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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

MDU Resources Group, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Your **VOTE** is important

MDU Resources Group, Inc. Proxy Statement

2009 Notice of Annual Meeting
and Proxy Statement

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1200 West Century Avenue

Terry D. Hildestad
President and
Chief Executive Officer

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

March 10, 2009

To Our Stockholders:

Please join us for the 2009 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 28, 2009, at 11:00 a.m., Central Daylight Saving Time, at 909 Airport Road, Bismarck, North Dakota.

The formal matters are described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. We also will have a brief report on current matters of interest. Lunch will be served following the meeting.

We were pleased with the stockholder response for the 2008 Annual Meeting at which 90.53 percent of the common stock was represented in person or by proxy. We hope for an even greater representation at the 2009 meeting.

You may vote your shares by telephone, by the Internet, or by returning the enclosed proxy card. Representation of your shares at the meeting is very important. We urge you to submit your proxy promptly.

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

Sincerely yours,

Terry D. Hildestad

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MDU RESOURCES GROUP, INC.

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

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

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

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

March 10, 2009

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MDU Resources Group, Inc. will be held at 909 Airport Road, Bismarck, North Dakota, on Tuesday, April 28, 2009, at 11:00 a.m., Central Daylight Saving Time, for the following purposes:

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

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

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

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

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

By order of the Board of Directors,

Paul K. Sandness
Secretary

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PROXY STATEMENT

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

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

The Securities and Exchange Commission s e-proxy rules allow companies to post their proxy materials on the Internet and provide only a Notice of Internet Availability of Proxy Materials to stockholders as an alternative to mailing full sets of proxy materials except upon request. For 2009, we have opted to follow the Securities and Exchange Commission s full set delivery option, which means that while we are posting our proxy materials online, we are also mailing a full set of our proxy materials to our stockholders. We believe that mailing a full set of proxy materials will help ensure that a majority of outstanding shares of our common stock are present in person or represented by proxy at our meeting. We also hope to help maximize stockholder participation. Therefore, even if you previously consented to receiving your proxy materials electronically, you will receive a full set of proxy materials in the mail for this year s annual meeting. However, we will continue to evaluate the option of providing only a Notice of Internet Availability of Proxy Materials to some or all of our stockholders in the future.

VOTING INFORMATION

Who may vote? You may vote if you owned shares of our common stock at the close of business on February 27, 2009. You may vote each share that you owned on that date on each matter presented at the meeting. As of February 27, 2009, we had 183,785,994 shares outstanding entitled to one vote per share.

What am I voting on? You are voting on:

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

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

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

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Item 1 Election of Directors

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast for a director s election must exceed the number of votes cast against the director s election. Abstentions do not count as votes cast for or against the director s election. In a contested election, which is an electio in which the number of nominees for director exceeds the number of directors to be elected, directors will be elected by a plurality of the votes cast. If any nominee becomes unavailable for any reason, or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares for another person in their discretion.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon

- receipt of a greater number of votes against than votes for election at our annual meeting of stockholders and
- acceptance of such resignation by the board of directors.

Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee s recommendation no later than 90 days following the date of the annual meeting where the election occurred.

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

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

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock for all directors nominated by the board of directors and for proposal 2.

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

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

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

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

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

ITEM 1. ELECTION OF DIRECTORS

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

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

DIRECTOR NOMINEES FOR ONE YEAR TERM

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

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

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

Ms. Fagg has served as Vice President of DOWL LLC, d/b/a DOWL HKM, since April 2008. DOWL HKM is an engineering and design firm. Ms. Fagg was President from April 1, 1995 through March 2008, and Chairman and majority owner from June 2000 through March 2008 of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm. HKM Engineering, Inc. merged with DOWL LLC on April 1, 2008. Ms. Fagg was employed with MSE, Inc., Butte, Montana, an energy research and development company, from 1976 through 1988. Ms. Fagg also served a four-year term as Director of the Montana Department of Natural Resources and Conservation, Helena, Montana, from 1989 through 1992. From 1993 through 1995, she served as Corporate Development Director for MSE, Inc. Ms. Fagg is Board Chair for St. Vincent s Healthcare and is a member of the Board of Trustees of Carroll College and the Board of Advisors of the Charles M. Bair Family Trust. Ms. Fagg serves on the compensation and nominating and governance committees of MDU Resources Group, Inc.

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

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

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

Mr. Knudson has been president of Tom Knudson Interests, LLC, since its formation on January 14, 2004. Tom Knudson Interests, LLC, provides consulting services in energy, sustainable development, and leadership. Mr. Knudson began employment with Continental Oil Company (Conoco) in May 1975 and retired in 2004 from Conoco s successor, ConocoPhillips, as senior vice president of human resources, government affairs and communications. Mr. Knudson served as a member of ConocoPhillips management committee. His diverse career at Conoco and ConocoPhillips included engineering, operations, business development, and commercial assignments. He was the founding chairman of the Business Council for Sustainable Development in both the United States and the United Kingdom. He is also the chairman of the board of directors of Bristow Group Inc. and a director of Natco Group Inc. Bristow Group Inc. is a leading provider of helicopter services to the offshore oil industry. Natco Group Inc. is a leading manufacturer of oil and gas processing equipment.

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

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Richard H. Lewis Director Since 2005
Age 59 Nominated for Term Expiring in 2010
Mr. Lewis has been the Managing General Partner of Brakemaka LLLP, a private investment partnership for managing family investments, and President of the Lewis Family Foundation since August 2004. Mr. Lewis serves as Chairman of the Board of Entre Pure Industries, Inc., a privately held company involved in the purified water and ice business. He serves as a Director of Colorado State Bank and Trust and on the senior advisory board of TPH Partners, L.P., a private equity fund with an energy only focus. Mr. Lewis founded Prima Energy Corporation, a natural gas and oil exploration and production company in 1980, and served as Chairman and Chief Executive Officer of the company until its sale in July 2004. He is a past president of the Colorado Oil and Gas Association. Mr. Lewis serves as the Chairman of the Development Board of Colorado Uplift, a non-profit organization whose mission is to build long-term, life-changing relationships with urban youth. He also serves on the Board of Trustees of Alliance for Choice in Education, which provides scholarships to inner city youth. He serves on the audit and nominating and governance committees for MDU Resources Group, Inc.

Patricia L. Moss Director Since 2003
Age 55 Nominated for Term Expiring in 2010
Ms. Moss has been President, Chief Executive Officer and a Director of Cascade Bancorp, a financial holding company, and Bank of the Cascades, Bend, Oregon, since 1998. She also serves as a Director of the Oregon Business Council, whose mission is to mobilize business leaders to contribute to Oregon s quality of life and economic prosperity, a Director of the Oregon Investment Fund Advisory Council, a state sponsored program to encourage the growth of small businesses within Oregon, and a Director of Clear Choice Health Plans Inc., a multi-state insurance company. She serves on the compensation committee of MDU Resources Group, Inc.

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Harry J. Pearce Director Since 1997
Age 66 Nominated for Term Expiring in 2010
Mr. Pearce was elected Chairman of the Board of the Company on August 17, 2006. Prior to that, he served as Lead Director effective February 15, 2001 and was Vice Chairman of the Board from November 16, 2000 until February 15, 2001. Mr. Pearce was named Chairman of the Board of Nortel Networks Corporation, a global telecommunications company, on June 29, 2005. He retired on

December 19, 2003, as Chairman of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting. He had served as Chairman since June 1, 2001. Mr. Pearce formerly was Vice Chairman and a Director of General Motors Corporation, one of the world s largest automakers, from January 1, 1996 to May 31, 2001. He is a Director of Marriott International, Inc., a major hotel chain, a Director of the United States Air Force Academy Endowment, and a member of the Advisory Board of the University of Michigan Cancer Center. He is a Fellow of the American College of Trial Lawyers, and a member of the International Society of Barristers. He also serves on the Board of Trustees of Northwestern University.

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

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

The board of directors recommends a vote for each nominee.

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast for a director s election must exceed the number of votes cast against the director s election. Abstentions do not count as votes cast for or against the director s election.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon

- receipt of a greater number of votes against than votes for election at our annual meeting of stockholders and
- acceptance of such resignation by the board of directors.

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Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee s recommendation no later than 90 days following the date of the annual meeting where the election occurred.

CONTINUING INCUMBENT DIRECTORS

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

DIRECTOR TERMS EXPIRING IN 2010

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

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

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

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

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

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

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

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

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ITEM 2. RATIFICATION OF INDEPENDENT AUDITORS

The audit committee at its February 2009 meeting appointed Deloitte & Touche LLP as our independent auditors for fiscal year 2009. The board of directors concurred with the audit committee s decision. Deloitte & Touche LLP has served as our independent auditors since fiscal year 2002.

Although your ratification vote will not affect the appointment or retention of Deloitte & Touche LLP for 2009, the audit committee will consider your vote in determining its appointment of our independent auditors for the next fiscal year. The audit committee, in appointing our independent auditors, reserves the right, in its sole discretion, to change an appointment at any time during a fiscal year if it determines that such a change would be in our best interests.

A representative of Deloitte & Touche LLP will be present at the annual meeting and will be available to respond to appropriate questions. We do not anticipate that the representative will make a prepared statement at the meeting; however, he or she will be free to do so if he or she chooses.

The board of directors recommends a vote for the ratification of Deloitte & Touche LLP as our independent auditors for 2009.

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

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

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ACCOUNTING AND AUDITING MATTERS

Fees

The following table summarizes the aggregate fees that our independent auditors, Deloitte & Touche LLP, billed or are expected to bill us for professional services rendered for 2008 and 2007:

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

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

(a)

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

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

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

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

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

Pre-Approval Policy

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2008 in accordance with the pre-approval policy and procedures the audit committee adopted at its August 12, 2003 meeting. This policy is designed to achieve the continued independence of Deloitte & Touche LLP and to assist in our compliance with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission.

The policy defines the permitted services in each of the audit, audit-related, tax and all other services categories as well as prohibited services. The pre-approval policy requires management to submit annually for approval to the audit committee a service plan describing the scope of work and anticipated cost associated with each category of service. At each regular audit committee meeting, management reports on services performed by Deloitte & Touche LLP and the fees paid or accrued through the end of the quarter preceding the meeting. Management may submit requests for

additional permitted services before the next scheduled audit committee meeting to the designated member of the audit committee, Dennis W. Johnson, for approval. The designated member updates the audit committee at the next regularly scheduled meeting regarding any services that he approved during the interim period. At each regular audit committee meeting, management may submit to the audit committee for approval a supplement to the service plan containing any request for additional permitted services.

In addition, prior to approving any request for audit-related, tax or all other services of more than $50,000, Deloitte & Touche LLP will provide a statement setting forth the reasons why rendering of the proposed services does not compromise Deloitte & Touche LLP s independence. This description and statement by Deloitte & Touche LLP may be incorporated into the service plan or as an exhibit thereto or may be delivered in a separate written statement.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

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

Introduction

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

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

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

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

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Objectives of our Compensation Program

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

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

We pay/grant

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

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

- our named executive officers are in positions to drive, and therefore bear high levels of responsibility for, our corporate performance
- incentive compensation is more at risk than base salary and dependent upon our performance
- at risk compensation helps ensure focus on the goals that are aligned with our overall strategy and
- the interests of our named executive officers will be aligned with those of our stockholders by making a majority of the named executive officers target compensation contingent upon results that are beneficial to stockholders.

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The following table shows the allocation of total target compensation for 2008 among the individual components of base salary, annual incentive, and long-term incentive:

Name	% of Total Target Compensation Allocated to Base Salary (%)	% of Total Target Compensation Allocated to Incentives		
		Annual (%)	Long-Term (%)	Annual + Long-Term (%)
Terry D. Hildestad	28.6	28.6	42.8	71.4
Vernon A. Raile	39.2	25.5	35.3	60.8
John G. Harp *	39.2	25.5	35.3	60.8

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

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

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

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

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

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

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

In 2008, we amended the change of control employment agreements to address changes in federal tax law under Section 162(m) and Section 409A of the Internal Revenue Code and to eliminate provisions our compensation committee determined were either not necessary or did not

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

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

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

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

Role of Compensation Consultants and Management

Role of Compensation Consultants

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

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

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

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

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

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

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

*The information in the table is based solely upon information provided by the publishers of the surveys and is not deemed filed or a part of this compensation discussion and analysis for certification purposes.

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Role of Management

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

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

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

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

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

Decisions for 2008

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

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

Salary Grades for 2008

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

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

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

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

the position s impact on key strategic initiatives.

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

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

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

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

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

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

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

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

An executive s overall performance in our performance assessment program is rated on a scale of one to five, with five as the highest rating denoting distinguished performance. An overall performance rating between four and five is considered commendable performance.

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

Base Salaries of the Named Executive Officers for 2008

Terry D. Hildestad

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

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

Vernon A. Raile

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

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

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

John G. Harp

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

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

William E. Schneider

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

Knife River Corporation s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on EPS and ROIC were lower than 2007 targets by 0.9% and 1.3%, respectively. The 2007 EPS and ROIC targets were the highest in the company s history, representing significant performance hurdles.

expansion of the Knife River Energy Services business line into Texas and Oregon and

from January 2007 through September 2007, Knife River Corporation achieved a combined recordable injury rate of 3.1 compared to industry rate of 5.3 and a lost time case rate of 0.6 compared to industry rate of 2.0.

Paul K. Sandness

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

overseeing the due diligence associated with the Cascade Natural Gas Corporation acquisition from legal and regulatory perspectives

driving the development and formalization of the company s first corporate-wide sustainability report, which addresses the environmental, social and economic responsibilities, risks, and opportunities our organization faces, and

the company s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on EPS and ROIC were higher than 2007 targets by 45.2% and 35.1%, respectively.

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

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

2008 Annual Incentives

What the Performance Measures Are and Why We Chose Them

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

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

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

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

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

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

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

What the Incentive Targets Are and Why We Chose Them

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

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