

MDU RESOURCES GROUP, INC.
RECONCILIATION OF NET INCOME PER BOOKS WITH TAXABLE
INCOME PER FEDERAL INCOME TAX RETURN
FOR THE 2008 - 2011 TAX YEAR

M-1					
Line No.		2011	2010	2009	2008
1	Net Income per Books	\$213,026,346	\$240,659,282	(\$123,274,095)	\$293,673,229
2	Federal Income Tax	5,875,597	13,607,662	7,176,615	8,570,239
3	Excess of Capital Losses Over Capital Gains	0	0	0	0
4	Income Subject to Tax not Recorded on Books This Year:				
	Other				
	Dividends Received from Subsidiary Companies	\$101,774,000	\$104,141,000	\$127,334,000	\$214,715,000
	G/L on Intercompany Trans. Under Reg Sec 1.1502-13	360,104	360,116	600,181	1,000,287
	Jt Venture & Partnership Ordinary Income	(2)	(6,571)	(29,033)	(7,486)
	Contributions in Aid of Construction	3,579,876	1,418,339	2,740,275	574,012
	Reserved Revenue	640,000	0	0	0
	Trust Capital Loss Distribution	0	0	0	1,168,850
	Book Gain(Loss) on Disposition of Property	(233,151)	72,018	(727,434)	(532)
	Ordinary Gain(Loss) on Retirement of Assets - Tax	(723,510)	(129,958)	(1,948,357)	(917,524)
	Capital Gain(Loss) on Retirement of Assets - Tax	261,537	(45,638)	0	(21,312)
	Federal Non-highway Use Tax Credit	24,689	20,133	32,754	21,347
	Total	<u>\$105,683,543</u>	<u>\$105,829,439</u>	<u>\$128,002,386</u>	<u>\$216,532,642</u>
5	Expenses Recorded on Books This Year not Deducted on This Return:				
	Depreciation	\$38,160,615	\$34,196,531	\$32,762,935	\$31,778,424
	Meals & Entertainment	139,266	124,689	117,699	236,040
	Other				
	Charitable Contributions Limitation	348,803	0	0	0
	Capitalized Overheads	171,078	65,915	330,986	(250,014)
	Bad Debt Expense per Books	1,130,581	891,220	1,042,999	1,302,978
	Capitalized Property Taxes	1,031,358	2,216,430	1,394,230	1,658,296
	State Income Tax Accrual per Books	722,304	640,845	2,157,316	715,240
	Amortization per Books	1,862,919	3,594,953	2,455,881	2,384,647
	Amortization of Loss on Bond Retirements	719,510	719,511	(294,474)	614,160
	Book Depreciation Charged to Expense	719,386	864,911	1,637,113	2,460,356
	Capitalized Tax Depreciation	1,834,245	1,630,750	1,660,112	1,873,254
	Lobbying Expense	72,449	71,255	67,397	57,860
	Penalties	0	151	3,609	0
	Deferred Compensation - Net Deferral	550,699	387,699	658,574	253,002
	Customer Advances	1,307,285	1,208,659	634,795	1,946,879
	Management Incentive Compensation	(165,467)	137,651	(123,388)	386,139
	Preferred Stock Expense - Amortization	25,500	30,600	35,700	40,800
	Prepaid Demand Charges	(136,885)	87,409	(34,049)	58,442
	Sundry Reserves	(50,560)	949	54,217	(20,232)
	Contingency Reserve	(5,246,199)	250,000	0	0
	Manufactured Gas Plant Site Remediation	0	0	0	128
	Big Stone II - Assets Awaiting Recovery & Amortization	4,323,465	1,722,488	(9,798,194)	0
	Reusable Property to Expense	739	133	393	1,263
	Restricted Stock Bonus Plan	6,268,549	2,938,259	3,852,317	409,308
	Total Other	<u>\$15,489,759</u>	<u>\$17,459,788</u>	<u>\$5,735,534</u>	<u>\$13,892,506</u>
6	Total of Lines 1 Through 5	<u>\$378,375,126</u>	<u>\$411,877,391</u>	<u>\$50,521,074</u>	<u>\$564,683,080</u>

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7	Income Recorded on Books This Year not included on This Return:			
Other				
Equity in Earnings of Subsidiary Companies	\$177,700,849	\$203,307,628	-\$152,727,276	\$ 269,324,795
Supplemental Income Security Plan	(286,744)	6,777,240	5,997,174	(5,239,598)
WAPA Fiber Demand Revenue	61,644	0	(900,000)	0
Allowance for Funds Used During Construction	2,056,639	4,268,299	5,557,565	1,974,575
Total Other	<u>\$179,532,388</u>	<u>\$214,353,167</u>	<u>(\$142,072,537)</u>	<u>\$266,059,772</u>
8	Deductions on This Return not Charged Against Book Income This Year:			
Depreciation	\$110,622,280	\$150,654,300	\$65,177,974	\$84,883,600
Other				
Bad Debt Expense per Return	1,123,985	893,996	1,095,029	1,247,228
Amortization per Return	3,126	3,126	0	0
Fuel & Purchased Power Deferral	935,387	1,009,699	(969,788)	(575,637)
Unrecovered Purchased Gas Cost	280,268	1,360,092	(23,307,815)	20,393,628
KESOP Incentive Compensation	956,102	721,133	523,126	1,113,875
State Income Tax Accrual per Return	(3,679,754)	(4,246,472)	871,696	(1,267,876)
Pension Expense per Return	23,699,008	3,128,268	1,348,745	(4,583,877)
Deferred Compensation for Directors	268,428	620,014	(127,934)	1,300,740
401(k) Dividend Deduction	3,473,595	3,515,904	3,709,789	3,648,347
Accrued Vacation Pay	(128,080)	38,669	(386,611)	(461,396)
Accrued Bonus Pay	(605,393)	0	0	0
Capitalized Interest Expense - Net	671,222	971,808	259,984	(2,221,420)
Medicare Part D Subsidy	523,269	277,709	452,643	374,064
Margin Sharing Adjustment	(1,724,798)	51,567	532,856	480,385
Rate Case Expense	(105,731)	246,549	(334,159)	(330,355)
Research and Development - CC&B	3,328,805	2,908,436	3,351,879	5,284,213
Research and Development - Heskett Station	52,628	0	0	0
Casualty Losses-Storm Damages	0	1,138,111	0	0
Electric T&D Repairs Study	13,259,442	0	0	0
Expenses for the Retirement of Assets	3,761,724	236,782	626,148	541,829
Property Insurance Adjustment	367,923	550,116	95,530	238,979
Restricted Stock Bonus Plan - Dividends	3,424,411	2,468,496	2,753,136	3,397,386
Domestic Production Activities Deduction	0	0	10,167	129,755
Total Other	<u>\$49,885,567</u>	<u>\$15,894,003</u>	<u>(\$9,495,579)</u>	<u>\$28,709,868</u>
9	340,040,235	380,901,470	(86,390,142)	379,653,240
10	Income (Form 1120, Page 1, Line 28) - Line 6 less Line 9	\$38,334,891	\$30,975,921	\$136,911,216
	Less: Special Deductions	101,954,166	104,343,625	127,567,215
	Taxable Income (Form 1120, Page 1, Line 30)	<u>(\$63,619,275)</u>	<u>(\$73,367,704)</u>	<u>\$9,344,001</u>
			<u>\$29,936,513</u>	