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**POLICY STATEMENTS**

Policy No. HR 152

**VACATION**

Effective Date:

01/01/2017

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**PURPOSE**

To establish the vacation schedule, eligibility requirements, and provisions for selling and/or contributing vacation.

**SCOPE**

- A. This policy applies to employees of MDU Resources Group, MDU Utilities Group, and WBI Energy.
- B. Employees are eligible for paid vacation if they work a minimum of 1,000 hours per year.
- C. For employees subject to a collective bargaining agreement (CBA), if any parts of this policy differ from the CBA, the terms and conditions of the CBA will prevail.
- D. If this policy conflicts with any federal, state or local laws or regulations, the applicable rule applies.

**PROCEDURE**

**I. Vacation**

- A. Vacation will be earned by employees on a pay period basis and will be posted on the pay stub for each period. Accrual will be on regular hours compensated, assuming 2,080 hours per year. Accrual will not occur when an employee is using STDIPP2, military leave and leave without pay (see paragraph K). When taken, vacation shall be paid at the employee's regular hourly rate of pay. The rate at which vacation is earned will be based on the employee's anniversary date according to the following schedule:

<u>Years of Service</u>	<u>Hours (Days) Earned Per Year</u>	<u>Cap</u>
Less than 5 years	112 (14 days)	224
Over 5 years	152 (19)	304
Over 10 years	168 (21)	336
Over 15 years	192 (24)	384
Over 20 years	208 (26)	416
Over 25 years	232 (29)	464

*Exceptions to the above accrual rates may be granted at times with the approval of the business unit or MDU Resources President and Chief Executive Officer*

- B. Accrual of vacation benefits is not earned during temporary employment status, nor is the benefit retroactively credited, should employment status change from temporary to regular. Adjusted service credit will be given for temporary employment when it is continuous with regular employment for determining the adjusted anniversary date.
- C. Employees who have a break in service will be given credit for their prior service upon completion of one year of regular employment. During their first year of rehire, they will accrue at the 112 hour per year rate.

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- D. An employee may accumulate vacation up to an amount equal to two times the annual hours earned per year (cap). Vacation cannot be earned in excess of the cap. Once any employee reaches the cap, no additional vacation is earned until the balance is reduced below the cap. Vacation accruals above the cap may be granted with special permission from the Vice President of Human Resources.
- E. Vacation schedules should be prepared in a timely manner as determined by the department managers for their respective areas of responsibility. Due to the nature of the Company's business, the Company reserves the right to determine the number of employees who may take vacation at any time. It is each employee's responsibility to ensure that scheduled vacation does not result in a negative vacation balance, as a negative vacation balance is not allowed.
- F. Employees shall not be called back while on vacation except during an extreme emergency. In the event an employee is recalled from vacation, they shall be paid at the appropriate overtime rate for all vacation hours worked. Vacation hours worked will be rescheduled by the employee as the requirements of the department permit.
- G. Upon termination of employment for any reason, an employee shall be paid for earned vacation time. Employees may not use vacation to extend their termination or retirement date.
- H. In the event an employee has a serious illness or accident immediately prior to a scheduled vacation, the employee may postpone the vacation. The postponed vacation shall be re-scheduled for a later date so as not to interfere with scheduled vacations of other employees. In no case will the caps described in paragraph D be exceeded without the approval of the Vice President of Human Resources.
- I. In the event an employee has a serious illness or accident during a scheduled vacation, the vacation will continue and sick pay will begin at the end of the scheduled vacation if the employee is unable to return.
- J. Code 2 and 4 employees (see Employment Status and Benefit Eligibility Policy) who are eligible for vacation will earn vacation based on actual, compensated hours (excluding overtime hours) as defined in paragraph K, and at the rate per hour appropriate for their years of service as given in paragraph A. Employees working 12-hour shift schedules and WBI Energy Corrosion Services hourly employees with work schedules of 2,080 hours will earn vacation based on regular hours compensated assuming no less than 80 hours every two week pay period.
- K. Vacation time will be accrued for hours compensated including regular hours worked (excluding overtime hours), holiday, vacation, sick leave, STDIPP1, bereavement, jury duty and other compensated leave. Vacation will not accrue for more than 2,080 hours compensated in a year. Vacation will not accrue under the following circumstances:
  - 1. During a leave of absence without pay.
  - 2. While the employee is using STDIPP2 (See Sick Leave, Short-Term Disability Income Protection Plan and Family Medical Leave Act Policy).
  - 3. During a layoff.
  - 4. While an employee is using donated vacation time.

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5. While an employee is receiving Long-Term Disability (LTD) plan benefits. If an employee returns to work after receiving LTD benefits, there will be no accrual for the LTD period or for the sick leave period preceding LTD commencement.

## II. Vacation Sell

- A. Employees are strongly encouraged to take time away from work. However, to afford greater flexibility with the Company's vacation program, employees may elect to sell accrued vacation time to the Company for cash. Vacation sell is available to all employees with the exception of:
- Section 16 officers
  - Bargained employees of Intermountain Gas Company, Montana-Dakota Utilities, and WBI Energy Transmission
- B. Annually, during the open enrollment period, an employee may make an irrevocable election to receive a cash payment in lieu of vacation. An employee may elect payment for up to 40 hours (5 days) of vacation in eight (8) hour increments.
- C. This payment is limited to vacation which will accrue the year following the election. An employee will be paid for the days elected in the following year, provided the employee maintains the minimum hours of accrued vacation at the time of calculation, as provided in paragraph D. The employee will receive this value as taxable income and it will be subject to all applicable withholding taxes.
- D. In order to participate, employees are required to maintain a minimum 40 hours of accrued vacation after they have sold up to 40 hours (5 days) of vacation. If an employee does not have the required amount of accrued vacation remaining, the entire request will be cancelled at the time of payment.
- E. As with any payout received for vacation, in addition to taxes there will be a deduction for 401(k) contributions provided the employee is actively deferring contributions and has not already reached the maximum contribution level for the year. If eligible to contribute to the 401(k) plan, the employee will also receive company matching funds on eligible wages.

## III. Vacation Contribution

- A. The Company sponsors a vacation leave contribution program which permits employees to donate vacation time to another employee who is experiencing a medical emergency. A medical emergency is defined as a major illness or medical condition of the employee or care for a spouse or child in a medical emergency that will require the prolonged, either continuous or intermittent absence from work and will result in substantial loss of income to the employee because the employee will have exhausted all paid leave available.
- B. The vacation contribution program is available to all employees with the exception of bargained employees of WBI Energy Transmission and employees who are in their probationary period (have not yet completed six months of continuous employment with the Company and satisfactorily achieved job performance requirements of the position).

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C. Employees experiencing a medical emergency should submit a request describing their need to the Human Resources department for approval. After receiving approval, the Human Resources Department will solicit employees for vacation donations. All information concerning names of those donating and hours donated will be held confidential.

D. Limitations

1. An employee may donate a maximum of 24 hours (3 days) of vacation per qualifying situation.
2. The recipient employee must use their available paid leave days (vacation, sick leave, STDIPP, etc.) before receiving a contribution of vacation days from potential donating employees. Vacation will not accrue for the recipient employee while using “donated” vacation from another employee.
3. A recipient employee may receive a maximum of 160 hours (20 days) per qualifying situation. The Human Resources department will typically take the donations based on order of receipt.

E. Tax Implications

1. Individuals Donating Vacation – the value of donated vacation hours for a qualifying medical emergency is not included in the donating employee’s income for tax purposes. Employees donating vacation hours are not entitled to claim a charitable contribution on their income tax return for the donated time.
2. Individuals Receiving Donated Vacation – Vacation time received by an employee for a qualifying medical emergency will be included in the receiving employee’s wages at their regular wage rate for purposes of Federal Insurance Contributions Act (FICA), Federal Unemployment Tax Act (FUTA) and income tax withholding purposes.

**ADMINISTRATION**

The Chief Executive Officer has the overall responsibility for this policy. Administration of the policy is the responsibility of the Vice President - Human Resources. Requiring compliance with this policy is the responsibility of all officers and management. It is also the responsibility of management to ensure policies are accessible and understood by all employees.

Approved by: /s/ Anne M. Jones

Anne M. Jones  
Vice President - Human Resources  
MDU Resources Group, Inc.

Approved by: /s/ David L. Goodin

David L. Goodin  
President and Chief Executive Officer  
MDU Resources Group, Inc.

Date: January 1, 2017