	30.1	66.2	70.9
	28.6	30.5	67.3	71.8
Total throughput	43.9	43.4	131.4	125.0
Degree days (% of normal)*				
Montana-Dakota/Great Plains	96%	96%	97%	83%
Cascade	91%	56%	111%	80%
Intermountain	116%	81%	111%	92%
Average cost of natural gas, including transportation, per dk	$ 4.17	$ 4.18	$ 4.35	$ 4.44

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

Three Months Ended June 30, 2017 and 2016 Natural gas distribution experienced a seasonal loss of $2.8 million compared to a seasonal loss of $7.8 million a year ago (64 percent improvement). The improvement was the result of:

- Higher natural gas retail sales margins resulting from higher retail sales volumes of 19 percent to all customer classes, primarily colder weather in all regions and customer growth, as well as approved rate recovery; offset in part by decoupling and weather normalization in certain jurisdictions
- Higher natural gas transportation margins resulting from higher average rates due to customer mix, partially offset by a decrease in volumes of 6 percent

Partially offsetting these increases was higher depreciation, depletion and amortization expense of $400,000 (after tax) due to increased property, plant and equipment balances.

Six Months Ended June 30, 2017 and 2016 Natural gas distribution earnings increased $7.6 million (44 percent) compared to the comparable prior period due to:

- Higher natural gas retail sales margins resulting from higher retail sales volumes of 21 percent to all customer classes, primarily colder weather in all regions and customer growth, as well as approved rate recovery; offset in part by decoupling and weather normalization in certain jurisdictions
- Higher natural gas transportation margins resulting from higher average rates due to customer mix, partially offset by a decrease in volumes of 6 percent

Partially offsetting these increases were:

- Higher operation and maintenance expense of $1.5 million (after tax) primarily due to higher payroll-related costs and timing of software maintenance costs

- Higher depreciation, depletion and amortization expense of $800,000 (after tax) due to increased property, plant and equipment balances

Pipeline and Midstream

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Operating revenues	$ 30.2	$ 36.3	$ 58.3	$ 69.7
Operating expenses:				
Operation and maintenance	13.7	15.1	27.2	29.0
Depreciation, depletion and amortization	4.1	6.1	8.2	12.4
Taxes, other than income	3.1	3.1	6.1	5.8
	20.9	24.3	41.5	47.2
Operating income	9.3	12.0	16.8	22.5
Earnings	$ 5.3	$ 6.3	$ 9.2	$ 11.6
Transportation volumes (MMdk)	79.4	74.1	146.5	149.4
Natural gas gathering volumes (MMdk)	4.1	5.0	8.0	9.9
Customer natural gas storage balance (MMdk):				
Beginning of period	15.0	14.5	26.4	16.6
Net injection (withdrawal)	10.1	13.6	(1.3)	11.5
End of period	25.1	28.1	25.1	28.1

Three Months Ended June 30, 2017 and 2016 Pipeline and midstream earnings decreased $1.0 million (17 percent) compared to the comparable prior period, primarily the result of lower gathering and processing revenues of $3.5 million (after tax), largely due to lower volumes resulting from the sale of Pronghorn in January 2017.

Partially offsetting the decrease were:

- Lower depreciation, depletion and amortization expense of $1.3 million (after tax), primarily the absence of Pronghorn
- Lower operation and maintenance expense primarily due to the absence of Pronghorn
- Lower interest expense of $500,000 (after tax) due to lower debt balances

Six Months Ended June 30, 2017 and 2016 Pipeline and midstream earnings decreased $2.4 million (21 percent) compared to the comparable prior period, primarily the result of lower gathering and processing revenues of $6.7 million (after tax), largely due to lower volumes resulting from the sale of Pronghorn, as well as lower gathering rates in certain operating areas.

Partially offsetting the decrease were:

- Lower depreciation, depletion and amortization expense of $2.6 million (after tax), primarily the absence of Pronghorn
- Lower operation and maintenance expense primarily due to the absence of Pronghorn
- Lower interest expense of $1.0 million (after tax) due to lower debt balances

Construction Materials and Contracting

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Operating revenues	$ 501.6	$ 541.4	$ 702.5	$ 751.3
Operating expenses:				
Operation and maintenance	437.2	456.6	643.1	661.2
Depreciation, depletion and amortization	14.4	14.8	28.1	29.9
Taxes, other than income	12.0	11.9	20.9	21.4
	463.6	483.3	692.1	712.5
Operating income	38.0	58.1	10.4	38.8
Earnings	$ 21.2	$ 33.7	$ 1.3	$ 19.2
Sales (000's):				
Aggregates (tons)	7,374	7,659	10,879	11,285
Asphalt (tons)	1,830	2,213	2,045	2,452
Ready-mixed concrete (cubic yards)	1,037	1,050	1,599	1,694

Three Months Ended June 30, 2017 and 2016 Construction materials and contracting earnings decreased $12.5 million (37 percent) compared to the comparable prior period due to:

- Lower asphalt product volumes and margins primarily due to weather-related delays, increased competition in certain regions and increasing material costs
- Lower construction margins of $4.1 million (after tax) primarily due to lower revenues resulting from poor weather conditions that caused a delay in the start of projects
- Lower aggregate margins of $1.0 million (after tax) primarily due to lower sales volumes, which reflects the effects of large projects in 2016 and weather-related delays; partially offset by strong commercial and residential demand in certain regions and lower production costs

Six Months Ended June 30, 2017 and 2016 Construction materials and contracting earnings decreased $17.9 million (93 percent) compared to the comparable prior period due to:

- Lower asphalt product volumes and margins primarily due to the effects of large projects in 2016, weather-related delays and increased competition in certain regions
- Lower construction margins of $7.4 million (after tax) primarily due to lower revenues resulting from poor weather conditions, as previously discussed, project timing and increased competition
- Lower ready-mixed concrete margins of $2.2 million (after tax) due to lower volumes primarily resulting from poor weather conditions

Construction Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Operating revenues	$ 336.3	$ 286.0	$ 635.9	$ 542.0
Operating expenses:				
Operation and maintenance	300.1	260.7	569.7	494.3
Depreciation, depletion and amortization	4.0	3.8	8.0	7.6
Taxes, other than income	11.5	9.7	24.8	20.4
	315.6	274.2	602.5	522.3
Operating income	20.7	11.8	33.4	19.7
Earnings	$ 12.4	$ 7.0	$ 19.7	$ 13.0

Three Months Ended June 30, 2017 and 2016 Construction services earnings increased $5.4 million (77 percent) compared to the comparable prior period due to:

- Higher earnings of $5.5 million (after tax) resulting from higher inside workloads and margins largely due to an increase in the number and size of projects that moved into full construction during the quarter
- Higher earnings resulting from higher outside margins due to successful execution of labor performance on projects

Partially offsetting these increases was higher selling, general and administrative expense of $1.2 million (after tax), primarily higher payroll-related costs.

Six Months Ended June 30, 2017 and 2016 Construction services earnings increased $6.7 million (52 percent) compared to the comparable prior period due to:

- Higher earnings of $11.1 million (after tax) resulting from higher inside workloads and margins in the majority of business activities
- An increase in the number and size of projects that moved into full construction in 2017
- Successful execution of labor performance on projects

Partially offsetting these increases were:

- Higher selling, general and administrative expense of $2.1 million (after tax), primarily higher payroll-related costs
- Absence in 2017 of a tax benefit of $1.5 million related to the disposition of a non-strategic asset
- Lower outside earnings due to fewer significant customer projects in 2017

Other

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
		(In millions)		
Operating revenues	$ 1.9	$ 2.1	$ 4.0	$ 4.1
Operating expenses:				
Operation and maintenance	4.4	2.2	5.6	3.9
Depreciation, depletion and amortization	.5	.5	1.1	1.0
Taxes, other than income	—	—	.1	.1
	4.9	2.7	6.8	5.0
Operating loss	(3.0)	(.6)	(2.8)	(.9)
Loss	$ (2.2)	$ (1.1)	$ (2.5)	$ (2.6)

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.

Three Months Ended June 30, 2017 and 2016 Other loss increased $1.1 million compared to the comparable prior period primarily due to a loss on the disposition of certain assets offset in part by lower interest expense due to the repayment of long-term debt with the sale of the remaining exploration and production assets.

Six Months Ended June 30, 2017 and 2016 Other loss decreased $100,000 compared to the comparable prior period, primarily lower interest expense of $1.1 million (after tax) largely due to the repayment of long-term debt, as previously discussed, offset by higher operation and maintenance expense due to a loss on the disposition of certain assets and higher insurance costs offset in part by lower operation and maintenance expense at the refining business due to the sale of the business in June 2016.

Discontinued Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
		(In millions)		
Income (loss) from discontinued operations before intercompany eliminations, net of tax	$ (1.1)	$ (285.1)	$ 2.8	$ (303.3)
Intercompany eliminations	(2.1) *	9.0	(4.3) *	9.1
Loss from discontinued operations, net of tax	(3.2)	(276.1)	(1.5)	(294.2)
Loss from discontinued operations attributable to noncontrolling interest	—	(120.7)	—	(131.7)
Loss from discontinued operations attributable to the Company, net of tax	$ (3.2)	$ (155.4)	$ (1.5)	$ (162.5)

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

Three Months Ended June 30, 2017 and 2016 The Company's loss from discontinued operations was $3.2 million compared to a loss of $155.4 million for the comparable prior period. The decreased loss was largely due to the absence in 2017 of a loss associated with the sale of the refining business, which was sold in June 2016.

Six Months Ended June 30, 2017 and 2016 The Company's loss from discontinued operations was $1.5 million compared to a loss of $162.5 million for the comparable prior period. The decreased loss was largely due to the absence in 2017 of a loss associated with the sale of the refining business, as previously discussed.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In millions)			
Intersegment transactions:				
Operating revenues	$ 8.6	$ 8.5	$ 32.0	$ 31.9
Purchased natural gas sold	6.4	6.6	27.9	27.6
Operation and maintenance	2.2	1.9	4.1	4.3
Income from continuing operations*	(2.1)	—	(4.3)	—

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

For more information on intersegment eliminations, see 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 and the various important factors listed in Part II, Item 1A - Risk Factors, as well as Part I, Item 1A - Risk Factors in the 2016 Annual Report. Changes in such assumptions and factors could cause actual future results to differ materially from the Company's growth and earnings projections.

MDU Resources Group, Inc.

- The Company continually seeks opportunities to expand through organic growth opportunities and strategic acquisitions.
- The Company focuses on creating value through vertical integration among its business units.

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 percent to 2 percent per year.
- In June 2016, the Company, along with a partner, began a 345-kilovolt transmission line from Ellendale, North Dakota, to Big Stone City, South Dakota, about 160 miles. The project has been approved as a MISO multivalue project. All of the necessary easements have been secured. The Company's total capital investment in this project is expected to be in the range of $150 million to $170 million. The Company expects this project to be completed in 2019.
- In December 2016, the Company signed a 25-year agreement to purchase power from the expansion of the Thunder Spirit Wind farm in southwest North Dakota. The agreement 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, if purchased, will increase the Company's 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 will include 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. In June 2017, the Company filed with the NDPSC an advance determination of prudence for the purchase of this expansion.
- In June 2017, the Company filed its 2017 North Dakota Electric Integrated Resource Plan. The plan includes the proposed purchase of the Thunder Spirit Wind farm expansion project and the development and design of a large combined-cycle natural gas-fired facility.
- The Company is involved in 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.

- Regulatory actions

  Completed Cases:
  Since January 1, 2017, the Company has received approval on final rate increases totaling $33.0 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 Idaho, Minnesota, Montana and Oregon. Recently approved final rates include:

  - On June 16, 2017, the NDPSC approved the settlement agreement filed by the Company on April 7, 2017, as discussed in Note 15 .

  Pending Cases:
  The Company is requesting rate increases totaling $13.9 million in annual revenue. Cases recently filed include:

  - On May 31, 2017, the Company filed an application with the WUTC for an annual pipeline replacement cost recovery mechanism, as discussed in Note 15 .
  - On June 30, 2017, the Company filed an application for advance determination of prudence and a certificate of public convenience and necessity with the NDPSC to purchase an expansion of the Thunder Spirit Wind farm, as discussed in Note 15 .
  - On July 21, 2017, the Company filed an application with the NDPSC for a natural gas rate increase, as discussed in Note 15 .
  - On July 31, 2017, the Company filed an application with the WUTC for a natural gas rate increase, as discussed in Note 15 .

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 million cubic feet 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 2018 with completion expected late that same year.
- The Charbonneau and Line Section 25 expansion projects, which include a new compression station as well as other compression additions and enhancements at existing stations, were placed into service in the second quarter of 2017. The Company has signed long-term agreements supporting the expansion projects.
- In June 2017, the Company announced plans to complete a Line Section 27 expansion project. The project will include approximately 13 miles of new pipeline and associated facilities. The project, as designed, will increase capacity by over 200,000 dk per day and bring total capacity to over 600,000 dk per day. The project is expected to be placed in-service in the fall of 2018. The Company has signed long-term contracts supporting this expansion and expects construction costs to range from $27 million to $30 million.
- The Company continues to focus on growing and improving existing operations through organic projects to become the leading pipeline company and midstream provider in all areas in which it operates.

Construction materials and contracting

- Approximate work backlog at June 30, 2017, was $766 million, compared to $805 million a year ago.
- Projected revenues are in the range of $1.8 billion to $1.9 billion for 2017.
- The Company anticipates margins in 2017 to be slightly lower as compared to 2016 margins.
- The Company expects public sector workload growth as anticipated new state and local infrastructure spending initiatives are introduced. California's $52.4 billion Road Repair and Accountability Act of 2017, and the $5.3 billion transportation package in Oregon, are expected to drive demand in both the near and far term.
- As one of the country's largest sand and gravel producers, 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.
- Of the seven labor contracts that Knife River was negotiating, as reported in Items 1 and 2 - Business Properties - General in the 2016 Annual Report, six have been ratified. The one remaining contract is still in negotiations.

Construction services

- Approximate work backlog at June 30, 2017, was $596 million, compared to $508 million a year ago.
- Projected revenues are in the range of $1.2 billion to $1.3 billion for 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.
- The five labor contracts that MDU Construction Services was negotiating, as reported in Items 1 and 2 - Business Properties - General in the 2016 Annual Report, have been ratified.

Liquidity and Capital Commitments

At June 30, 2017 , the Company had cash and cash equivalents of $ 40.0 million and available borrowing capacity of $638.2 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 in Capital resources; 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 the first six months of 2017 increased $36.8 million from the comparable period in 2016 . The increase in cash flows provided by operating activities was largely related to the absence in 2017 of the use of cash at the exploration and production and refining businesses in 2016.

Investing activities Cash flows used in investing activities in the first six months of 2017 decreased $155.0 million from the comparable period in 2016 . The decrease was primarily due to net proceeds from the sale of Pronghorn at the pipeline and midstream business along with lower capital expenditures primarily at the electric and construction services businesses. Partially offsetting the decrease was the absence of net proceeds from the sale of property at the exploration and production business.

Financing activities Cash flows used in financing activities in the first six months of 2017 was $123.0 million compared to cash flows provided by financing activities of $76.1 million in the first six months of 2016 . The change was primarily due to lower issuance of long-term debt in 2017 of $323.8 million. Partially offsetting the change was lower repayment of long-term debt along with the absence in 2017 of the debt repayment in connection with the sale of the refining business in 2016.

Defined benefit pension plans

There were no material changes to the Company's qualified noncontributory defined benefit pension plans from those reported in the 2016 Annual Report. For more information, see Note 14 and Part II, Item 7 in the 2016 Annual Report.

Capital expenditures

Capital expenditures for the first six months of 2017 were $132.1 million and are estimated to be approximately $515 million for 2017 , which includes $150 million of additional growth capital that is not allocated to a specific business segment. Estimated capital expenditures include:

- 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
- 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 estimated 2017 capital expenditures referred to previously. The Company expects the 2017 estimated capital expenditures to be funded by various sources, including internally generated funds; the Company's credit facilities, as described in Capital resources; 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 June 30, 2017 . 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 Part II, Item 8 - Note 6, in the 2016 Annual Report.

The following table summarizes the outstanding revolving credit facilities of the Company and its subsidiaries at June 30, 2017 :

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		$ 25.4	(b)	$ —		5/8/19
Cascade Natural Gas Corporation	Revolving credit agreement		$ 75.0	(c)	$ —		$ 2.2	(d)	4/24/20
Intermountain Gas Company	Revolving credit agreement		$ 85.0	(e)	$ 13.5		$ —		4/24/20
Centennial Energy Holdings, Inc.	Commercial paper/Revolving credit agreement	(f)	$ 500.0		$ 155.7	(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 $100.0 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 $110.0 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 earnings to fixed charges including preferred stock dividends was 4.0 times, 3.6 times and 3.9 times for the 12 months ended June 30, 2017 and 2016 , and December 31, 2016 , respectively.

Total equity as a percent of total capitalization was 57 percent, 53 percent and 56 percent at June 30, 2017 and 2016 , and December 31, 2016 , 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 is an indicator of how a company is financing its operations, as well as its financial strength.

Cascade Natural Gas Corporation On April 25, 2017, Cascade amended its revolving credit agreement to increase the borrowing limit from $50.0 million to $75.0 million and extend the termination date from July 9, 2018 to April 24, 2020. 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 On April 25, 2017, Intermountain amended its revolving credit agreement to increase the borrowing limit from $65.0 million to $85.0 million and extend the termination date from July 13, 2018 to April 24, 2020. 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.

Centennial Energy Holdings, Inc. 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. WBI Energy Transmission has a $200.0 million uncommitted note purchase and private shelf agreement with an expiration date of May 16, 2019. WBI Energy Transmission had $100.0 million of notes outstanding at June 30, 2017 , which reduced the remaining capacity under this uncommitted private shelf agreement to $100.0 million.

Off balance sheet arrangements

As of June 30, 2017 , the Company had no material off balance sheet arrangements as defined by the rules of the SEC.

Contractual obligations and commercial commitments

There are no material changes in the Company's contractual obligations from continuing operations relating to long-term debt, estimated interest payments, operating leases, purchase commitments, asset retirement obligations, uncertain tax positions and minimum funding requirements for its defined benefit plans for 2017 from those reported in the 2016 Annual Report.

For more information on contractual obligations and commercial commitments, see Part II, Item 7 in the 2016 Annual Report.

New Accounting Standards

For information regarding new accounting standards, see Note 6 , which is incorporated by reference.

Critical Accounting Policies Involving Significant Estimates

The Company's critical accounting policies involving significant estimates include impairment testing of assets held for sale, impairment testing of long-lived assets and intangibles, revenue recognition, pension and other postretirement benefits, and income taxes. There were no material changes in the Company's critical accounting policies involving significant estimates from those reported in the 2016 Annual Report. For more information on critical accounting policies involving significant estimates, see Part II, Item 7 in the 2016 Annual Report.

Item 3. 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

There were no material changes to interest rate risk faced by the Company from those reported in the 2016 Annual Report.

At June 30, 2017 , the Company had no outstanding interest rate hedges.

Item 4. 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 June 30, 2017 , that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II -- Other Information

Item 1. Legal Proceedings

For information regarding legal proceedings required by this item, see Note 16 , which is incorporated herein by reference.

Item 1A. Risk Factors

There are no material changes to the Company's risk factors from those reported in Part I, Item 1A - Risk Factors in the 2016 Annual Report.

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-Q, which is incorporated herein by reference.

Item 5. Other Information

None.

Item 6. Exhibits

See the index to exhibits immediately preceding the exhibits filed with this report.

Signatures

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MDU RESOURCES GROUP, INC.

DATE: August 4, 2017

BY: /s/ Doran N. Schwartz

Doran N. Schwartz
Vice President and Chief Financial Officer

BY: /s/ Jason L. Vollmer

Jason L. Vollmer
Vice President, Chief Accounting Officer
and Treasurer

Exhibit Index

Exhibit No.

+10(a)	MDU Resources Group, Inc. Director Compensation Policy, as amended May 10, 2017*
+10(b)	MDU Resources Group, Inc. Executive Incentive Compensation Plan, as amended May 10, 2017, and Rules and Regulations, as amended May 9, 2017*
+10(c)	MDU Resources Group, Inc. Nonqualified Defined Contribution Plan, as amended May 10, 2017*
+10(d)	MDU Resources Group, Inc. Supplemental Income Security Plan, as amended and restated May 10, 2017*
+10(e)	Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated April 10, 2017*
12	Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends*
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*
101	The following materials from MDU Resources Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, 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 Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged in summary and detail.

* 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.

MDU RESOURCES GROUP, INC.
DIRECTOR COMPENSATION POLICY

Each Director who is not a full-time employee of the Company shall receive compensation made up of annual cash retainers and common stock. Each Director is also eligible for awards under the Non-Employee Director Long-Term Incentive Compensation Plan.

Director Compensation

Annual Cash Retainers

Base Retainer	$70,000*
Additional Retainers:	
Non-Executive Chair of the Board	90,000
Chair of Audit Committee	15,000
Chair of Compensation Committee	10,000
Chair of Nominating and Governance Committee	10,000

* Effective June 1, 2017.

Such cash retainers shall be paid in monthly installments.

The MDU Resources Group, Inc. Deferred Compensation Plan for Directors (as amended and restated effective May 15, 2008) permits a Director to defer all or any portion of the annual cash retainers. The amount deferred is recorded in each participant's deferred compensation account and credited with income in the manner prescribed in the Plan. For further details, reference is made to the Plan, a copy of which is attached.

Common Stock

Each person, other than the Non-Executive Chair of the Board, who is a Director of the Company at any time during the calendar year shall receive a $110,000 stock payment, and any person who is the Non-Executive Chair of the Board shall receive a $145,000 stock payment, on or about the Wednesday following the Board of Directors' regularly-scheduled November meeting, pursuant to the Non-Employee Director Stock Compensation Plan or the Non-Employee Director Long-Term Incentive Compensation Plan. The stock payment shall be made by providing the Director or Non-Executive Chair with the number of whole shares of Common Stock determined (i) if the shares are original issue or treasury stock, by dividing the amount of the applicable stock payment by the closing price of the Common Stock on the New York Stock Exchange on the grant date and (ii) if the shares are purchased on the open market, by dividing the amount of the applicable stock payment by the weighted average price paid to purchase shares for the Director or Non-Executive Chair for that stock payment, excluding any related brokerage commissions or other service fees. Any fractional shares shall be paid in cash. The stock payment shall be prorated for any Director or Non-Executive Chair who does not serve the entire calendar year by multiplying the applicable stock payment by a fraction, the numerator of which is the number of actual

or expected months (with a partial month counted as a full month) of service on the Board during the calendar year and the denominator of which is twelve.

By written election a Director may reduce his or her annual cash retainers and have that amount applied to the purchase of additional shares pursuant to the Non-Employee Director Stock Compensation Plan or the Non-Employee Director Long-Term Incentive Compensation Plan. The election must be made on a form provided by the administrative committee and returned to the committee by the last business day of the year prior to the year in which the election is to be effective. The election remains in effect until changed or revoked. No election may be changed or revoked for the current year, but may be changed for a subsequent year. For further details, reference is made to the Non-Employee Director Stock Compensation Plan, a copy of which is attached.

Travel Expense Reimbursement

All Directors will be reimbursed for reasonable travel expenses incurred while serving as a Director, including spouse’s expenses, in connection with attendance at meetings of the Company’s Board of Directors and its committees. If the travel expense is related to the reimbursement of airfare, such reimbursement will not exceed full-coach rate. Spousal travel expenses paid by the Company are treated as taxable income to the Director. See the paragraph below entitled "Code Section 409A" for further rules relating to travel expense reimbursements.

Directors' Liability

Article Seventeenth of the Company's Restated Certificate of Incorporation provides that no Director of the Company shall be liable to the Company or its stockholders for breach of fiduciary duty as a Director, with certain exceptions stated below. Section 7.07 of the Company's Bylaws requires the Company to indemnify fully a Director against expenses, attorneys fees, judgments, fines and amounts paid in settlement of any suit, action or proceeding, whether civil or criminal, arising from an action of a Director by reason of the fact that the Director was a Director of MDU Resources Group, Inc.

There are exceptions to the protections under Article Seventeenth of the Company’s Restated Certificate of Incorporation: breaches of the Directors' duty of loyalty to the Company or its stockholders, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, violation of Section 174 of the Delaware General Corporation Law (relating to unlawful declaration of dividends and unlawful purchase of the company's stock), and transactions from which the Director derived an improper personal benefit (including short-swing profits under Section 16(b) of the Securities Exchange Act of 1934).

Additional protection is provided through individual indemnification agreements with each Director.

The Company has and does maintain Directors' and Officers' liability insurance coverage with a $125 million limit.

Insurance Coverages

The Company maintains the following insurance for protection of its Directors as they carry out the business of MDU Resources Group, Inc., which shall be provided while serving as a Director:

1. General liability and automobile liability insurance:

   If driving a personal vehicle, the Directors are afforded automobile liability coverage excess of their own personal automobile insurance under a combination of policies with program limits to $100 million after a self-insured retention of $500,000. If driving a vehicle owned by the Company, personal automobile insurance does not apply.

   For general liability, coverage is provided to Directors under a combination of policies with program limits to $100 million after a self-insured retention of $500,000.

2. Fiduciary and crime insurance:

   The Directors are afforded coverage under the fiduciary and crime liability insurance policies. The fiduciary policy has a limit of $35 million and the crime policy has a limit of $10 million.

3. Aircraft liability insurance:

   The Company's existing aircraft liability insurance extends coverage while a hired, non-owned* aircraft is used by a Director in traveling to and from Director or Board committee meetings. This insurance coverage is excess of any underlying policy that may exist and provides limits of $200 million.

   *Non-owned aircraft is defined as: 1) any aircraft registered under a “standard” airworthiness certificate issued by the FAA; 2) aircraft with a seating capacity not exceeding 40 seats; 3) aircraft that are not owned by MDU Resources Group, Inc. or any of its subsidiaries; 4) aircraft that are not partly or wholly owned by or registered in the Director’s name or the name of any Director’s household member.

4. Business travel accident insurance:

   All Directors are protected by a group insurance policy with coverage of $250,000 that provides 24-hour accident protection while traveling on Company business.

   Coverage in all instances begins at the actual start of a business trip and ends when the Director returns to his/her home or regular place of employment.

   The beneficiary of the insurance will be that beneficiary recorded on a beneficiary designation provided by the Company.

5. Group life insurance:

   All outside Directors are protected by a non-contributory group life insurance policy with coverage of $100,000.

The coverage begins the day the Director is elected to the Board of Directors and terminates when the Director ceases to be an outside Director.

A Certificate of Insurance shall be provided to the Director. The beneficiary of the insurance will be the beneficiary recorded on a beneficiary designation provided by the Company.

This protection is considered taxable compensation under current tax laws. Consequently, the Company will provide each Director annually on Form 1099 the amount of taxable income related to this coverage.

Hedging Stock Ownership

Directors are not permitted to hedge their ownership of Company common stock. Hedging strategies include but are not limited to zero-cost collars, equity swaps, straddles, prepaid variable forward contracts, security futures contracts, exchange funds, forward sale contracts and other financial transactions that allow the Director to benefit from devaluation of the Company's stock. Hedging strategies may allow Directors to own stock technically but without the full benefits and risks of such ownership. Therefore, Directors are prohibited from engaging in any such transactions.

Policy Regarding Margin Accounts and Pledging of Company Stock

Effective December 21, 2012, Directors and related persons are prohibited from holding company common stock in a margin account or pledging company securities as collateral for a loan, with certain exceptions. 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 a director’s spouse, minor child and any person (other than a tenant or domestic employee) sharing the household of a director, as well as any entities over which a director exercises control.

Code Section 409A

To the extent any reimbursements or in-kind benefits provided to a Director pursuant to this policy constitute “deferred compensation” under Internal Revenue Code Section 409A, any such reimbursement or in-kind benefit shall be paid in a manner consistent with Treasury Regulation Section 1.409A-3(i)(1)(iv), including the requirements that the amount of reimbursable expenses or in-kind benefits provided during a year may not affect the expenses eligible for reimbursement or in-kind benefits provided in any other year and that any reimbursement be made on or before the last day of the calendar year following the calendar year in which the expense was incurred.

MDU RESOURCES GROUP, INC.

EXECUTIVE INCENTIVE COMPENSATION PLAN

I. ESTABLISHMENT AND PURPOSE

The Executive Incentive Compensation Plan (the "Plan") was adopted by the Board of Directors of MDU Resources Group, Inc. ("MDUR") on November 4, 1982 and subsequently amended. Effective January 1, 2012, the Plan was further amended, and the Montana-Dakota Utilities Co. Executive Incentive Compensation Plan, the MDU Construction Services Group, Inc. Executive Incentive Compensation Plan, the Knife River Corporation Executive Incentive Compensation Plan and the WBI Holdings, Inc. Executive Incentive Compensation Plan (collectively, the "Business Unit Plans") were merged into the Plan. All awards with respect to services performed in 2011 and earlier that were earned and deferred pursuant to any of the Business Unit Plans shall be subject to the terms of the applicable Business Unit Plans in effect at the time the awards were granted. Deferral elections for awards relating to services to be performed during 2012 made pursuant to any of the Business Unit Plans shall be deemed to have been made pursuant to the Plan.

The purpose of the Plan is to provide an incentive for key executives of MDUR, its business segments, divisions and subsidiaries to focus their efforts on the achievement of corporate performance goals. The Plan is designed to reward successful performance as measured against specified performance goals. When performance reaches or exceeds the performance targets, incentive compensation awards, in conjunction with salaries, will provide a level of compensation which recognizes the skills and efforts of the key executives.

II. DEFINITIONS

Capitalized terms not otherwise defined herein shall have the meanings given them in the Rules and Regulations.

III. BASIC PLAN CONCEPT

The Plan provides an opportunity to earn annual incentive compensation based on the achievement of specified annual performance goals. A target incentive award for each individual within the Plan is established based on the position level and base salary ("Salary"). The target incentive award represents the amount to be paid, subject to the achievement of the performance goals established each year. Larger incentive awards than target may be authorized when performance exceeds targets; lesser or no amounts may be paid when performance is below target.

It is recognized that during a Plan Year major unforeseen changes in economic and environmental conditions or other significant factors beyond the control of management may substantially affect the ability of the Participants to achieve the specified performance goals. Therefore, in its review of performance the Administrator may modify the performance targets. However, it is contemplated that such target modifications will be necessary only in years of unusually adverse or favorable external conditions.

IV. ADMINISTRATION

The Plan shall be administered by the Compensation Committee of the Board of Directors of MDUR (the "Administrator"). The Compensation Committee of the Board of Directors of MDUR shall adopt Rules and Regulations for the administration of the Plan. With respect to employees who are not subject to Section 16 of the Securities Exchange Act of

1934, as amended, the Chief Executive Officer of MDUR, with respect to MDUR employees, and the chief executive officer of each business segment, in conjunction with the Chief Executive Officer of MDUR, with respect to the business segment's employees, shall be the Administrator.

The Administrator shall approve the list of eligible Participants and the target incentive award level for each position within the Plan. The Plan's performance targets for the year shall be approved by the Administrator no later than 90 days after the beginning of that Plan Year. The Administrator shall have final discretion to determine actual award payment levels, method of payment, and whether or not payments shall be made for any Plan Year.

The Board of Directors of MDUR may, at any time and from time to time, alter, amend, supersede or terminate the Plan in whole or in part, provided that no termination, amendment or modification of the Plan shall adversely affect in any material way an award that has met all requirements for payment without the written consent of the Participant holding such award, unless such termination, modification or amendment is required by applicable law.

V. ELIGIBILITY

Executives who are determined by the Administrator to have a key role in both the establishment and achievement of their company's objectives shall be eligible to participate in the Plan.

Nothing in the Plan shall interfere with or limit in any way the right of an employer to terminate any Participant's employment at any time, for any reason or no reason in its sole discretion, or confer upon any Participant any right to remain employed by the employer. No executive shall have the right to

be selected to receive an award under the Plan, or, having been so selected, to be selected to receive a future award.

VI. PLAN PERFORMANCE MEASURES

Performance measures shall be established that consider shareholder and/or customer interests. These measures shall be evaluated annually based on achievement of specified goals.

The performance measures will be determined by the Administrator. These measures may be applied at the MDUR level, the business segment level and/or a division or subsidiary level. The Administrator may assign different performance measures and/or different weights to performance measures for each Participant.

The Administrator may establish threshold, target and maximum or other award levels annually for some or all of the performance measures. The Administrator will retain the right to make all interpretations as to the actual attainment of the desired results and will determine whether any circumstances beyond the control of management need to be considered.

VII. TARGET INCENTIVE AWARDS

Target incentive awards will be expressed as a percentage of each Participant's Salary. These percentages shall vary by position and reflect larger reward opportunity for positions having greater effect on the establishment and accomplishment of the corporate objectives. A schedule showing the target awards as a percentage of Salary for eligible positions will be prepared for each Plan Year.

VIII. INCENTIVE FUND DETERMINATION

The target incentive fund is the sum of the individual

target incentive awards for all eligible Participants. Once the incentive targets have been determined by the Administrator, a target incentive fund shall be established and accrued ratably by MDUR and each of its business segments, divisions and/or subsidiaries, as applicable. The incentive fund and accruals may be adjusted during the year.

At the close of each Plan Year, the Chief Executive Officer of MDUR will cause to be prepared an analysis showing performance in relation to each of the performance measures employed. This will be provided to the Administrator for review and comparison to threshold, target and maximum or other performance levels, if applicable. In addition, any recommendations of the Chief Executive Officer of MDUR or the Administrator will be presented at this time. The Administrator will then determine the amount of the target incentive fund earned.

IX. INDIVIDUAL AWARD DETERMINATION

Each individual Participant's award will be based upon the level of performance achieved relative to the established performance measures, as determined by a percentage from 0 percent to a maximum of 250 percent, as determined by the Administrator.

X. PAYMENT OF AWARDS

Except as provided below or as otherwise determined by the Administrator, in order to receive an award under the Plan, the Participant must remain in the employment of the Participant's employer for the entire Service Year. If a Participant terminates employment with MDUR after the Participant's 65 th birthday and if the termination occurs during the Service Year, determination of whether the performance measures have been met

will be made at the end of the Service Year, and to the extent met, payment of the award will be made to the Participant, prorated. Proration of awards shall be based upon the number of full months elapsed from and including January to and including the month in which the employment termination occurs. The prorated award shall be paid as soon as practicable in the year following the Service Year, but in all events between January 1 and March 10.

A Participant who transfers between the Participant's employer at the time the award is granted and MDUR or any of its business segments, divisions or subsidiaries may receive a prorated award at the discretion of the Administrator.

Payments made under the Plan will not be considered part of compensation for pension purposes. Payments will be made in cash as soon as practicable in the year following the Service Year, but in all events between January 1 and March 10.

To the extent approved by the Administrator of the Plan with respect to executives of MDUR, its business segments, divisions or subsidiaries, as applicable, incentive awards may be deferred if the appropriate elections have been executed prior to the beginning of the Service Year. A deferral election will be effective only for the incentive award earned in the Service Year following the Plan Year in which the election is made. Deferral elections may not be changed or revoked after the Service Year begins. Deferred amounts shall be subject to the terms of the Plan and the Rules and Regulations and, to the extent not inconsistent therewith, the deferral election forms pursuant to which the amounts were deferred. Deferred amounts will accrue interest at a rate determined annually by the Compensation Committee of the Board of Directors of MDUR and specified in the Rules and Regulations.

In the event of a "Change in Control" (as defined in the Rules and Regulations) then any award deferred by each Participant shall become immediately payable to the Participant in cash, together with accrued interest thereon to the date of payment. In the event the Participant files suit to collect the Participant's deferred award then all of the court costs, other expenses of litigation, and attorneys' fees shall be paid by MDUR or one of its business segments, divisions or subsidiaries, as applicable, in the event the Participant prevails upon any of the Participant's claims for payment of a deferred award.

XI. ACCOUNTING RESTATEMENTS

This Section XI shall apply to incentive awards granted to all Participants in the Plan. Notwithstanding anything in the Plan or the Rules and Regulations to the contrary, if MDUR is required to prepare an accounting restatement due to material noncompliance with any financial reporting requirements under the securities laws, MDUR or the Compensation Committee of the Board of Directors of MDUR (the “Compensation Committee”) may, or shall if required, take action to recover incentive-based compensation from specific executive officers in accordance with its *Guidelines for Repayment of Incentives Due to Accounting Restatements* , as they may be amended or substituted from time to time, and in accordance with applicable law and applicable rules of the Securities and Exchange Commission and the New York Stock Exchange.

MDU RESOURCES GROUP, INC.

EXECUTIVE INCENTIVE COMPENSATION PLAN

RULES AND REGULATIONS

The Compensation Committee of the Board of Directors of MDU Resources Group, Inc. ("MDUR") adopted Rules and Regulations for the administration of the Executive Incentive Compensation Plan (the "Plan") on February 9, 1983, following adoption of the Plan by the Board of Directors of MDUR on November 4, l982, which Rules and Regulations were subsequently amended and are hereby further amended effective May 9, 2017.

I. DEFINITIONS

The following definitions shall be used for purposes of these Rules and Regulations and for the purpose of administering the Plan:

1. The "Administrator" shall be the Compensation Committee of the Board of Directors of MDUR with respect to employees subject to Section 16 of the Securities Exchange Act of 1934, as amended. With respect to employees who are not subject to Section 16, the Chief Executive Officer of MDUR, with respect to MDUR employees, and the chief executive officer of each business segment, in conjunction with the Chief Executive Officer of MDUR, with respect to the business segment's employees, shall be the Administrator.

2. "Change in Control" shall mean the occurrence of any of the following transactions or events: (a) any person (which shall not include MDUR, any subsidiary of MDUR or any employee benefit plan of MDUR or of any subsidiary of MDUR) ("Person") or group (as that term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons)

ownership of stock of MDUR possessing 30% or more of the total voting power of the stock of MDUR; (b) any Person or group (as that term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)), acquires ownership of the stock of MDUR that, together with stock held by such Person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of MDUR (this part (b) applies only when there is a transfer of stock of MDUR and MDUR's stock remains outstanding after the transaction); (c) a majority of the members of the Board of Directors of MDUR is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board of Directors of MDUR; or (d) any Person or group (as that term is defined in Treasury Regulation Section 1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Persons) assets from MDUR that have a gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of MDUR immediately before such acquisition or acquisitions.

Notwithstanding anything contained herein to the contrary, no transaction or event shall constitute a Change in Control for purposes of the Plan unless the transaction or event constitutes a change in the ownership of a corporation (as defined in Treasury Regulation Section 1.409A-3(i)(5)(v)), a change in effective control of a corporation (as defined in Treasury Regulation Section 1.409A-3(i)(5)(vi)) or a change in the ownership of a substantial portion of the assets of a corporation (as defined in Treasury Regulation Section 1.409A-3(i)(5)(vii)) and the term Change in Control shall be interpreted in a manner consistent with the proper interpretation of the similar provisions in the Section 409A Treasury Regulations.

3. The “Code” shall mean the Internal Revenue Code of 1986, as amended.

4. The “Compensation Committee” shall be the Compensation Committee of the Board of Directors of MDUR.

5. "MDUR" shall refer to MDU Resources Group, Inc. alone and shall not refer to any of its business segments, divisions or subsidiaries.

6. The "Moody's Rate" is defined as the average of (i) the number that results from adding the daily Moody's U.S. Long-Term Corporate Bond Yield Average for "A" rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12 and (ii) the number that results from adding the daily Moody's U.S. Long-Term Corporate Bond Yield Average for "BBB" rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12.

7. "Participants" for any Plan Year shall be those executives who have been approved by the Administrator as eligible for participation in the Plan for such Plan Year.

8. "Payment Date" shall be the date set by the Administrator for payment of awards pursuant to Section X of the Plan, other than those awards deferred pursuant to Section X of the Plan and Section VII of these Rules and Regulations.

9. The "Plan" shall refer to the Executive Incentive Compensation Plan, as it has been and may be amended.

10. The "Plan Year" shall be the calendar year.

11. "Retirement" means the later of the day the Participant attains age 55 or the day the Participant ceases to be an employee of MDUR or any of its business segments, divisions or subsidiaries.

12. "Service Year" means the Plan Year during which the services giving rise to the incentive award are performed.

13. "Specified Employee" means an employee who, as of the date the employee separates from service, is a "specified employee" (as that term is used in Section 409A(a)(2)(B) of the Code), as determined under MDUR's policy for determining specified employees.

II. ADMINISTRATION

1. The Compensation Committee shall have the full power to construe and interpret the Plan and to establish and to amend these Rules and Regulations for its administration.

2. The Administrator shall not participate in a decision as to the Administrator's eligibility for, or award of, an incentive award payment.

3. For each Plan Year, the Administrator shall approve a list of eligible executives and notify those so approved that they are eligible to participate in the Plan for such Plan Year.

4. No later than 90 days after the beginning of each Plan Year, the Administrator shall approve the Plan's performance measures, performance targets and target incentive award levels for each salary grade covered by the Plan for the Plan Year.

5. The Administrator shall have final discretion to determine actual award payment levels, method of payment, and whether or not payments shall be made for any Plan Year. However, unless the Plan's performance goals are met for the Plan Year, no award shall be made for that Plan Year. Performance targets modified pursuant to Section III of the Plan will be deemed performance targets for purposes of determining whether or not these targets have been met.

III. PLAN PERFORMANCE MEASURES

1. The Administrator shall establish the percentage attainment of performance measures. The Administrator may establish more or fewer performance measures as it deems necessary.

2. The performance measures may be set by reference to earnings, return on invested capital or any other measure or combination of measures deemed appropriate by the Administrator. They may be

established for MDUR or any of its business segments, divisions or subsidiaries. The Administrator may assign different performance measures and/or different weights to performance measures for each Participant.

3. The Administrator shall cause to be prepared a list of individuals to whom the Plan performance measures will be applied and shall identify the applicable performance measures for each Participant, which may vary among Participants.

4. The Administrator may set threshold, target and maximum and other award levels for some or all of the performance measures, and those levels shall be included on the list referred to in paragraph 3 above.

5. The Administrator will retain the authority to determine whether or not the actual attainment of these measures has been made.

IV. TARGET INCENTIVE AWARDS

1. Target incentive awards will be a percentage of each Participant’s Salary, as defined in the Plan.

2. Target incentive awards shall be set by the Administrator annually and will be included on the list referred to above.

V. INCENTIVE FUND DETERMINATION

1. The target incentive fund is the sum of the individual target incentive awards for all eligible Participants.

2. Once individual incentive targets have been determined, a target incentive fund shall be established and accrued ratably by MDUR and each of its business segments, divisions and/or subsidiaries, as applicable. The incentive fund and accruals may be adjusted during the year.

3. As soon as practicable following the close of each Plan Year, the Chief Executive Officer of MDUR will cause to be prepared an analysis showing performance in relation to the performance measures. The Administrator will review the analysis and determine, in its sole discretion, the amount of the actual incentive fund.

4. In determining the actual incentive fund, any recommendations of the Chief Executive Officer of MDUR or the Administrator will be considered.

VI. INDIVIDUAL AWARD DETERMINATION

1. The Administrator shall have the sole discretion to determine each individual Participant's award. The Administrator's decision will be based upon the level of performance achieved.

2. Each individual Participant’s award will be based upon the level of performance achieved relative to the established performance measures, as determined by a percentage from 0 percent to a maximum of 250 percent, as determined by the Administrator.

VII. PAYMENT OF AWARDS

1. On the date the Administrator determines the awards to be made to individual Participants, it shall also establish the Payment Date.

2. Except as provided below or in the Plan or as the Administrator otherwise determines, in order to receive an award under the Plan, a Participant must remain in the employment of the Participant’s employer for the entire Service Year.

3. If a Participant terminates employment after the Participant’s 65 th birthday and the termination occurs during the Service Year, determination of whether the performance measures have been met will be made at the end of the Service Year, and to the extent met, payment of the award will be made to the Participant, prorated. Proration of awards shall be based upon the number of full months elapsed from and including January to and including the month in

which the Participant's employment termination occurs.

4. Payment of the awards shall be made in cash. Payments shall be made on the Payment Date unless the Participant has deferred, in whole or in part, the receipt of the award by making an election on the deferral form attached hereto, prior to the beginning of the Service Year. Deferral elections may not be changed or revoked after the Service Year begins.

VIII. DEFERRAL OF ANNUAL INCENTIVE

1. In the event a Participant has elected to defer receipt of all or a portion of the award, MDUR or one of its business segments, divisions or subsidiaries, as applicable shall set up an account in the Participant's name. The amount of the Participant's award to the extent deferred will be credited to the Participant's account on the Payment Date.

2. The balance credited to an account of a Participant who has elected to defer receipt of an award will be an unsecured, unfunded obligation of MDUR or one of its business segments, divisions or subsidiaries, as applicable.

3. Interest shall accrue on the balance credited to a Participant's account from the date the balance is credited. The rate of interest for each Plan Year shall be the Moody's Rate.

4. Interest shall be compounded and credited to the account monthly.

5. A Participant may elect to defer any percentage, not to exceed l00, of an annual award.

6. A Participant electing to defer any part of an award must elect one of the following dates on which (a) payment will be made, if payment will be made in a lump sum or (b) payments will commence, if payment will be made in monthly installments:

(1) Between January 1 and March 10 next following termination of employment with MDUR, its business segments, divisions and subsidiaries, as applicable; or

(2) Between January 1 and March 10 of the fifth year following the year in which the award would have been paid had it not been deferred.

For Participants who previously elected to have payments made or commence on the Payment Date next following termination of employment, their payments will be made or commence between January 1 and March 10 next following their termination of employment with MDUR, its business segments, divisions and subsidiaries, as applicable. For Participants who elected to have payments made or commence on the Payment Date of the fifth year following the year in which the award may be made, their payments will be made or commence between January 1 and March 10 of the fifth year following the year in which the award would have been paid had it not been deferred.

7. A Participant may elect to receive the deferred amounts accumulated in the Participant's account in monthly installments, not to exceed 120. In the event the Participant elects to receive the amounts in the Participant's account in more than one installment, interest shall continue to accrue on the balance remaining in their account at the applicable rate or rates determined annually by the Compensation Committee.

8. Notwithstanding anything contained in the Plan or these Rules and Regulations to the contrary, if a Specified Employee's employment terminates, to the extent required by Section 409A(a)(2)(B) of the Code, except as otherwise provided in paragraph 9 below of this Section VIII of these Rules and Regulations, payment of any deferred amounts under the Plan that are to be paid during the 6-month period following the Specified Employee's termination of employment shall not be paid or provided until the first business day after the date that is 6 months following the Specified Employee's termination of employment. Any payment that is made

pursuant to the prior sentence shall include the cumulative amount of any amounts that could not be paid during the 6-month period following the Specified Employee's termination of employment. To the extent payments are deferred pursuant to the prior sentence, such deferred amounts shall continue to accrue interest pursuant to Section VIII of these Rules and Regulations until payment occurs.

For all purposes under the Plan and these Rules and Regulations, references to termination of employment and similar terms shall be interpreted to mean "separation from service," as that term is used in Section 409A of the Code, and the Participant's employment shall not be deemed to have terminated for purposes of the Plan or these Rules and Regulations unless and until a separation from service shall have occurred for purposes of Section 409A of the Code.

9. In the event of the death of a Participant in whose name a deferred account has been set up, MDUR or one of its business segments, divisions or subsidiaries, as applicable, shall, within 90 days thereafter, pay to the Participant's estate or the designated beneficiary the entire amount in the deferred account.

10. In the event of a "Change in Control" then any award deferred by each Participant shall become immediately payable to the Participant. In the event the Participant files suit to collect a deferred award then all of the Participant's court costs, other expenses of litigation, and attorneys' fees shall be paid by MDUR or one of its business segments, divisions or subsidiaries, as applicable, in the event the Participant prevails upon any of the Participant's claims for payment.

MDU RESOURCES GROUP, INC.

NONQUALIFIED DEFINED CONTRIBUTION PLAN

WHEREAS, MDU Resources Group, Inc. (the "Company") heretofore adopted the MDU Resources Group, Inc. Nonqualified Defined Contribution Plan (the "Plan"), an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees, within the meaning of the United States Code of Federal Regulations Section 2520.104-23 and Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA"); and

WHEREAS, the Company desires to amend the Plan;

NOW, THEREFORE, the Plan is hereby amended and restated, effective January 1, 2017, to read in its entirety as follows:

SECTION 1. PURPOSE OF PLAN

The Plan is unfunded and is maintained for the purpose of providing deferred compensation to a select group of management or highly compensated employees of the Company (within the meaning of the United States Code of Federal Regulations Section 2520.104-23 and Sections 201(2), 301(a)(3) and 401(a)(1) of the ERISA). The Plan shall be administered in accordance with such purpose and in accordance with the provisions of Section 409A of the Code.

SECTION 2. DEFINITIONS

2.1 **"Administrator"** means the Compensation Committee of the Board.

2.2 **"Beneficiary"** means the person or entity determined to be a Participant's beneficiary pursuant to Section 11.

2.3 **"Board"** means the Board of Directors of the Company.

2.4 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

2.5 **"Company"** means MDU Resources Group, Inc., and any current or future corporation that (a) is in a controlled group of corporations (within the meaning of Section 414(b) of the Code) of which MDU Resources Group, Inc. is a member and (b) has been approved by the Compensation Committee of the Board upon recommendation of the Chief Executive Officer to adopt the Plan for the benefit of its eligible employees. For purposes hereof, each such participating affiliate shall be deemed to have appointed MDU Resources Group, Inc. as its agent to act on its behalf in all matters relating to administration, amendment or termination of the Plan.

2.6 **"Compensation"** means the annualized base salary paid to a Participant as of the first day of the Plan Year.

2.7 **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.8 **“Participant”** means an employee of the Company who has been selected to participate in the Plan pursuant to Section 3.

2.9 **“Plan”** means the MDU Resources Group, Inc. Nonqualified Defined Contribution Plan, as set forth herein and as amended from time to time.

2.10 **“Plan Year”** means the calendar year.

SECTION 3. ELIGIBLE EMPLOYEES

The Administrator shall determine which management employees or highly compensated employees of the Company (within the meaning of the United States Code of Federal Regulations Section 2520.104-23 and Sections 201(2), 301(a)(3) and 401(a)(1) of the ERISA) shall be eligible to participate in the Plan, the eligibility waiting period (if any) and such other conditions as may be applicable from time to time. Subject to the provisions of the Plan, the Administrator may, from time to time, select from all eligible employees those who will be Participants. Notwithstanding anything to the contrary herein, an eligible employee may only become a Participant upon January 1 of a calendar year, or within the first ninety (90) days of employment.

SECTION 4. ACCOUNTS

The Company shall establish and maintain on its books with respect to each Participant separate hypothetical account(s) which shall record (a) any Company contributions made on behalf of the Participant for a Plan Year pursuant to Section 5 below, and (b) the allocation of any hypothetical investment experience. In this regard, a separate account shall be established on behalf of a Participant for each year in which a contribution is made under the Plan.

SECTION 5. COMPANY CONTRIBUTIONS

For any Plan Year, the Administrator may elect to credit the account of any Participant designated by the Administrator an amount equal to a specified percentage of such Participant’s Compensation, or a flat dollar amount. Any such credit shall be made entirely at the discretion of the Administrator and the amount of any such credit may be different for different Participants.

No employee shall have the right to be selected to receive a contribution under the Plan, or, having been so selected, to be selected to receive a future contribution.

SECTION 6. ADJUSTMENTS TO ACCOUNTS AND TAX WITHHOLDING

Each Participant’s account(s) shall be reduced by the amount of any distribution to the Participant from the applicable account (including any portion of a distribution that is withheld to satisfy any federal, state, and/or local tax withholding and any social security or Medicare tax withholding obligations). Pursuant to procedures established by the Administrator, each Participant’s account(s) shall be adjusted as of each business day the New York Stock Exchange is open to reflect the earnings or losses of any hypothetical investment media as may be designated by the Administrator and, if applicable, elected by the Participant. Any federal, state, and/or local tax withholding and any social security or Medicare tax withholding obligations may be satisfied by deducting or withholding from amounts distributed under the Plan or from other compensation payable to the Participant or by requiring the Participant to remit to the Company an

amount sufficient to satisfy the federal, state, and/or local tax withholding and any social security or Medicare tax withholding obligations. Additionally, to the extent social security or Medicare tax withholding is required prior to the date of distribution of an amount under the Plan, to the extent permitted by Code Section 409A, the Company may satisfy such tax withholding obligations (and any additional tax withholding obligations resulting from the deemed distribution of the withheld amounts) and make a corresponding reduction in the Participant's applicable account(s).

SECTION 7. INVESTMENT OF ACCOUNTS

For purposes of determining the amount of earnings/appreciation and losses/depreciation to be credited to, or debited from, a Participant's account(s), each Participant's account(s) shall be deemed invested in the investment options (designated by the Administrator as available under the Plan) as the Participant may elect from time to time, or, if applicable, in any default investment option designated by the Administrator, in accordance with such rules and procedures as the Administrator may establish. However, no provision of the Plan shall require the Company or the Administrator to actually invest any amounts in any fund or in any other investment vehicle.

SECTION 8. VESTING

8.1 **Vesting of Accounts Prior to 2017 Plan Year.** Each account of a Participant established for amounts credited to the Plan for Plan Years prior to 2017, shall be subject to a separate four (4) year vesting period. With respect to a Participant's first account, if the Participant was selected to participate in the Plan with respect to a Plan Year after January 1 of that Plan Year, the Participant shall be one hundred percent (100%) vested in the amounts credited to that account after completing four (4) Years of Participation relating to that account, with the four (4) years of participation commencing on the date of selection as a Participant and ending at midnight on the fourth anniversary of such date of selection. With respect to a Participant's other accounts, a Participant shall be one hundred percent (100%) vested in the amounts credited to the applicable account after completing four (4) years of participation relating to the account, with the four (4) years of participation commencing on January 1 of the Plan Year in which the contribution was made to the account and ending at midnight on January 1 four (4) years thereafter. Partial or pro rata vesting shall not be permitted with respect to such Participants' accounts.

8.2 **Vesting of Accounts Beginning with 2017 Plan Year.** With respect to any account established for amounts credited to the Plan on behalf of a Participant for Plan Years on and after 2017, the Participant shall become vested in a percentage of the fair market value of such portion of the account(s) as follows:

Years of Participation	Vested Percentage
Less than 1 year	0%
1 year but less than 2	34%
2 years but less than 3	67%
3 years and thereafter	100%

For this purpose, a Participant shall be one hundred percent (100%) vested in the amounts credited to the Participant's account upon completing three (3) years of participation relating to the applicable account, with the three (3) years of participation commencing on January 1 of the Plan Year in which the contribution is made to the account and ending at midnight on January 1 three (3) years thereafter, however, contributions made to a Participant's account after March 31 of a plan year will not commence the three (3) years of participation until January 1 of the following Plan Year.

8.3 **Accelerated Vesting Upon Certain Events.** Subject to the provisions of Section 14, and notwithstanding the foregoing provisions of this Section 8, if a Participant (a) dies while employed by the Employer, (b) is an officer of the Company, and terminates employment after the Participant's 65th birthday and prior to the end of the vesting period(s) with respect to the Participant's account(s), (c) separates from service with the Company (within the meaning of Code Section 409A) after attaining age sixty (60) and completing at least ten (10) "years of continuous service" with the Company, as measured from the Participant's initial date of hire with the Company and calculated in accordance with rules and procedures established by the Company, or (d) involuntary separates from service with the Company within twelve (12) months of a "change in control" of the Company (within the meaning of Code Section 409A), then such Participant shall have a nonforfeitable (vested) right to 100% of the amounts credited to the Participant's account(s). If a Participant separates from service for any reason other than as described in the prior sentence, such Participant shall have a nonforfeitable (vested) right to the amounts credited to the Participant's account(s) only to the extent such amounts had vested as of the date of the separation from service.

SECTION 9. TIME AND MANNER OF DISTRIBUTION

9.1 **Distribution Elections.**

(a) Any employee of the Company who is eligible to participate in the Plan as described in Section 3 shall elect the time and form of payment for his account(s) in accordance with the rules and procedures prescribed by the Administrator. Beginning with amounts credited to a Participant's account for 2017, the Participant's irrevocable distribution election will be effective only for one Plan Year and will apply to amounts credited to the Participant's account for that Plan Year (or portion of that Plan Year) to which the distribution election relates, regardless of when such amounts are otherwise scheduled to be contributed.

(b) The Administrator may establish election periods during which a Participant's irrevocable election must be received by the Administrator. However, no election may be made or accepted after the December 31 immediately preceding the Plan Year for which the election is to be effective. Notwithstanding the foregoing, in the Plan Year in which an employee of the Company first becomes eligible to participate in the Plan, the Participant may make his distribution election within 30 days after the date upon which he becomes eligible to participate. A distribution election that is not timely made with respect to a Plan Year, as determined by the Administrator, shall have no effect with respect to such Plan Year and shall be considered void.

(c) In the event that a Participant fails to make a valid distribution election for a Plan Year, the Participant will be deemed to have elected to receive the amounts credited to his account

for such Plan Year in a single lump sum payment upon the Participant's "separation from service" with the Company (within the meaning of Code Section 409A).

9.2 **Form of Distribution.**

(a) Each Participant shall elect to receive the amounts credited to his account for each Plan Year in one of the following modes of distribution:

(i) a single lump sum payment; or

(ii) annual installments over a period of up to ten (10) years, the amount of each installment to equal the balance of the Participant's vested account(s) immediately prior to the installment divided by the number of installments remaining to be paid. Each subsequent installment shall be made on the first business day of the calendar month following the one (1) year anniversary of the prior payment.

(b) With respect to any account established for amounts credited to the Plan on behalf of a Participant for Plan Years prior to 2017, distribution of such account(s) shall be made in accordance with the Participant's prior election.

9.3 **Time of Distribution.** Subject to the provisions in this Section 9 and the provisions of Sections 10 and 14, distribution of a Participant's vested account(s) shall be made or commence as follows:

(a) If the Participant elected a single lump sum payment, such lump sum payment shall be made within ninety (90) days following the Participant's "separation from service" with the Company (within the meaning of Code Section 409A); or

(b) If the Participant elected annual installments:

(i) for any account(s) established for amounts credited to the Plan on behalf of a Participant for Plan Years prior to 2017, the annual installments shall commence within ninety (90) days following the Participant's "separation from service" with the Company (within the meaning of Code Section 409A) or, if later, the date the Participant attains age sixty-five (65);

(ii) for any account(s) established for amounts credited to the Plan on behalf of a Participant for Plan Years on and after 2017, the annual installments shall commence within ninety (90) days following the Participant's "separation from service" with the Company (within the meaning of Code Section 409A) or if later, the date the Participant attains age sixty-five (65), as elected by the Participant in accordance with rules and procedures prescribed by the Administrator

provided, however that, in either case, if the Participant is a "specified employee" of the Company (as defined under Section 409A(a)(2)(B)(i) of the Code) on the date of separation from service, distribution shall not be made or commence prior to the first business day after the date that is six (6) months after the Participant's separation from service or, if earlier, within ninety (90) days following the date of the Participant's death. "Specified employees"

shall be determined in accordance with the Company's *Specified Employee Policy Regarding Compensation* , which is attached as Annex A.

Notwithstanding the foregoing, payment may be delayed under any of the circumstances permitted under said Section 409A. Provided, further, that, if any amounts credited to a Participant's vested account(s) become subject to tax under Section 409A of the Code, the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A and related Treasury Regulations shall be immediately distributed to the Participant.

Payment shall be treated as made upon the date specified under the Plan if payment is made on such date or a later date within the same taxable year of the Participant or, if later, by the fifteenth (15th) day of the third (3rd) calendar month following the specified payment date (or, if payment may be made during a specified period of time, the first date in such period), provided the Participant is not permitted, directly or indirectly, to designate the taxable year of the payment.

SECTION 10. DEATH BENEFIT

In the event of the death of a Participant while in the employ of the Company, vesting in the Participant's account(s) shall be one hundred percent (100%), if not otherwise one hundred percent (100%) vested under Section 8, with the value of the Participant's account(s) being distributed to the Participant's Beneficiary, in a single lump sum payment, within the period from (i) the date of the Participant's death to (ii) December 31 of the year following the year of the Participant's death.

In the event a Participant dies (a) after distribution has commenced under the Plan or (b) after separation from service, but prior to the date distribution is made or commences, the vested balance of the Participant's account(s), if any, shall be distributed to the Participant's Beneficiary, in a single lump sum payment, within the period set forth in the preceding paragraph.

Payment shall be treated as made upon the date specified under the Plan if payment is made at such date or a later date within the same taxable year of the Participant or, if later, by the fifteenth (15th) day of the third (3rd) calendar month following the specified payment date (or, if payment may be made during a specified period of time, the first date in such period), provided neither the Participant nor any Beneficiary is permitted, directly or indirectly, to designate the taxable year of the payment.

SECTION 11. BENEFICIARY DESIGNATION

A Participant may designate the person or persons to whom the Participant's vested account(s) under the Plan shall be paid in the event of the Participant's death, in accordance with rules and procedures established by the Administrator. If no Beneficiary is designated, or no Beneficiary survives the Participant, payment shall be made to the Participant's surviving spouse, or if none, to the Participant's estate. If a Beneficiary survives the Participant, but dies before the balance payable to the Beneficiary has been distributed, any remaining balance shall be paid to the Beneficiary's estate.

SECTION 12. PLAN ADMINISTRATION

12.1 **Authority of Administrator.** The Administrator has the discretionary authority to interpret and construe any provision of the Plan and any agreement or instrument entered into under the Plan, to determine eligibility and benefits under the Plan, to prescribe, amend, waive and rescind rules and regulations relating to the Plan, to adopt such forms as it may deem appropriate for the administration of the Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan or the provisions of Section 409A of the Code and the regulations and rulings promulgated thereunder. Determinations, interpretations or other actions made or taken by the Administrator under the Plan shall be final and binding for all purposes and upon all persons.

12.2 **Delegation of Authority by the Board.** Notwithstanding the general authority of the Administrator to select Participants of the Plan and determine the amount of contributions to be credited to Participants' plan account(s), the Board may, by resolution, expressly delegate to one or more executive officers of the Company the authority, solely with respect to employees who are not subject to Section 16 of the Securities Exchange Act of 1934, as amended, to determine, within the parameters set forth in the Plan or established by the Board or the Administrator, the amount of any contributions to be credited to Participants' account(s) as bookkeeping entries.

12.3 **Hold Harmless.** The Company shall indemnify, hold harmless and defend the Administrator (and its delegates) and each executive officer appointed by the Board pursuant to Section 12.2 from any liability which any of them may incur in connection with the performance of its duties in connection with this Plan, so long as the Administrator (or such delegate or executive officer) was acting in good faith and within what the Administrator (or such delegate or executive officer) reasonably understood to be the scope of its duties.

12.4 **Appeal Procedure.**

(a) Claims for benefits under the Plan made by a Participant or Beneficiary (the "claimant") must be submitted in writing to the Administrator.

If a claim is denied in whole or in part, the Administrator shall notify the claimant within ninety (90) days after receipt of the claim (or within one hundred eighty (180) days, if special circumstances require an extension of time for processing the claim, and provided written notice indicating the special circumstances and the date by which a final decision is expected to be rendered is given to the claimant within the initial ninety (90) day period). If notification is not given in such period, the claim shall be considered denied as of the last day of such period and the claimant may request a review of the claim.

The notice of the denial of the claim shall be written in a manner calculated to be understood by the claimant and shall set forth the following:

(i) the specific reason or reasons for the denial of the claim;

(ii) the specific references to the Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary; and

(iv) a statement that any appeal of the denial must be made by giving to the Administrator, within sixty (60) days after receipt of the denial of the claim, written notice of such appeal, such notice to include a full description of the pertinent issues and basis of the claim.

(b) Upon denial of a claim in whole or part, the claimant (or his duly authorized representative) shall have the right to submit a written request to the Administrator for a full and fair review of the denied claim, to be permitted to review documents pertinent to the denial, and to submit issues and comments in writing. Any appeal of the denial must be given to the Administrator within the period of time prescribed under (a)(iv) above. If the claimant (or his duly authorized representative) fails to appeal the denial to the Administrator within the prescribed time, the Administrator's adverse determination shall be final, binding and conclusive.

The Administrator may hold a hearing or otherwise ascertain such facts as it deems necessary and shall render a decision which shall be binding upon both parties. The Administrator shall advise the claimant of the results of the review within sixty (60) days after receipt of the written request for the review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible but not later than one hundred twenty (120) days after receipt of the request for review. If such extension of time is required, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. The decision of the review shall be written in a manner calculated to be understood by the claimant and shall include specific reasons for the decision and specific references to the pertinent Plan provisions on which the decision is based. The decision of the Administrator shall be final, binding and conclusive.

SECTION 13. FUNDING

13.1 **Plan Unfunded.** The Plan is unfunded for tax purposes and for purposes of Title I of ERISA. Accordingly, the obligation of the Company to make payments under the Plan constitutes solely an unsecured (but legally enforceable) promise of the Company to make such payments, and no person, including any Participant or Beneficiary shall have any lien, prior claim or other security interest in any property of the Company as a result of this Plan. Any amounts payable under the Plan shall be paid out of the general assets of the Company and each Participant and Beneficiary shall be deemed to be a general unsecured creditor of the Company.

13.2 **Rabbi Trust.** The Company may enter into a grantor trust to pay its obligations hereunder (e.g., a rabbi trust), the assets of which shall be, for all purposes, the assets of the Company. In the event the trustee of such trust is unable or unwilling to make payments directly to Participants and Beneficiaries and such trustee remits payments to the Company for delivery to Participants and Beneficiaries, the Company shall promptly remit such amount, less applicable income and other taxes required to be withheld, to the Participant or Beneficiary.

SECTION 14. FORFEITURE OF BENEFITS

Notwithstanding any provision of this Plan to the contrary, if any Participant is discharged from employment with the Company for cause due to willful misconduct, dishonesty, or conviction of a crime or felony, all as determined in the sole discretion of the Administrator, the rights of such Participant (or any Beneficiary of such Participant) to any present or future benefit under the Plan (whether or not vested) shall be forfeited, to the extent not otherwise prohibited by applicable law.

SECTION 15. AMENDMENT

The Board shall have the right to amend, suspend or terminate the Plan at any time subject to the provisions of Section 409A of the Code; provided, however, that no such action shall, without the Participant's consent, impair the Participant's right with respect to any existing vested account(s) under the Plan. Subject to the provisions of Section 14, the termination of the Plan, with respect to some or all of the Participants, and any resulting distribution of the account balances of such affected Participants, shall be made in accordance with the provisions of Section 409A of the Code and shall not constitute the impairment of such Participant's rights hereunder.

SECTION 16. NO ASSIGNMENT

A Participant's right to the amount credited to his vested account(s) under the Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's Beneficiary.

SECTION 17. COMPANY-OWNED LIFE INSURANCE ("COLI")

17.1 **Company Owns All Rights.** In the event that, in its discretion, the Company purchases a life insurance policy or policies insuring the life of any Participant to allow the Company to informally finance and/or recover, in whole or in part, the cost of providing the benefits hereunder, neither the Participant nor any Beneficiary shall have any rights whatsoever therein. The Company shall be the sole owner and beneficiary of any such policy or policies and shall possess and may exercise all incidents of ownership therein, except in the event of the establishment of and transfer of said policy or policies to a trust by the Company as described in Section 13.2 hereof.

17.2 **Participant Cooperation.** If the Company decides to purchase a life insurance policy or policies on any Participant, the Company shall so notify such Participant. Such Participant shall take whatever actions may be necessary to enable the Company to timely apply for and acquire such life insurance and to fulfill the requirements of the insurance carrier relative to the issuance thereof as a condition of eligibility to participate in the Plan. Any Participant who declines to supply information or to otherwise cooperate so that the Company may obtain life insurance on behalf of such Participant shall be denied participation in the Plan.

SECTION 18. SUCCESSORS AND ASSIGNS

The provisions of this Plan shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Participant, his Beneficiaries, heirs, legal representatives and assigns.

SECTION 19. NO CONTRACT OF EMPLOYMENT

Nothing contained herein shall be construed as a contract of employment between a Participant and the Company, or as a right of the Participant to continue in employment with the Company, or as a limitation of the right of the Company to discharge the Participant at any time, with or without cause.

SECTION 20. ENFORCEABILITY

If any term or condition of the Plan shall be invalid or unenforceable to any extent or in any application, then the remainder of the Plan, and such term or condition, except to such extent or in such application, shall not be affected thereby, and each and every term and condition of the Plan shall be valid and enforced to the fullest extent and in the broadest application permitted by law.

SECTION 21. CONSTRUCTION

Wherever appropriate, the use of the masculine gender shall be extended to include the feminine and/or neuter, and the singular form of words extended to include the plural, or vice versa.

SECTION 22. GOVERNING LAW

This Plan shall be interpreted in a manner consistent with Code Section 409A and the guidance issued thereunder by the Department of the Treasury and the Internal Revenue Service and shall also be subject to and construed in accordance with the provisions of ERISA, where applicable, and otherwise by the laws of the State of North Dakota, without regard to the conflict of law provisions of any jurisdiction.

ANNEX A

MDU RESOURCES GROUP, INC.
Specified Employee Policy Regarding Compensation

For purposes of all plans, agreements and other arrangements of MDU Resources Group, Inc. (the "Company") and its affiliates that are subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), the determination of individuals who are "specified employees," as that term is defined in Code Section 409A, shall be determined under this policy, as may be amended from time to time pursuant to paragraph 4 ("Policy").

1. **Establishment of Specified Employee List.** Between January 1 st and April 1 st of each calendar year, the Company shall establish a "Specified Employee List." The Specified Employee List shall become effective on April 1 st of the calendar year in which the Specified Employee List is established and shall cease to be effective on March 31 st of the following calendar year. Any individual who, as of his or her "separation from service" (within the meaning of Code Section 409A(a)(2)(A)(i)), is on the Specified Employee List then in effect shall be considered a "specified employee" for purposes of Section 409A.

2. **Inclusion on the Specified Employee List.** The Specified Employee List shall include all individuals who, at any time during the Determination Year, met the requirements of Code Section 416(i)(l)(A)(i), (ii) or (iii) and the related regulations (but without regard to Code Section 415(i)(5)). For this purpose, "Determination Year" shall mean the calendar year ending on the December 31 st prior to the April 1 st when the Specified Employee List becomes effective. For purposes of determining which individuals meet the requirements of Code Section 416(i)(l)(A)(i), (ii) or (iii) and the related regulations (but without regard to Code Section 415(i)(5)), the term gross compensation shall have the meaning set forth in the MDU Resources Group, Inc. 401(k) Retirement Plan, as may be amended from time to time (the "Retirement Plan").

3. **Delayed Payments.** If any employee is determined to be a specified employee under this Policy, any compensation to be provided to such specified employee that is required to be delayed to comply with Code Section 409A(a)(2)(B)(i) shall not be provided before the date that is six months after the date of such separation from service (or, if earlier than the end of such six-month period, the date of death of the specified employee). This Policy shall not apply to any payment that is not treated as deferred compensation under, or is otherwise excluded from, the requirements of Code Section 409A and the regulations promulgated thereunder.

4. **Changes to Policy.** The Company may amend or modify this Policy at any time; provided, however, that any changes made to the period during which the Specified Employee List is effective or the Determination Year shall not take effect for a period of at least 12 months and any changes made to the definition of compensation (either in the Policy or in the Retirement Plan) shall not be used to identify specified employees until the next Specified Employee List is established.

MDU RESOURCES GROUP, INC.

SUPPLEMENTAL INCOME SECURITY PLAN

(As Amended and Restated Effective as of May 10, 2017)

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INTRODUCTION

The objective of the MDU Resources Group, Inc. Supplemental Income Security Plan (the "Plan") is to provide certain levels of death benefits and retirement income for a select group of management or highly compensated employees and their families. Eligibility for participation in this Plan shall be limited to management or highly compensated employees who are selected by the MDU Resources Group, Inc. ("Company") Board of Director's Compensation Committee ("Compensation Committee") upon recommendation of the Chief Executive Officer of the Company ("CEO") prior to February 11, 2016. This Plan became effective January 1, 1982, has been amended from time to time thereafter, and most recently has been amended and restated effective as of May 10, 2017.

The Plan is intended to constitute an unfunded deferred compensation plan maintained by the Company primarily for the purpose of providing non-elective deferred compensation for a select group of management or highly compensated employees.

ARTICLE I -- DEFINITIONS

Unless a different meaning is plainly implied by the context, the following terms as used in this Plan shall have the following meanings:

1.1 " Administrator " means the Compensation Committee or any other person to whom the Compensation Committee has delegated the authority to administer the Plan. The Vice President - Human Resources of the Company is initially delegated the authority to perform the administrative responsibilities required under the Plan.

1.2 " Affiliated Company " means any current or future corporation which (a) is in a controlled group of corporations (within the meaning of Section 414(b) of the Code) of which the Company is a member and (b) has been approved by the Compensation Committee upon recommendation of the Chief Executive Officer to adopt the Plan for the benefit of its Employees.

1.3 " Beneficiary " means an individual or individuals, any entity or entities (including corporations, partnerships, estates, or trusts) that shall be entitled to receive benefits payable pursuant to the provisions of this Plan by virtue of a Participant's death; provided, however, that if more than one such person is designated as a Beneficiary hereunder, each such person's proportionate share of the death benefit hereunder must clearly be set forth in a written statement of the Participant received by and filed with the Administrator prior to the Participant's death. If such proportionate share for each Beneficiary is not set forth in the designation, each Beneficiary shall receive an equal share of the death benefits provided hereunder.

1.4 " Company " means MDU Resources Group, Inc., and its successors, if any.

1.5 " Effective Date " of the Plan means January 1, 1982. The Effective Date of this amendment and restatement of the Plan is May 10, 2017.

1.6 " Eligible Retirement Date " means the First Eligible Retirement Date and the last day of each subsequent calendar month.

1.7 " Employee " means each person actively employed by an Employer, as determined by such Employer in accordance with its practices and procedures.

1.8 " Employer " means the Company and any Affiliated Company which shall adopt this Plan with respect to its Employees with the prior approval of the Company as set forth in Article 7 of the Plan.

1.9 “ ERISA ” means the Employee Retirement Income Security Act of 1974, as amended.

1.10 " First Eligible Retirement Date " for a Participant means the last day of the month during which such Participant is both no longer actively employed by the Employer and has attained at

least age 65. For a Key Employee whose employment ceases (for reasons other than death) within six months of becoming age 65 or any time thereafter, the First Eligible Retirement Date that applies to the Monthly Post-Jobs Act Benefit will be six months after the last day of the month during which such Key Employee is both no longer actively employed by the Employer and has attained at least age 65.

1.11 " Frozen " in conjunction with the Pension Plan means that benefit accruals ceased for all participants in these plans as of December 31, 2009.

1.12 " Key Employee " is a Participant determined to be a Specified Employee under the Company's *Specified Employee Policy Regarding Compensation* which was previously adopted by the Company and is attached as Appendix C.

1.13 " Limitation on Benefits " shall mean the statutory limitation on the maximum benefit that may be payable to participants under a Pension Plan due to the application of certain provisions contained in the Code.

1.14 " Monthly Post-Jobs Act Benefit " is the Participant's total monthly benefit specified in 3.1, minus the Monthly Pre-Jobs Act Benefit.

1.15 " Monthly Pre-Jobs Act Benefit " is the Participant's total monthly vested benefit specified in 3.3(a), 3.3(b) or 3.3(c), if any, as of December 31, 2004.

1.16 " Participant " means a present or former management or highly compensated Employee selected by the Compensation Committee upon recommendation of the Chief Executive Officer of the Company to receive benefits under this Plan. An Employee will become a Participant at the time such Employee commences participation hereunder pursuant to the provisions of Section 2.1 hereof.

1.17 "Pension Plan" means the MDU Resources Group, Inc. Pension Plan for Non-Bargaining Unit Employees, the Williston Basin Interstate Pipeline Company Pension Plan, or the Knife River Corporation Salaried Employees' Pension Plan, as in effect on the Effective Date, amended from time to time, and Frozen as of December 31, 2009.

1.18 "Plan" means the MDU Resources Group, Inc. Supplemental Income Security Plan, as embodied herein, and any amendments thereto.

1.19 "Plan Year" means the calendar year. The first Plan Year for this Plan shall be the 1982 calendar year.

1.20 "Salary" means annual base salary payable by an Employer to a Participant excluding (a) bonuses, (b) incentive compensation, and (c) any other form of supplemental income.

1.21 "Standard Actuarial Factors" means, with respect to a Participant, the actuarial factors and assumptions commonly used for the calculation of actuarial equivalents for retirement plans as determined by the Administrator.

1.22 "Standard Life Insurance" means life insurance that could be purchased from a commercial life insurance company at standard rates without a surcharge assessed, based on an individual's general good health.

1.23 "Standard Underwriting Factors" means life insurance rating factors utilized by a commercial life insurance company selected by the Administrator which are based on the risk assessment classifications utilized by such insurer to determine if an applicant qualifies for insurance at standard rates or if health or other factors might require a surcharge.

1.24 "Year of Participation" means each 12 consecutive months of participation in the Plan by a Participant while actively employed by one or more of the Employers (including while such

Participant is qualified as totally disabled as defined in Article V), as determined at the sole discretion of the Administrator.

ARTICLE II -- ELIGIBILITY

2.1 Eligibility for Participation . The Compensation Committee, upon recommendation of the Chief Executive Officer, shall determine which management or highly compensated Employees may be eligible to participate in the Plan. The general criteria for initial consideration of an Employee include, but are not limited to, the following: (a) either an officer or a management employee of an Employer earning an annual base salary of $165,000; (b) an executive who makes a significant contribution to the Company's success and profitability; and (c) an executive in a business unit where benefits of this nature are a common practice, or there is a specific need to recruit and retain key executives. Each Employee who is selected as eligible to participate hereunder and who meets the requirements for participation set forth under Section 2.2 hereof shall commence participation on the first day of the month coincident with or next following the date of such Employee's selection. The annual base salary threshold is $165,000 as of January 1, 2008. The Administrator will, from time to time, compare and possibly adjust the annual base salary threshold to competitive practice and recommend adjustments accordingly to the Compensation Committee. No employee shall be selected as an additional Participant in the Plan after February 11, 2016.

2.2 Requirements for Participation . In order to be eligible to participate in the Plan, an Employee selected by the Compensation Committee must (a) be actively at work for one or more of the Employers; (b) have a current state of health and physical condition that would satisfy customary requirements for insurability under Standard Life Insurance; provided, however, that no provision of this Plan shall be construed or interpreted to limit participation in the Plan in contravention of the Americans With Disabilities Act and related federal and state laws; and (c) consent to supply information

or to otherwise cooperate as necessary to allow the Company to obtain life insurance on behalf of such Employee (as set forth under Section 6.3 of the Plan).

2.3 Eligibility for Benefits. Subject to the provisions of Article III, Plan benefits may commence as of the earlier to occur of (a) the first day of the month following the date of the Participant's death or (b) the Participant's First Eligible Retirement Date if the Participant elects to receive retirement benefits under Article III hereof.

2.4 Relationship to Other Plans. Participation in the Plan shall not preclude or limit the participation of the Participant in any other benefit plan sponsored by one or more of the Employers for which such Participant otherwise would be eligible. However, any benefits payable under this Plan shall not be deemed salary or compensation to the Participant for purposes of determining benefits under any other employee benefit plan maintained by one or more of the Employers.

2.5 Forfeiture of Benefits. Notwithstanding any provision of this Plan to the contrary, if any Participant is discharged from employment by one or more of the Employers for cause due to willful misconduct, dishonesty, or conviction of a crime or felony, all as determined at the sole discretion of the Compensation Committee, the rights of such Participant (or any Beneficiary of such Participant) to any present or future benefit under this Plan shall be forfeited to the extent not prohibited by applicable law.

ARTICLE III -- SUPPLEMENTAL DEATH AND RETIREMENT BENEFITS

3.1 Amount of Benefit.

(a) Subject to the vesting requirements of Section 3.2 and provisions of Section 3.3 and 3.4 of the Plan, the monthly supplemental death and/or retirement benefits payable on behalf of (or to) a Participant as of such Participant's date of death (or First Eligible Retirement Date) will be an amount determined by the Compensation Committee upon recommendation of the Chief

Executive Officer at the time of the Participant's commencement of participation in the Plan, and may be increased from time to time thereafter by the Compensation Committee upon recommendation of the Chief Executive Officer; provided, however, no benefit level increases shall be granted after February 11, 2016. Subject to the discretion of the Compensation Committee upon recommendation of the Chief Executive Officer, a Participant shall generally be entitled to have a monthly supplemental death benefit paid on such Participant's behalf (or be entitled to receive a monthly supplemental retirement benefit) equal to the monthly death benefit or monthly retirement benefit (as applicable) corresponding to the Participant's Salary in effect at the date such initial or revised benefit determination is to be effective, all as set forth herein

(i) Appendix A for Participants in the Plan before January 1, 2010, and who have not received a benefit level increase after December 31, 2009, or

(ii) Appendix A-1 for Participants in the Plan before January 1, 2010, and who have received a benefit level increase on or after January 1, 2010, or

(iii) Appendix A-1 for Participants who join the Plan between January 1, 2010 and February 11, 2016.

No Participant shall receive a benefit level increase that results in a reduced benefit.

Increases in Salary do not automatically result in increases to a Participant's level of benefits. Without limiting the scope of the immediately preceding sentence, it is intended that increases to a Participant’s benefit level after commencement of participation in the Plan will be made only to the extent the Participant’s current compensation exceeds the then current annual base salary threshold determined pursuant to Section 2.1 as a general criterion for eligibility.

(b) Participants who died, terminated employment with, or retired from, the Employers prior to January 1, 2002, will receive benefits hereunder in accordance with the terms of the

Plan as in effect at the time of the Participant's death, termination of employment or retirement from the Employers.

(c) The benefit amounts determined by the Compensation Committee upon recommendation of the Chief Executive Officer pursuant to Section 3.1(a) above are based on the assumption that each Participant's health and physical condition at the time of such Participant's commencement of participation in the Plan meets customary requirements for Standard Life Insurance. Benefits under the Plan may be reduced by the Compensation Committee upon recommendation of the Chief Executive Officer within a reasonable period following the establishment of such benefit level in accordance with Standard Underwriting Factors, but only with respect to that portion of the monthly death or retirement benefit for which the criteria for health and physical condition are not met. Participants will be notified of any such reduction within a reasonable period following participation in the Plan. Once benefits have been reduced under this Section 3.1, such benefits shall not be further reduced for the remainder of the Participant's participation in the Plan.

(d) Participants who die while actively employed will be considered to be 100% vested for the death benefit, and not subject to the vesting schedule. However, once the participant is no longer actively employed (e.g. resignation, termination, disability, etc.) Section 3.2 applies.

3.2 Vesting.

(a) If a Participant retires or terminates employment with an Employer before the Participant completes at least 10 Years of Participation, the monthly death and/or retirement benefits to which such Participant otherwise would be entitled under the terms of Section 3.1 hereof shall vest as follows:

Vesting Schedule

Years of Participation Completed by the Participant	Percent of Section 3.1 Benefits Payable
1	0%
2	0%
3	20%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

(b) Participants receiving a benefit increase on or after January 1, 2010, will be subject to an additional vesting period with respect to the benefit level increase. The additional vesting period will be the longer of:

(i) Three Years of Participation, or

(ii) Ten Years of Participation minus the Participant's number of Years of Participation at the time the benefit level increase is granted to the Participant.

If, after receiving a benefit level increase, a Participant's employment terminates, for reasons other than death or being an officer of the Employer who attains age 65 and retires, prior to the end of the additional vesting period associated with the benefit level increase, the benefit level increase will be forfeited. In this case, the Participant's benefit level will revert to the benefit level in effect immediately prior to the benefit level increase.

If, after receiving a benefit level increase, a Participant's employment is terminated due to death, then the additional vesting period is waived and the survivor's benefits will reflect the benefit level increase.

If, after receiving a benefit level increase, the Participant is a) an officer of the Employer, b) attains age 65, and c) retires prior to the end of the additional vesting period associated with the benefit level increase, he or she will vest in the benefit level increase as follows:

"Years of Participation" After Benefit Level Increase	Vesting Percentage of Benefit Level Increase
Less than 1	0%
Between 1 and 2	33%
Between 2 and 3	66%
3 or More	100%

The above vesting schedule under Section 3.2(b) applies only to Participants who are officers of the Employer, attain age 65, retires, and who have satisfied the vesting requirements under Section 3.2(a).

The Compensation Committee, upon recommendation of the Chief Executive Officer, may waive any or all of the additional vesting requirement associated with a benefit level increase.

3.3 Participant's Election of Monthly Pre-Jobs Act Benefit . Upon attainment of age 65 or, as of such Participant's First Eligible Retirement Date (if later), a Participant will be entitled to determine the form of benefit payable under subsection (a) hereof, and the date of commencement of such benefits, subject to the approval of the Administrator, in accordance with the terms of the Plan. The Participant may elect:

(a) to defer any payments and retain a future monthly death benefit in amounts determined pursuant to Section 3.1 hereof, multiplied by the appropriate percentage amount set forth in section 3.2, or

(b) in lieu of any death benefits under this Plan, a monthly retirement benefit determined in accordance with Section 3.1, multiplied by the appropriate percentage amount set forth in Section 3.2, with no death benefit, or

(c) a percentage of each benefit described in subsections (a and b) above. The percentage of each benefit must be in even increments of ten percent (10%).

(i) If a Participant has elected to receive less than one hundred percent (100%) of such Participant's monthly retirement benefit (e.g. 50%), the Participant may subsequently elect to begin receiving an additional percentage retirement benefit (e.g. another 20%). There may be no more than two (2) such additions during the Participant's lifetime, and no more than one (1) such addition during any calendar year.

(ii) Any such addition in retirement benefit payments will result in an equal percentage reduction in death benefits, to the percentage change in retirement benefit.

(iii) Once retirement benefit payments have started, Participants shall not be entitled to subsequently decrease retirement benefit payments.

(d) Elections under this Section 3.3 must be communicated in writing to the Administrator and will be effective as of the first day of the first month following the Administrator's receipt and the approval of such request by the Chief Executive Officer.

3.4 Participant’s Election of Monthly Post-Jobs Act Benefit. Upon attainment of age 65, or as of such Participant’s First Eligible Retirement Date (if later), the Participant’s Monthly Post-Jobs Act Benefit will automatically be designated as a retirement benefit. A Participant may, however, make a one-time written election to avoid the automatic designation of the Monthly Post-Jobs Act Benefit as a retirement benefit, and instead designate such benefit as a death benefit (or a combination of retirement and death benefit). The written election must be made by the Participant on or before the Participant reaches age 64, and once the written election is made it may not be changed. Should a

Participant elect a retirement benefit and subsequently die before attaining age 65, the Monthly Post-Jobs Act Benefit will revert to a death benefit. Should a Participant who is a Key Employee elect a retirement benefit and subsequently die before their First Eligible Retirement Date, the Monthly Post-Jobs Act Benefit will revert to a death benefit.

3.5 Payment of Monthly Benefits.

(a) Death Benefits. Any death benefits payable with respect to a Participant pursuant to Sections 3.3(a)(b) or (c) or Section 3.4 shall commence on the first day of the calendar month following the date of the Participant's death and shall be payable in monthly installments for a period of 180 months.

(b) Retirement Benefit for the Monthly Pre-Jobs Act Benefit. The Monthly Pre-Jobs Act Benefit elected as retirement benefits payable under this Plan shall commence on the Eligible Retirement Date selected by the Participant (upon 30 day's written notice to the Administrator) and will be payable to such Participant in monthly installments for a period of 180 months. In the event the Participant dies prior to the completion of such 180-month period, the balance of such retirement benefits shall be paid to the Participant's Beneficiary at such times and in such amounts as if the Participant had not died, such payment being made in addition to any death benefits payable under Section 3.3(c) hereof. To the extent a Participant elects to commence receiving increased retirement benefits pursuant to Section 3.3(c) (i), the amount of increase of retirement benefits shall be in the form of a monthly benefit payable for a separate 180-month period.

(c) Retirement Benefit for the Monthly Post-Jobs Act Benefit. Unless the Participant elects in writing to receive the Monthly Post-Jobs Act Benefit in the form of a monthly death benefit (as specified in 3.4), the Monthly Post-Jobs Act Benefit will take the form of a retirement payment and will be payable as follows:

(i) to a Key Employee, payments will begin the later of (I) the First Eligible Retirement Date, or (II) six months after the last day of the month during which such Key Employee is both no longer actively employed by the Employer and has attained at least age 65. If such payments begin on (c) (i) (II), the first monthly payment to the Key Employee will include a total of seven months' payments. Also, such first monthly payment will include an interest credit on the first six months' payments equivalent to one-half of the annual prime interest rate contained in the *Wall Street Journal* on the Key Employee's last day of employment (or the first business day after the Key Employee's last day of employment should the last day of employment be a non-business day). Payments to the Key Employee will last 173 months. Should the Key Employee die prior to the completion of the 173 month period, the balance of such retirement benefits shall be paid to the Participant's Beneficiary at such times and in such amounts as if the Participant had not died, such payment being made in addition to any death benefits payable under Sections 3.3(a) hereof.

(ii) to a Participant who is not a Key Employee, payments will begin on the First Eligible Retirement Date and be payable to such Participant in monthly installments for a period of 180 months. In the event the Participant dies prior to the completion of such 180-month period, the balance of such retirement benefits shall be paid to the Participant's Beneficiary at such times and in such amounts as if the Participant had not died, such payment being made in addition to any death benefits payable under Sections 3.3(a).

(d) <u>Actuarial Equivalent Alternative Forms for the Monthly Pre-Jobs Act Benefit.</u> The normal form of retirement benefit for the Monthly Pre-Jobs Act Benefit to which a Participant shall

be entitled shall be determined under paragraph 3.4(b). Alternatively, a participant may elect to receive their Monthly Pre-Jobs Act Benefit in the form of a retirement benefit in one of the following actuarially equivalent forms (as determined by the Administrator), provided, however, that each alternative form shall also be payable for a certain period of 180 months: (i) the lifetime of the Participant; (ii) the lifetime of the Participant with the same amount payable to the Participant continued thereafter for the lifetime of the Participant's spouse; or (iii) the lifetime of the Participant with 67% of the amount payable to the Participant continued thereafter for the lifetime of the Participant's spouse. However, in no event will the Company incur more costs in providing the actuarial equivalent alternative form to the Participant than it would otherwise incur in providing the normal form of retirement benefit. Applying the discount rate used by the Company to calculate the FAS 87 expense, the present value of the Participant's retirement benefit will be calculated by the Administrator. The Administrator will then purchase an annuity at a cost no greater than the present value of the retirement benefit.

(e) Actuarial Equivalent Alternative Forms for the Monthly Post-Jobs Act Benefit. There are no Actuarial Equivalent Alternative Forms relating to the Monthly Post-Jobs Act Benefit.

(f) Single Sum Payment. Notwithstanding the provisions of subsections (a), (b), and (c) of this Section 3.5, the Administrator reserves the right to pay the Monthly Pre-Jobs Act Benefit in the form of an actuarially equivalent single sum (as determined by the Administrator) when retirement or death benefits are payable due to termination of employment, excluding disability, or death prior to the Participant's attainment of age 55, or upon the death of the Participant and the primary beneficiary(ies). The Single Sum Payment will not apply to the Monthly Post-Jobs Act Benefits.

3.6 Exclusions and Limitations.

(a) No death benefits will be payable with respect to a Participant in the event of such Participant's death by suicide within two (2) years after commencement of participation in the Plan, and

no benefit increase will apply in the event of any such Participant's death by suicide within two (2) years after such Participant becomes eligible for an increase in death benefits.

(b) In the event that a Participant misrepresents any health or physical condition at the time of commencement of participation in the Plan or at the time of a retirement or death benefit increase, no retirement or death benefit or retirement or death benefit increase will be payable under the Plan within two (2) years of such misrepresentation.

3.7 Death of a Beneficiary .

(a) In the event any Beneficiary predeceases the Participant, is not in existence, is not ascertainable, or is not locatable (see Section 6.11) as of the date benefits under the Plan become payable to such Beneficiary, Plan benefits shall be paid to such contingent Beneficiary or Beneficiaries as shall have been named by the Participant on the Participant's most recent Beneficiary election form that has been received and filed with the Administrator prior to the Participant's death. If no contingent Beneficiary has been named, the contingent Beneficiary shall be the Participant's estate.

(b) In the event any Beneficiary dies after commencing to receive monthly benefits under the Plan but prior to the payment of all monthly benefits to which such Beneficiary is entitled, remaining benefits shall be paid to a beneficiary designated by the deceased Beneficiary (the "Secondary Beneficiary"), provided such designation has been received and filed with the Administrator prior to the death of the Beneficiary. If no such person has been designated by the deceased Beneficiary, the Secondary Beneficiary shall be the estate of the Beneficiary. In the event the Secondary Beneficiary shall die prior to the payment of all benefits to which such Secondary Beneficiary is entitled, the remainder of such payments shall be made to such Secondary Beneficiary's estate. If the Administrator is in doubt as to the right of any person to receive benefits under the Plan, the Administrator may retain such amount, without liability for any interest thereon, until the rights thereto are determined, or the Administrator

may pay a single sum amount in accordance with Section 3.5 (f) into any court of competent jurisdiction and such payment shall be a complete discharge of the liability of the Plan and the Employer.

3.8 Discretion As To Benefit Amount . Notwithstanding the foregoing, the Compensation Committee upon recommendation of the Chief Executive Officer of the Company may, with full and complete discretion, disregard Standard Underwriting Factors and customary requirements for Standard Life Insurance in establishing and/or increasing the amount of any Participant's retirement or death benefit under the Plan.

3.9 Suspension of Benefits Upon Reemployment . Employment with any Employer subsequent to the commencement of Pre-Jobs Act benefits under this Article III may, at the sole discretion of the Compensation Committee upon recommendation of the Chief Executive Officer of the Company, result in the suspension of Pre-Jobs Act benefits for the period of such employment or reemployment.

ARTICLE IV -- REPLACEMENT RETIREMENT BENEFITS

4.1 Participation . Benefits under this Article IV shall be payable only to those Participants listed on Appendix B-1 and B-2. These Participants whose benefits, under a Pension Plan under which they otherwise participate, are reduced or limited by reason of the Limitation on Benefits as of December 31, 2009. Participants listed on Appendix B-1 shall be eligible to receive benefits under Article IV if their employment is terminated for reasons other than death at any time prior to attaining age 65. Additionally, Participants listed on Appendix B-2 may receive benefits under Article IV if they remain continuously employed until attaining age 60. Benefits under this Article IV (a) shall be payable only for such period that the benefits under the Pension Plan are actually reduced or limited and (b) shall terminate as of the last day of the month immediately preceding the month during which the Participant attains age sixty-five (65). Should the Participant die before his sixty-fifth (65th) birthday, and he had elected a joint and survivor form of payment (specified in Section 4.2 (c)), the Participant’s surviving

spouse will receive Article IV benefit payments until the date the Participant would have attained age 65. Furthermore, benefits under this Article IV also shall be payable only to those Participants who are active Employees on or after January 1, 1997. Except for Participants listed on Appendix B-1 or Appendix B-2, no current or future Participant will be eligible for benefits under this Article IV.

4.2 Amount and Method of Payment .

(a) Amount of Benefit . The amount, if any, of the monthly benefit payable to or on account of a Participant pursuant to this Article IV shall equal the difference of (i) minus (ii) where:

(i) equals the amount of monthly retirement benefits which would be provided to the Participant under the Pension Plan as of December 31, 2009, without regard to the Limitation of Benefits in effect on December 31, 2009; and

(ii) equals the amount of monthly retirement benefits payable to such Participant under the Pension Plan as of December 31, 2009, due to the application of the Limitation on Benefits in effect on December 31, 2009

provided, however, that no benefits shall be payable to a Participant under this Article IV unless the amount of such monthly benefit is at least fifty dollars ($50). The benefit amount provided under this Section 4.2(a) shall be determined with reference to the form of benefit determined under section 4.2(c) hereof and shall be calculated in accordance with the Standard Actuarial Factors utilized under the Pension Plan as of December 31, 2009.

(b) Vesting . A Participant shall be vested in benefits under this Article IV to the same extent as such Participant is vested in benefits under the applicable Pension Plan. Although the Pension Plan was Frozen as of December 31, 2009, vesting will continue for Participants listed on Appendix B-2.

(c) Payment of Benefit . The benefits provided under this Article IV shall be paid to each such Participant, surviving spouse (as defined under the applicable Pension Plan) or joint annuitant (as defined under the applicable Pension Plan). Benefits due the Participant under Article IV will commence automatically upon separation of employment from the Employer regardless of the Participant's timing of payment under the applicable Pension Plan, unless the Participant is a Key Employee, in which case Article IV payments will commence seven months after separation of employment from the Employer. If the Participant is a Key Employee, the payments otherwise due them in months one through six will be paid cumulatively on the seventh month after separation of employment. Also, the payment on the seventh month will include an interest credit on the first six months' payments equivalent to one-half of the annual prime interest rate contained in the *Wall Street Journal* on the Key Employee's last day of employment (or the first business day after the Key Employee's last day of employment should the last day of employment be a non-business day). A Participant is limited to receiving Article IV as either a single life annuity (i.e., the lifetime of the Participant) or a qualified joint and survivor annuity (i.e., the lifetime of the Participant with the same amount payable to the Participant continued thereafter for the lifetime of the Participant's spouse). Notwithstanding the ability for the Participant to receive a lump-sum payment for their pension benefit under the applicable Pension Plan, there is no lump-sum payment available to Article IV benefits. Payments shall be made in accordance with, and subject to, the terms and conditions of the applicable Pension Plan; provided, however, that no spousal consent shall be required to commence any form of payment under this Article IV.

(d) Commencement and Duration of Payments . Subject to Section 4.2(c), benefits provided under this Article IV shall commence automatically when the Participant becomes eligible for Article IV benefits, without regard to payment under any Pension Plan, and shall continue to age 65 or the death of the Participant, if prior to age 65, and, if applicable, in reduced amount until the death of the Participant's spouse or joint annuitant, whichever is applicable.

(e) Necessity of Actual Reduction. Notwithstanding any other provision of this Plan, no amount shall be payable under this Article IV unless the Participant's monthly benefit paid under the applicable Pension Plan is actually reduced because of application of the Limitation on Benefits. Benefits payable to a Participant under this Article IV shall not duplicate benefits payable to such Participant from any other plan or arrangement of the Company. In the event a change in law or regulation liberalizes the limitations applicable to determining the Limitation on Benefits such that a Participant may receive additional benefits under the applicable Pension Plan, and the applicable Pension Plan provides for the payment of such additional benefits to the Participant, the amount payable under this Article IV shall be reduced by a corresponding amount.

ARTICLE V -- DISABILITY BENEFITS

5.1 Monthly Disability Benefit.

(a) If a Participant becomes totally disabled following commencement of participation in the Plan, the Participant shall continue to receive credit for up to two (2) years of Participation under the Plan for so long as the Participant is totally disabled. Following termination of the participant's employment with the Employer, the Participant's monthly retirement benefits under Article III of the Plan shall commence beginning on or after the Participant's First Eligible Retirement Date.

(b) A Participant is "totally disabled" if such Participant is disabled within the meaning of the applicable long-term disability plan sponsored by such Participant's Employer, or as determined by Social Security.

(c) If a Participant who is totally disabled dies before attaining age 65, any death benefit payable to the Participant's Beneficiary will be determined and paid in accordance with the vesting schedule terms of Article III.

ARTICLE VI - MISCELLANEOUS

6.1 Amendment and Termination. Any action to amend, modify, suspend or terminate the Plan may be taken at any time, and from time to time, by resolution of the Board of Directors of the Company (or any person or persons duly authorized by resolution of the Board of Directors of the Company to take such action) in its sole discretion and without the consent of any Participant or Beneficiary, but no such action shall retroactively reduce any benefits accrued by any Participant under this Plan prior to the time of such action.

6.2 No Guarantee of Employment. Nothing contained herein shall be construed as a contract of employment between a Participant and any Employer or shall be deemed to give any Participant the right to be retained in the employ of any Employer.

6.3 Funding of Plan and Benefit Payments. This Plan is unfunded within the meaning of ERISA. Each Employer will make Plan benefit payments from its general assets. Each Employer may purchase policies of life insurance on the lives of Plan Participants and to refuse participation in the Plan to any Employee who, if requested to do so, declines to supply information or to otherwise cooperate so that the Employer may obtain life insurance on behalf of such Participant. The Employer will be the owner and the beneficiary of any such policy, and Plan benefits will be neither limited to nor secured by any such policy or its proceeds. Participants and their Beneficiaries shall have no right, title or interest in any such life insurance policies, in any other assets of any Employer or in any investments any Employer may make to assist it in meeting its obligations under the Plan. All such assets shall be solely the property of such Employer and shall be subject to the claims of such Employer's general creditors. There are no assets of any Employer that are identified or segregated for purposes of the payment of any benefits under this Plan. To the extent a Participant or any other person acquires a right to receive payments from an Employer under the Plan, such right shall be no greater than the right of

any unsecured general creditor of such Employer and such person shall have only the unsecured promise of the Employer that such payments shall be made.

6.4 Payment Not Assignable . Except in the case of a Qualified Domestic Relations Order described under Code Section 414(p), Participants and their Beneficiaries shall not have the right to alienate, anticipate, commute, sell, assign, transfer, pledge, encumber or otherwise convey the right to receive any payments under the Plan, and any payments under the Plan or rights thereto shall not be subject to the debts, liabilities, contracts, engagements or torts of Participants or their Beneficiaries nor to attachment, garnishment or execution, nor shall they be transferable by operation of law in the event of bankruptcy or insolvency. Any attempt, whether voluntary or involuntary, to effect any such action shall be null, void and of no effect.

6.5 Applicable Law . The Plan and all rights hereunder shall be governed by and construed according to the laws of the State of Delaware, except to the extent such laws are preempted by the laws of the United States of America.

6.6 Claims Procedure .

(a) Right to File a Claim . Participants and Beneficiaries are entitled to file a claim with respect to benefits or other aspects of the operation of the Plan. The claim is required to be in writing and must be made to the Administrator.

(b) Denial of Claim . If the claim is denied by the Administrator, the claimant shall be notified in writing within ninety (90) days after receipt of the claim or within one hundred eighty (180) days after such receipt if special circumstances require an extension of time. If special circumstances require an extension of time in order to review the claim, the claimant will be furnished with a written notice of the extension of time within the initial ninety (90) day period. The notice will include an explanation of the special circumstances that require an extension and the date by which the

Administrator expects to make its determination. In no event, however, will the extension of time exceed 180 days from the date of the receipt of the claim by the Administrator. A written notice of denial of the claim shall contain the following information:

(i) Specific reason or reasons for the denial;

(ii) Specific reference to the pertinent provisions of the Plan on which the denial is based;

(iii) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why the material or information is necessary; and

(iv) A description of the Plan's review procedures and the time limits applicable to the procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following a denial upon review of the claim.

(c) Claims Review Procedure .

(i) Participants or Beneficiaries may request that the Administrator review the denial of the claim. Such request must be made within sixty (60) days following the date the claimant received written notice of the denial of the claim. The Administrator shall afford the claimant a full and fair review of the decision denying the claim and shall:

(A) Provide, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to the claim; and

(B) Permit the claimant to submit written comments, documents, records, and other information relating to the claim.

(ii) The decision on review by the Administrator shall be in writing and shall be issued within sixty (60) days following receipt of the request for review. The period for decision may be extended to a date not later than one-hundred and twenty (120) days after such receipt if the Administrator determines that special circumstances require extension. If special circumstances require an extension of time, the claimant shall be furnished written notice prior to the termination of the initial sixty (60) day period which explains the special circumstances requiring an extension of time and the date by which the Administrator expects to render its decision on review. The decision on review shall include:

(A) Specific reason or reasons for the adverse determination;

(B) References to the specific provisions in the Plan on which the determination is based;

(C) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to the claimant's claim; and

(D) A statement of the claimant's right to bring an action under Section 502(c) of ERISA.

(iii) Any action required or authorized to be taken by the claimant pursuant to this Section may be taken by a representative authorized in writing by the claimant to represent the claimant.

6.7 Plan Administration .

(a) The Plan shall be administered by the Administrator. The Administrator shall serve as the final review under the Plan and shall have sole and complete discretionary authority to determine conclusively for all persons, and in accordance with the terms of the documents or instruments governing the Plan, any and all questions arising from the administration of the Plan and interpretation of all Plan provisions. The Administrator shall make the final determination of all questions relating to participation of employees and eligibility for benefits, and the amount and type of benefits payable to any Participant or Beneficiary. In no way limiting the foregoing, the Administrator shall have the following specific duties and obligations in connection with the administration of the Plan:

(i) to promulgate and enforce such rules, regulations and procedures as may be proper for the efficient administration of the Plan;

(ii) to determine all questions arising in the administration, interpretation and application of the Plan, including questions of eligibility and of the status and rights of Participants and any other persons hereunder;

(iii) to decide any dispute arising hereunder; provided, however, that the Administrator shall not participate in any matter involving any questions relating solely to the Administrator's own participation or benefit under this Plan;

(iv) to advise the Boards of Directors of the Employers regarding the known future need for funds to be available for distribution;

(v) to compute the amount of benefits and other payments which shall be payable to any Participant or Beneficiary in accordance with the provisions of the Plan and to determine the person or persons to whom such benefits shall be paid;

(vi) to make recommendations to the Board of Directors of the Company with respect to proposed amendments to the Plan;

(vii) to file all reports with government agencies, Participants and other parties as may be required by law, whether such reports are initially the obligation of the Employers, or the Plan;

(viii) to engage an actuary to the Plan, if necessary, and to cause the liabilities of the Plan to be evaluated by such actuary; and

(ix) to have all such other powers as may be necessary to discharge its duties hereunder.

(b) Decisions by the Administrator shall be final, conclusive and binding on all parties and not subject to further review.

(c) The Administrator may employ attorneys, consultants, accountants or other persons (who may be attorneys, consultants, actuaries, accountants or persons performing other services for, or are employed by, any Employer or any affiliate of any Employer), and the Administrator, the Employers and their other officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. No member of the Board of Directors of any Employer, the Chief Executive Officer , the Administrator, nor any other officer, director or employee of the Company or of any Employer acting on behalf of the Board of Directors of any Employer or the Chief Executive Officer or the Administrator, shall be personally liable for any action, determination or interpretation taken or

made in good faith with respect to the Plan, and all members of the Boards of Directors of the Employers, the Chief Executive Officer and the Administrator and each officer or employee of the Company or of an Employer acting on their behalf shall be fully indemnified and protected by the Company for all costs, liabilities and expenses (including, but not limited to, reasonable attorneys' fees and court costs) relating to any such action, determination or interpretation.

6.8 Binding Nature. This Plan shall be binding upon and inure to the benefit of the Employers and their successors and assigns and to the Participants, their Beneficiaries and their estates. Nothing in this Plan shall preclude any Employer from consolidating or merging into or with, or transferring all or substantially all of its assets to another company or corporation, whether or not such company or corporation assumes this Plan and any obligation of the Employer hereunder.

6.9 Withholding Taxes. The Employers may withhold from any benefits payable under this Plan all federal, state, city or other taxes as shall be required pursuant to any law or governmental regulation or ruling.

6.10 Action Affecting Chief Executive Officer. To the extent any action required to be taken by the Chief Executive Officer of the Company would decrease, increase, accelerate, delay or otherwise materially impact such individual's benefits under the Plan, such action shall be taken instead by the Compensation Committee of the Board of Directors of the Company.

6.11 Payments Due Missing Persons. The Administrator shall make a reasonable effort to locate all persons entitled to benefits (including retirement benefits and death benefits for Beneficiaries) under the Plan; however, notwithstanding any provisions of this Plan to the contrary, if, after a period of five years from the date such benefits first become due, any such persons entitled to benefits have not been located, their rights under the Plan shall stand suspended. Before this provision becomes operative, the Administrator shall send a certified letter to all such persons at their last known

address advising them that their benefits under the Plan shall be suspended. Any such suspended amounts shall be held by the Employer for a period of three additional years (or a total of eight years from the time the benefits first became payable) and thereafter such amounts shall be forfeited and non-payable.

6.12 Liability Limited. Neither the Employers, the Administrator, nor any agents, employees, officers, directors or shareholders of any of them, nor any other person shall have any liability or responsibility with respect to this Plan, except as expressly provided herein.

6.13 Incapacity. If the Administrator shall receive evidence satisfactory to it that a Participant or Beneficiary entitled to receive any benefit under the Plan is, at the time when such benefit becomes payable, a minor or is physically or mentally incompetent to receive such benefit and to give a valid release therefore, and that another person or an institution is then maintaining or has custody of such Participant or Beneficiary and that no guardian, committee or other representative of the estate of such Participant or Beneficiary shall have been duly appointed, the Administrator may make payment of such benefit otherwise payable to such Participant or Beneficiary (or to such guardian, committee or other representative of such person's estate) to such other person or institution, and the release of such other person or institution shall be a valid and complete discharge for the payment of such benefit.

6.14 Plurals. Where appearing in the Plan, this singular shall include the plural, and vice versa, unless the context clearly indicates a different meaning.

6.15 Headings. The headings and sub-headings in this Plan are inserted for the convenience of reference only and are to be ignored in any construction of the provisions hereof.

6.16 Severability. In case any provision of this Plan shall be held illegal or void, such illegality or invalidity shall not affect the remaining provisions of this Plan, but shall be fully severable, and the Plan shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

6.17 Payment of Benefits. All amounts payable hereunder may be paid directly by the Employer or pursuant to the terms of the grantor trust, if any, established as a funding vehicle for benefits provided hereunder.

ARTICLE VII -- ADDITIONAL AFFILIATED COMPANIES

7.1 Participation in the Plan.

(a) Any Affiliated Company may become an Employer with respect to this Plan with the consent of the Compensation Committee upon recommendation of the Chief Executive Officer, upon the following conditions:

(i) such Employer shall make, execute and deliver such instruments as the Company requires; and

(ii) such Employer shall designate the Company, the Chief Executive Officer of the Company and the Administrator, as its agents for purposes of this Plan.

(b) Any such Employer may by action of its Board of Directors withdraw from participation, subject to approval by the Compensation Committee upon recommendation of the Chief Executive Officer.

7.2 Effect of Participation. Each Employer which with the consent of the Compensation Committee upon recommendation of the Chief Executive Officer of the Company complies with Section 7.1(a) shall be deemed to have adopted this Plan for the benefit of its Employees who participate in this Plan.

APPENDIX A

SCHEDULE OF RETIREMENT AND SURVIVORS BENEFITS

For Participants in the Plan prior to January 1, 2010

AND

Who have not received a benefit level increase after December 31, 2009

Level	Salary			Monthly Retirement Benefit	Monthly Death Benefit
50	$50,000	-	$59,999	$1,330	$2,660
51				$1,728	$3,456
52	$60,000	-	$74,999	$1,800	$3,600
53				$2,160	$4,320
54	$75,000	-	$99,999	$2,580	$5,160
55				$2,880	$5,760
56	$100,000	-	$124,999	$3,600	$7,200
57	$125,000	-	$149,999	$4,470	$8,940
58	$150,000	-	$174,999	$5,360	$10,720
59	$175,000	-	$199,999	$6,250	$12,500
60	$200,000	-	$224,999	$7,300	$14,600
61	$225,000	-	$249,999	$8,215	$16,430
62	$250,000	-	$274,999	$9,125	$18,250
63	$275,000	-	$299,999	$10,475	$20,950
64	$300,000	-	$324,999	$12,145	$24,290
65	$325,000	-	$349,999	$13,670	$27,340
66	$350,000	-	$399,999	$16,110	$32,220
67	$400,000	-	$449,999	$19,525	$39,050
68	$450,000	-	$499,999	$22,850	$45,700
69	$500,000	-	$599,999	$28,800	$57,600
70	$600,000	-	$699,999	$36,500	$73,000
71	$700,000	-	$799,999	$42,710	$85,420
72	$800,000	-	$899,999	$49,220	$98,440
73	$900,000	-	$999,999	$55,310	$110,620
74	$1,000,000	-	$1,099,999	$60,200	$120,400

APPENDIX A-1

SCHEDULE OF RETIREMENT AND SURVIVORS BENEFITS

For Participants in the Plan prior to January 1, 2010, and who have received a benefit level increase on or after January 1, 2010

OR

For Participants who join the Plan between January 1, 2010 and February 11, 2016

Level	Salary Range			Monthly Retirement Benefit	Monthly Death Benefit
58	$165,000	-	$174,999	$4,288	$8,576
59	$175,000	-	$199,999	$5,000	$10,000
60	$200,000	-	$224,999	$5,840	$11,680
61	$225,000	-	$249,999	$6,572	$13,144
62	$250,000	-	$274,999	$7,300	$14,600
63	$275,000	-	$299,999	$8,380	$16,760
64	$300,000	-	$324,999	$9,716	$19,432
65	$325,000	-	$349,999	$10,936	$21,872
66	$350,000	-	$399,999	$12,888	$25,776
67	$400,000	-	$449,999	$15,620	$31,240
68	$450,000	-	$499,999	$18,280	$36,560
69	$500,000	-	$599,999	$23,040	$46,080
70	$600,000	-	$699,999	$29,200	$58,400
71	$700,000	-	$799,999	$34,168	$68,336
72	$800,000	-	$899,999	$39,376	$78,752
73	$900,000	-	$999,999	$44,248	$88,496
74	$1,000,000	-	$1,099,999	$48,160	$96,320

APPENDIX B-1

PARTICIPANTS ELIGIBLE FOR EARLY RETIREMENT BENEFITS UNDER ARTICLE IV

Steven L. Bietz

John K. Castleberry

Terry D. Hildestad

Bruce T. Imsdahl

Vernon A. Raile

Warren L. Robinson

Paul K. Sandness

William E. Schneider

APPENDIX B-2

PARTICIPANTS ELIGIBLE FOR AGE 60 RETIREMENT BENEFITS UNDER ARTICLE IV

David L. Goodin

John G. Harp

APPENDIX C

MDU RESOURCES GROUP, INC.
Specified Employee Policy Regarding Compensation

For purposes of all plans, agreements and other arrangements of MDU Resources Group, Inc. (the "Company") and its affiliates that are subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), the determination of individuals who are "specified employees," as that term is defined in Code Section 409A, shall be determined under this policy, as may be amended from time to time pursuant to paragraph 4 ("Policy").

1. **Establishment of Specified Employee List.** Between January 1 st and April 1 st of each calendar year, the Company shall establish a "Specified Employee List." The Specified Employee List shall become effective on April 1 st of the calendar year in which the Specified Employee List is established and shall cease to be effective on March 31 st of the following calendar year. Any individual who, as of his or her "separation from service" (within the meaning of Code Section 409A(a)(2)(A)(i)), is on the Specified Employee List then in effect shall be considered a "specified employee" for purposes of Section 409A.

2. **Inclusion on the Specified Employee List.** The Specified Employee List shall include all individuals who, at any time during the Determination Year, met the requirements of Code Section 416(i)(l)(A)(i), (ii) or (iii) and the related regulations (but without regard to Code Section 415(i)(5)). For this purpose, "Determination Year" shall mean the calendar year ending on the December 31 st prior to the April 1 st when the Specified Employee List becomes effective. For purposes of determining which individuals meet the requirements of Code Section 416(i)(l)(A)(i), (ii) or (iii) and the related regulations (but without regard to Code Section 415(i)(5)), the term gross compensation shall have the meaning set forth in the MDU Resources Group, Inc. 401(k) Retirement Plan, as may be amended from time to time (the "Retirement Plan").

3. **Delayed Payments.** If any employee is determined to be a specified employee under this Policy, any compensation to be provided to such specified employee that is required to be delayed to comply with Code Section 409A(a)(2)(B)(i) shall not be provided before the date that is six months after the date of such separation from service (or, if earlier than the end of such six-month period, the date of death of the specified employee). This Policy shall not apply to any payment that is not treated as deferred compensation under, or is otherwise excluded from, the requirements of Code Section 409A and the regulations promulgated thereunder.

4. **Changes to Policy.** The Company may amend or modify this Policy at any time; provided, however, that any changes made to the period during which the Specified Employee List is effective or the Determination Year shall not take effect for a period of at least 12 months and any changes made to the definition of compensation (either in the Policy or in the Retirement Plan) shall not be used to identify specified employees until the next Specified Employee List is established.

INSTRUMENT OF AMENDMENT TO THE
MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

The MDU Resources Group, Inc. 401(k) Retirement Plan (as amended and restated January 1, 2017) (the "K-Plan"), is hereby further amended, effective April 1, 2017, unless otherwise indicated, as follows:

1. By adding the following new entry to Schedule B:

   Knife River Midwest, LLC shall make supplemental contributions on behalf of its Davis-Bacon Employees in such amounts as may be necessary to satisfy the Prevailing Wage Law's required fringe cost to the extent that the sum of the employer Matching and Profit Sharing Contributions, if any, for a period are insufficient to satisfy the Prevailing Wage Law's required fringe cost pursuant to Supplement G.

   Effective as of April 1, 2017.

   ****

MDU RESOURCES GROUP, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Twelve Months Ended June 30, 2017	Year Ended December 31, 2016
	(In thousands of dollars)	
Earnings Available for Fixed Charges:		
Net Income (a)	$ 234,967	$ 233,102
Income Taxes	90,989	93,132
	325,956	326,234
Rents (b)	23,208	21,656
Interest (c)	84,129	88,045
Total Earnings Available for Fixed Charges	$ 433,293	$ 435,935
Preferred Dividend Requirements	$ 514	$ 685
Ratio of Income Before Income Taxes to Net Income	139%	140%
Preferred Dividend Factor on Pretax Basis	714	959
Fixed Charges (d)	107,282	109,636
Combined Fixed Charges and Preferred Stock Dividends	$ 107,996	$ 110,595
Ratio of Earnings to Fixed Charges	4.0x	4.0x
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	4.0x	3.9x

(a) Net income excludes undistributed income for equity investees.

(b) Represents interest portion of rents estimated at 33 1/3%.

(c) Represents interest, amortization of debt discount and expense on all indebtedness and amortization of interest capitalized, and excludes amortization of gains or losses on reacquired debt (which, under the Federal Energy Regulatory Commission Uniform System of Accounts, is classified as a reduction of, or increase in, interest expense in the Consolidated Statements of Income) and interest capitalized.

(d) Represents rents (as defined above), interest, amortization of debt discount and expense on all indebtedness, and excludes amortization of gains or losses on reacquired debt (which, under the Federal Energy Regulatory Commission Uniform System of Accounts, is classified as a reduction of, or increase in, interest expense in the Consolidated Statements of Income).

CERTIFICATION

I, David L. Goodin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MDU Resources Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

/s/ David L. Goodin
David L. Goodin
President and Chief Executive Officer

CERTIFICATION

I, Doran N. Schwartz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MDU Resources Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2017

/s/ Doran N. Schwartz
Doran N. Schwartz
Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned, David L. Goodin, the President and Chief Executive Officer, and Doran N. Schwartz, the Vice President and Chief Financial Officer of MDU Resources Group, Inc. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHERE OF, each of the undersigned has executed this statement this 4th day of August, 2017.

/s/ David L. Goodin
David L. Goodin
President and Chief Executive Officer

/s/ Doran N. Schwartz
Doran N. Schwartz
Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to MDU Resources Group, Inc. and will be retained by MDU Resources Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

MDU RESOURCES GROUP, INC.
MINE SAFETY INFORMATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires issuers to include in periodic reports filed with the SEC certain information relating to citations or orders for violations of standards under the Federal Mine Safety and Health Act of 1977 (Mine Act), as amended by the Mine Improvement and New Emergency Response Act of 2006 (Mine Safety Act). The Dodd-Frank Act requires reporting of the following types of citations or orders:

1. Citations issued under Section 104 of the Mine Safety Act for violations that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard.
2. Orders issued under Section 104(b) of the Mine Safety Act. Orders are issued under this section when citations issued under Section 104 have not been totally abated within the time period allowed by the citation or subsequent extensions.
3. Citations or orders issued under Section 104(d) of the Mine Safety Act. Citations or orders are issued under this section when it has been determined that the violation is caused by an unwarrantable failure of the mine operator to comply with the standards. An unwarrantable failure occurs when the mine operator is deemed to have engaged in aggravated conduct constituting more than ordinary negligence.
4. Citations issued under Section 110(b)(2) of the Mine Safety Act for flagrant violations. Violations are considered flagrant for repeat or reckless failures to make reasonable efforts to eliminate a known violation of a mandatory health and safety standard that substantially and proximately caused, or reasonably could have been expected to cause, death or serious bodily injury.
5. Imminent danger orders issued under Section 107(a) of the Mine Safety Act. An imminent danger is defined as the existence of any condition or practice in a coal or other mine which could reasonably be expected to cause death or serious physical harm before such condition or practice can be abated.
6. Notice received under Section 104(e) of the Mine Safety Act of a pattern of violations or the potential to have such a pattern of violations that could significantly and substantially contribute to the cause and effect of mine health and safety standards.

During the three months ended June 30, 2017 , none of the Company's operating subsidiaries received citations or orders under the following sections of the Mine Safety Act: 104(b), 104(d), 107(a), 110(b)(2) or 104(e). The Company did not have any mining-related fatalities during this period.

MSHA Identification Number/Contractor ID	Section 104 S&S Citations (#)	Total Dollar Value of MSHA Assessments Proposed ($)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
04-00081	—	$ 116	—	—	—
04-05140	—	232	—	—	—
10-02170	—	—	2	2	—
13-02222	—	232	—	—	—
21-02614	—	464	—	—	—
21-03416	—	—	—	—	1
21-03872	—	—	—	—	1
24-00462	1	740	—	—	—
24-02095	1	264	—	—	—
32-00774	—	116	—	—	—
32-00776	—	668	—	—	—
32-00950	—	844	—	—	—
35-00426	—	116	—	—	—
35-00463	—	232	—	—	—
35-00495	—	114	—	—	1
35-02906	—	436	—	—	—
35-03131	—	116	—	—	—
35-03496	—	—	2	2	—
35-03595	—	116	—	—	—
35-03605	—	116	—	—	—
35-03678	—	129	—	—	—
35-03752	—	232	—	—	—
41-02639	1	—	—	—	—
48-01670	—	348	—	—	—
51-00036	7	9,941	8	8	—
51-00241	1	608	1	1	—
I6K (Contractor ID)	1	—	—	—	—
	12	$ 16,180	13	13	3

Legal actions pending before the Federal Mine Safety and Health Review Commission (the Commission) may involve, among other questions, challenges by operators to citations, orders and penalties they have received from the Federal Mine Safety and Health Administration (MSHA) or complaints of discrimination by miners under section 105 of the Mine Act. The following is a brief description of the types of legal actions that may be brought before the Commission.

- Contests of Citations and Orders - A contest proceeding may be filed with the Commission by operators, miners or miners' representatives to challenge the issuance of a citation or order issued by MSHA.
- Contests of Proposed Penalties (Petitions for Assessment of Penalties) - A contest of a proposed penalty is an administrative proceeding before the Commission challenging a civil penalty that MSHA has proposed for the alleged violation contained in a citation or order.
- Complaints for Compensation - A complaint for compensation may be filed with the Commission by miners entitled to compensation when a mine is closed by certain withdrawal orders issued by MSHA. The purpose of the proceeding is to determine the amount of compensation, if any, due miners idled by the orders.
- Complaints of Discharge, Discrimination or Interference - A discrimination proceeding is a case that involves a miner's allegation that he or she has suffered a wrong by the operator because he or she engaged in some type of activity protected under the Mine Act, such as making a safety complaint.
- Applications for Temporary Relief - Applications for temporary relief from any modification or termination of any order or from any order issued under section 104 of the Mine Act.

- Appeals of Judges' Decisions or Orders to the Commission - A filing with the Commission for discretionary review of a judge's decision or order by a person who has been adversely affected or aggrieved by such decision or order.

The following table reflects the types of legal actions pending before the Commission as of June 30, 2017 :

MSHA Identification Number	Contests of Citations and Orders	Contests of Proposed Penalties	Complaints for Compensation	Complaints of Discharge, Discrimination or Interference	Applications for Temporary Relief	Appeals of Judges' Decisions or Orders to the Commission
10-02170	—	2	—	—	—	—
35-03496	2	—	—	—	—	—
51-00036	8	—	—	—	—	—
51-00241	1	—	—	—	—	—
	11	2	—	—	—	—