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September 16, 2005

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street NE, Suite 215
Post Office Box 2148
Salem, Oregon 97308-2148

Attn: Filing Center

Re: Docket UF: _____: Application of Northwest Natural Gas Company for an Order Authorizing Lines of Credit with Five Commercial Banks and \$200,000,000 of Five-Year Notes Issued in Connection therewith, Constituting a Back-Up Line of Credit for the Commercial Paper Program.

Submitted herewith for filing is the above-referenced application. If you have any questions regarding this matter or require any additional information, please contact me at (503) 220-2435 or Steven Feltz at (503) 220-2345.

Very truly yours,

/s/ Shawn M. Filippi

Shawn M. Filippi

Enclosure

Cc w/Encl.: Steven P. Feltz
Margaret D. Kirkpatrick
C.J. Rue

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

In the Matter of the Application of)	
)	
NORTHWEST NATURAL GAS COMPANY)	A P P L I C A T I O N
)	
for an Order Authorizing Lines of Credit with)	
Five Commercial Banks and \$200,000,000 of)	Docket No. UF _____
Five-Year Notes Issued in Connection)	
therewith, Constituting a Back-Up Line of)	
Credit for the Commercial Paper Program)	

Northwest Natural Gas Company ("NW Natural" or "the Company")

hereby applies to the Public Utility Commission of Oregon ("OPUC" or "the Commission"), pursuant to ORS 757.410 and 757.415 and OAR 860-027-0030, for an order authorizing NW Natural's proposed lines of credit with five commercial banks along with \$200,000,000 of five-year notes (the "Five-Year Notes") and other ancillary documents issued in connection therewith, all of which back up the Company's commercial paper program (the "Five-Year Facility").

I. Application for Authorization

The following information is furnished in support of the Application for an order authorizing the Five-Year Facility, following the format of OAR 860-027-0030.

(1)(a) Name and Address. The exact name of the Applicant and the address of its principal business office are as follows:

Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

laws of the State of Oregon. The Company was incorporated Jan. 10, 1910 and its duration is perpetual. It has duly qualified and is authorized to transact its business in the State of Washington and is in good standing as a foreign corporation under the laws of that State.

(1)(c) Person Authorized to Receive Notices. The name and address of the person authorized, on behalf of the Company, to receive notices and communications in respect to this Petition is:

C.J. Rue, Secretary
Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

The Company respectfully requests that the Commission send copies of all such notices and communications to:

Shawn M. Filippi
Associate Counsel
Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

(1)(d) Principal Officers. The names, titles and addresses of the principal officers of the Company are:

Mark S. Dodson	President and Chief Executive Officer	220 NW Second Avenue Portland, Oregon 97209
Michael S. McCoy	Executive Vice President	“ “ “
Margaret D. Kirkpatrick	Vice President and General Counsel	“ “ “
Gregg S. Kantor	Senior Vice President, Public and Regulatory Affairs	“ “ “
David H. Anderson	Senior Vice President and Chief Financial Officer	“ “ “
Lea Anne Doolittle	Vice President, Human Resources	“ “ “
Stephen P. Feltz	Treasurer and Controller	“ “ “
C.J. Rue	Secretary and Assistant Treasurer	“ “ “

(1)(e) General Character of the Business. The Company is engaged principally in the business of distributing and selling natural gas to residential, commercial, institutional and industrial customers in various cities and unincorporated areas in 15 counties in the State of Oregon and three counties in the State of Washington. A map of the Company's service territory is attached as Exhibit AA.

(1)(f) Capital Stock. As of June 30, 2005, the date of the balance sheet submitted herewith, the authorized and outstanding capital stock of the Company was as follows:

Preferred Capital Stock: authorized, 1,500,000 shares, without par value; none issued and outstanding.

The Preferred Stock is entitled in preference to the Preference Stock and Common Stock to cumulative dividends at the applicable rate for each series, which are *pari passu*; and is entitled in preference to the Preference Stock and the Common Stock, upon voluntary liquidation, to the amount of the stated value per share plus accumulated dividends; and upon voluntary liquidation, to the then applicable redemption prices plus accumulated dividends.

None of the Preferred Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

Preference Capital Stock: authorized, 2,000,000 shares, without par value; none issued and outstanding.

The Preference Stock is entitled in preference to the Common Stock to cumulative dividends at the applicable rate for each series, which will be *pari passu* with future series, and distributions upon liquidation, but subordinate to cumulative dividends, purchase and sinking fund payments, and distributions upon liquidation with respect to the Preferred Stock.

None of the Preference Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

Common Capital Stock: authorized, 60,000,000 shares, par value \$3 1/6 per share; issued and outstanding, 27,563,685 shares; reserved for future issue to employees under the Company's Employee Stock Purchase Plan, 106,699 shares; reserved for future issuance to common shareholders under the Company's Dividend Reinvestment and Stock Purchase Plan, 925,785 shares;

reserved to accommodate the Restated Stock Option Plan (formerly the 1985 Stock Option Plan), 1,560,149 shares; reserved to accommodate conversions of the 7-1/4% Convertible Debentures, 273,792 shares; and reserved to accommodate purchases of shares of Common Stock pursuant to the exercise of Rights under the Rights Agreement dated as of February 27, 1996, 3,000,000 shares.

The Common Stock is entitled to dividends when and as declared by the Board of Directors subject to the preferences of the Preference Stock and the Preferred Stock outlined above, and subject to the restrictions, if any, of the Company's Mortgage.

Generally, only the Common Stock has voting rights, subject to the special voting rights of the Preference Stock and the Preferred Stock, if any. Holders of Common Stock are entitled to cumulative voting for the election of directors.

None of the Common Stock is held in the treasury or as reacquired securities; none is pledged by the Company; none is held by affiliated interests; and none is held in any fund owned or controlled by the Company.

(1)(g) Long-Term Debt. As of June 30, 2005, the date of the balance sheet submitted herewith, the classes and series of long-term debt or notes of the Company were as follows (the principal amount includes sinking fund requirements (of which there are none), and maturities due within one year, shown as current liabilities on the balance sheet):

Authorized First Mortgage Bonds (including Secured Medium-Term Notes), secured by a first mortgage lien on substantially all of the utility property now owned, or hereafter acquired by the Company, and unsecured debt, were outstanding in the amounts shown below, the interest rate and maturity being shown in the title of each series:

	<u>ORIGINALLY AUTHORIZED</u>	<u>OUTSTANDING</u>
<u>MEDIUM-TERM NOTES</u>		
<u>Secured Notes (First Mortgage Bonds):</u>		
6.340% Series B Due 2005	5,000,000	5,000,000
6.380% Series B Due 2005	5,000,000	5,000,000
6.450% Series B Due 2005	5,000,000	5,000,000
6.050% Series B Due 2006	8,000,000	8,000,000
6.310% Series B Due 2007	20,000,000	20,000,000

6.800%	Series B Due 2007	10,000,000	9,500,000
6.500%	Series B Due 2008	5,000,000	5,000,000
4.110%	Series B Due 2010	10,000,000	10,000,000
7.450%	Series B Due 2010	25,000,000	25,000,000
6.665%	Series B Due 2011	10,000,000	10,000,000
7.130%	Series B Due 2012	40,000,000	40,000,000
8.260%	Series B Due 2014	10,000,000	10,000,000
4.700%	Series B Due 2015	40,000,000	40,000,000
7.000%	Series B Due 2017	40,000,000	40,000,000
6.600%	Series B Due 2018	22,000,000	22,000,000
8.310%	Series B Due 2019	10,000,000	10,000,000
7.630%	Series B Due 2019	20,000,000	20,000,000
9.050%	Series A Due 2021	10,000,000	10,000,000
5.620%	Series A Due 2023	40,000,000	40,000,000
7.720%	Series B Due 2025	20,000,000	20,000,000
6.520%	Series B Due 2025	10,000,000	10,000,000
7.050%	Series B Due 2026	20,000,000	20,000,000
7.000%	Series B Due 2027	20,000,000	20,000,000
6.650%	Series B Due 2027	20,000,000	20,000,000
6.650%	Series B Due 2028	10,000,000	10,000,000
7.740%	Series B Due 2030	20,000,000	20,000,000
7.850%	Series B Due 2030	10,000,000	10,000,000
5.820%	Series B Due 2032	30,000,000	30,000,000
5.660%	Series B Due 2033	40,000,000	40,000,000
5.250%	Series B Due 2035	10,000,000	10,000,000

CONVERTIBLE DEBENTURES

7-1/4%	Series due 2012	15,000,000	4,241,000
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None of the securities described above is held in treasury, or held as reacquired securities, and none is held by affiliated interests.

(1)(h) Description of the Five-Year Notes. The securities covered by this Application are unsecured notes with a term of five years with each of five banks, in an aggregate amount of \$200,000,000. The Five-Year Notes will be issued as of Oct. 1, 2005 and mature on Sept. 30, 2010. The interest rates that would be applicable to any loans under the Five-Year Notes are defined by formula in the Credit Agreement with each bank. The Five-Year Notes are not convertible and have no voting privileges.

(1)(i) Description of the Proposed Transaction. NW Natural's primary source of short-term funds is commercial paper notes payable. NW Natural issues commercial paper under a Sales Agreement with Wells Fargo Bank.

The Company proposes to enter into credit agreements in the form attached hereto (the "Credit Agreements") with five commercial banks (Bank of America N.A., JPMorgan Chase Bank, U.S. Bank National Association, Wells Fargo Bank and Wachovia Bank), providing for committed credit lines to be used as back-up facilities for the Company's commercial paper borrowings. The aggregate amount of the proposed Five-Year Facility is \$200,000,000. Each bank individually will provide a \$40,000,000 credit line. Under the terms of the Credit Agreements, NW Natural pays upfront fees and annual commitment fees but is not required to maintain compensating bank balances. The interest rates on borrowings under the lines of credit, if any, are based on current market rates.

The Credit Agreements require that credit ratings be maintained in effect at all times and that notice be given of any change in its senior unsecured debt ratings. A change in NW Natural's credit rating is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon the lines of credit. However, interest rates on any loans outstanding under the lines of credit are tied to credit ratings, which would increase or decrease the cost of borrowing under the lines of credit, if any, when ratings are changed.

The Credit Agreements do not include a "material adverse change" (MAC) clause that would entitle the banks to terminate their lending commitments and accelerate the maturity of any borrowings outstanding if there were a material adverse change in the Company's operations or financial condition. Instead, the Credit

Agreements require that the Company maintain an indebtedness to total capitalization ratio, as defined in the Credit Agreements, of 65 percent or less. Failure to comply with this covenant would entitle the banks to terminate their lending commitments and to accelerate the maturity of all amounts outstanding. The Company was in compliance with this covenant in its current credit facility at Dec. 31, 2004 and June 30, 2005.

The maturity dates for any individual borrowings under the Five-Year Facility would be September 30, 2010. However, the Company may prepay any Prime Rate Loan or Fed Funds Rate Loan (each as defined in the Credit Agreements), in whole or in part, without premium payment or penalty. The Company may prepay a Negotiated Rate Loan, a C/D Rate Loan or a LIBOR Loan (each as defined in the Credit Agreements), but the Company will have to pay breakage and other fees if the prepayment is at any time other than the last day of an applicable Interest Period, as defined in the Credit Agreements.

The interest rates that would be applicable to any loans under the Five-Year Facility are defined in Schedule I to the Credit Agreements (each Schedule I is attached). The selections or definitions of interest rates are specified as a spread over benchmark interest rates in effect from time to time, such as the prime rate or the Adjusted London Interbank Overnight Rate (LIBOR). The spreads applicable to the Company depend on the level of the Company's credit ratings on unsecured long-term debt as published by Standard & Poor's and Moody's Investors Service, two nationally recognized credit rating agencies. Under the proposed Credit Agreements, the Company has selected LIBOR and Prime Rates as required interest rate options. The banks must offer LIBOR and Prime Rate Loans if the Company decides to draw down on the credit lines.

Full terms of the lines of credit are set forth in the form of Credit Agreement, the form of the Five-Year Note and the Schedules I, applicable to each of the five banks' individual Credit Agreements, forms of each of which is attached to this filing.

Fees for NW Natural's Five-Year Facility total \$800,000, including \$700,000 in commitment fees (paid quarterly) and \$100,000 in upfront fees (paid at the outset of the five-year period). No arrangement fee is included because NW Natural is proposing bilateral lines of credit as opposed to a syndicated loan facility. The cost estimate for a syndicated loan facility would have increased the total cost to the Company by at least \$200,000. The average annual cost of the credit line is 8 basis points (0.08 percent), or \$160,000, which is 2 basis points lower than the average cost of the Company's existing 364-day credit line and 6 basis points lower than the average cost of its existing three-year credit line, reflecting aggressive current market pricing due to lender demand for strong investment grade borrowers. The Company believes these fees are competitive for credit lines of this size and for a company with NW Natural's credit profile (see attached table from JP Morgan for a list of recent comparable "A" rated transactions).

The Company has not drawn down on its commercial paper back-up credit facility in recent years, and there were no outstanding balances of borrowings under the current NW Natural lines of credit as of December 31, 2004 or June 30, 2005.

Events of the past few years have caused the bank credit market to tighten, resulting in credit facilities with shorter durations and higher fees. Traditionally the Company's short-term lines of credit were effective for only 364 days, requiring

renewal each year. The shorter term helped limit its cost, but it also exposed the Company to annual renewal risk and annual re-pricing, and perhaps the risk of losing its ability to sell commercial paper and to provide liquidity. The current market for five-year facilities is very attractive, and the annual cost difference between a 364-day facility and a five-year facility is negligible. As a result, the utility sector over the past 12 months has been moving to more five-year deals in the bank market.

(A) **Proposed Method of Selling/Issuing Securities.** Consistent with industry practice, the Company solicited proposals for the Five-Year Facility from each of the five banks, all of which, with the exception of Wachovia, had been in the credit line in the prior year. The Company proposed that the terms and conditions of the credit lines would be as defined in the Credit Agreements, which had been used in substantially the same form in the prior year. The Company asked each bank to submit bids for the commitment fees and upfront fees that would apply to the Five-Year Facility. Based on these bids, the Company negotiated fees and amounts of participation in the lines so as to apply the same fees to each bank, while minimizing to the extent practicable the total amount of the commitment fees.

(B) **Pro Rata or Preemptive Rights.** The Five-Year Notes are not issued *pro rata* to existing holders of any other securities of the Company, and are not subject to any preemptive right or in connection with any liquidation or reorganization.

(C) **Rationale for Issuance of Securities in Manner Proposed.** The Company's management and Board of Directors have concluded that it is prudent to protect the Company's cash liquidity position by securing credit commitments from commercial banks for longer than the traditional 364-day period. It

is crucial for NW Natural to have a committed source of short-term liquidity in case the Company is unable to issue short-term commercial paper notes from time to time. The proposed Five-Year Facility affords the Company with a more secure source of such liquidity than would a 364-day commitment. Additionally, even in the event the Company can utilize its commercial paper program, the Five-Year Facility reduces the likelihood that the Company would be left without a back-up facility for its commercial paper program, thus rendering the Company unable to sell its commercial paper, and perhaps unable to raise any short-term working capital. Dislocations in the financial markets in the past few years have demonstrated that the time to ensure adequate credit is when the market is stable or a company's financial condition is strong, not when either is facing a crisis. Securing a back-up line of credit for a company's commercial paper program is customary in the industry.

(D) **Competitive Bidding.** No exemption from the competitive bidding requirements of any federal or other state regulatory body has been requested.

(1)(j) **Fees for Services.** Other than the upfront fees and commitment fees payable to the banks (described in Section 1(i) above), no person or persons (other than attorneys, accountants and similar technical services) were entitled to receive a fee for services in connection with the negotiation or consummation of the Five-Year Facility. The Company believes these fees are competitive for credit lines of this size and for a company with NW Natural's credit profile (see Exhibit BB for JP Morgan table of recent comparable "A" rated transactions).

(1)(k) **Price and Proceeds.** Borrowings under the Five-Year Facility, if drawn, would be at the interest rates specified in the attached Schedules I. The only

additional cost would be the upfront fees and commitment fees payable to the bank and described in Section 1(j). No underwriting commissions or syndication fees are payable to the banks. The Five-Year Notes are not issued directly for property.

(1)(l) Purposes for the Securities. The purpose of the Five-Year Facility is to provide a committed source of short-term liquidity in case NW Natural is unable to issue short-term commercial paper notes from time to time. The purposes for which individual borrowings under the Five-Year Notes are proposed to be used, if and as required, are to arrange for the construction, completion, extension, or improvement of the Company's facilities; the potential repayment of maturing long-term obligations; the reimbursement of the treasury for expenditures against which long-term securities have not yet been issued; the discharging of current obligations; and to provide working capital for the improvement or maintenance of utility service.

(m) Other Regulatory Requirements. A statement has been filed with the Washington Utilities and Transportation Commission establishing compliance with RCW 80.08.040. No Registration Statement is required to be filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933.

(1)(n) Summary and Approval Standards. Based on the facts and for the reasons stated herein, the Five-Year Facility as described in this Application is for a lawful object within the corporate purposes of the Company; is compatible with the public interest; is necessary and appropriate for and consistent with the proper performance by the Company of service as a public utility; will not impair its ability to perform such service; and is reasonably appropriate for such purposes. This Application is not filed under ORS 757.495.

(1)(o) and (1)(p) Other Requirements. The requirements of Rule 860-27-0030(1)(o) and (1)(p) are not applicable.

REQUIRED EXHIBITS

Filed with this Application and Petition, as part hereof, are the following

Exhibits:

- Exhibit A A copy of the Company's Restated Articles of Incorporation, as amended.
- Exhibit B A copy of the Company's Bylaws, as amended.
- Exhibit C A draft copy of the proposed resolutions to be adopted at the Board of Directors meeting to be held September 21-22, 2005, relating to the Company's back-up line of credit. Shareholder approval is not required. The Company will forward under separate cover a certified copy of the final meeting minutes approving this transaction.
- Exhibit D A copy of the form of Credit Agreement for the Five-Year Facility along with the documents ancillary thereto.
- Exhibit E Balance Sheets of the Company at June 30, 2005 and Dec. 31, 2004, and financial notes thereto. The amounts of committed credit represented by the Five-Year Notes are not recorded as obligations on the Balance Sheet except to the extent that loans may be outstanding from time to time under the Five-Year Facility.
- Exhibit F A list of all known contingent liabilities, other than minor items such as damages, claims and similar items involving relatively small amounts.
- Exhibit G Comparative Income Statements for the six months ended June 30, 2005 and the 12 months ended Dec. 31, 2004. (See Exhibit E for financial notes). The credit amounts in the Five-Year Facility do not have an effect on the Income Statements except to the extent that the Company records interest expense on loans that may be outstanding from time to time under the Five-Year Facility.
- Exhibit H Consolidated Statements of Shareholders' Equity and Comprehensive Income as of Dec. 31, 2004 showing an analysis of surplus for that period. A similar statement prepared for the quarter ending June 30, 2005. (See Exhibit E for Financial Notes).
- Exhibits J & K See Exhibit D for copies of the form of Credit Agreement for the

- Exhibit AA Five-Year Facility along with documents ancillary thereto.
- Exhibit BB Map of the Company's service territories.
- Exhibit BB JPMorgan table of recent comparable "A" rated transactions.

WHEREFORE, the Applicant respectfully requests that the Public Utility Commission of Oregon enter an appropriate Order granting the within Application.

Dated at Portland, Oregon this 16th day of September 2005.

NORTHWEST NATURAL GAS COMPANY

By Stephen P. Feltz
 Stephen P. Feltz
 Treasurer & Controller

STATE OF OREGON)
) ss
 County of Multnomah)

Stephen P. Feltz, being first duly sworn, deposes and says that he is Treasurer & Controller of Northwest Natural Gas Company, the Applicant in the foregoing Application, that he has read said Application, including exhibits thereto, knows the content thereof, and that the same are true to the best of his knowledge and belief.

Stephen P. Feltz
 Stephen P. Feltz

Subscribed and sworn to before me this 16th day of September 2005.

Linda M. Warren
 Notary Public for Oregon
 My commission expires: June 21, 2008

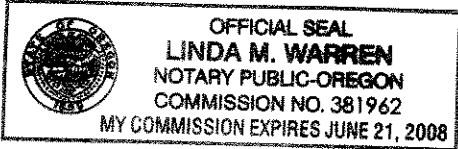


EXHIBIT A

A copy of the Company's Restated Articles of Incorporation, as amended.

FILED
OFFICE OF THE SECRETARY
STATE OF THE STATE OF GRE.

JUN 24 1988

CORPORATION DIVISION

RESTATED ARTICLES OF INCORPORATION

of

NORTHWEST NATURAL GAS COMPANY

as Filed and Effective June 24, 1988

**RESTATED ARTICLES OF INCORPORATION
OF
NORTHWEST NATURAL GAS COMPANY**

(These Restated Articles of Incorporation of Northwest Natural Gas Company supersede its theretofore existing Restated Articles of Incorporation and all amendments thereto.)

ARTICLE I

- A. The name of this corporation is **NORTHWEST NATURAL GAS COMPANY**, and its duration shall be perpetual.

ARTICLE II

- A. The purposes of the corporation are to engage in any lawful activity for which corporations may be organized under the Oregon Business Corporation Act.

ARTICLE III

- A. The aggregate number of shares of capital stock which the corporation shall have authority to issue is 33,500,000 shares, divided into 1,500,000 shares of Preferred Stock without par value, issuable in series as hereinafter provided, 2,000,000 shares of Preference Stock without par value, issuable in series as hereinafter provided, and 30,000,000 shares of Common Stock of the par value of \$3-1/6 per share.
- B. Each certificate for shares of Common Stock of a par value other than \$3-1/6 per share, so long as it remains outstanding, shall evidence and represent an equal number of shares of Common Stock of \$3-1/6 par value. Each certificate for shares of the 4.68% Series, 4.75% Series, 6.875% Series or 8% Series of the Preferred Stock of the par value of \$100 per share, so long as it remains outstanding, shall evidence and represent, respectively, an equal number of shares of the \$4.68 Series, \$4.75 Series, \$6.875 Series or \$8 Series of the Preferred Stock, without par value.
- C. A statement of the preferences, limitations and relative rights of each class of capital stock of the corporation, namely, the Preferred Stock, the Preference Stock and the Common Stock, of the variations in the relative rights and preferences as between series of the Preferred Stock and as between series of the Preference Stock, insofar as the same are fixed by these Restated Articles of Incorporation, and of the authority vested in the board of directors of the corporation to establish series of Preferred Stock and series of Preference Stock and to fix and determine the variations in the relative rights and preferences as between series insofar as the same are not fixed by these Restated Articles of Incorporation, is as follows:

Preferred Stock

1. The shares of the Preferred Stock may be divided into and issued in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series of the Preferred Stock and all other classes of capital stock of the corporation. To the extent that these Restated Articles of Incorporation shall not have established series of the Preferred Stock and fixed and determined the variations in the relative rights and preferences as between series, the board of directors shall have authority, and is hereby expressly vested with authority, to divide the Preferred Stock into series and, within the limitations set forth in these Restated Articles of Incorporation and such limitations as may be provided by law, to fix and determine the relative rights and preferences of any series of the Preferred Stock so established. Such action by the board of directors shall be expressed in a resolution or resolutions adopted by it prior to the issuance of shares of each series, which resolution or resolutions shall also set forth the distinguishing designation of the particular series of the Preferred Stock

established thereby. Without limiting the generality of the foregoing, authority is hereby expressly vested in the board of directors so to fix and determine with respect to any series of the Preferred Stock:

- (a) The rate of dividend;
- (b) The price at which and the terms and conditions on which shares may be redeemed;
- (c) The amount payable upon shares in the event of voluntary and involuntary liquidation;
- (d) Sinking fund provisions, if any, for the redemption or purchase of shares; and
- (e) The terms and conditions, if any, on which shares may be converted if the shares of any series are issued with the privilege of conversion.

All shares of the Preferred Stock of the same series shall be identical except that shares of the same series issued at different times may vary as to the dates from which dividends thereon shall be cumulative; and all shares of the Preferred Stock, irrespective of series, shall constitute one and the same class of stock, shall be of equal rank, and shall be identical except as to the designation thereof, the date or dates from which dividends on shares thereof shall be cumulative, and the relative rights and preferences set forth above in clauses (a) through (e) of this subdivision, as to which there may be variations between different series. Except as otherwise may be provided by law, by subdivision III. C. 7., or by the resolutions establishing any series of Preferred Stock in accordance with the foregoing provisions of this subdivision, whenever the written consent, affirmative vote, or other action on the part of the holders of the Preferred Stock may be required for any purpose, such consent, vote or other action shall be taken by the holders of the Preferred Stock as a single class irrespective of series and not by different series.

2. The holders of shares of the Preferred Stock of each series shall be entitled to receive dividends, when and as declared by the board of directors, out of any funds legally available for the payment of dividends, at the annual rate fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 1., and no more, payable quarterly on the 15th day of February, May, August and November in each year or on such other date or dates as the board of directors shall determine in the resolutions establishing such series. Such dividends shall be cumulative in the case of shares of each series either from the date of issuance of shares of such series or from the first day of the current dividend period within which shares of such series shall be issued, as the board of directors shall determine, so that if dividends on all outstanding shares of each particular series of the Preferred Stock, at the annual dividend rates fixed and determined by the board of directors for the respective series, shall not have been paid or declared and set apart for payment for all past dividend periods and for the then current dividend periods, the deficiency shall be fully paid or dividends equal thereto declared and set apart for payment at said rates before any dividends on the Preferred Stock or the Common Stock shall be paid or declared and set apart for payment. In the event more than one series of the Preferred Stock shall be outstanding, the corporation, in making any dividend payment on the Preferred Stock, shall make payments ratably upon all outstanding shares of the Preferred Stock in proportion to the amount of dividends accumulated thereon to the date of such dividend payment. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments which may be in arrears.
3. In the event of any dissolution, liquidation or winding up of the corporation, before any distribution or payment shall be made to the holders of the Preference Stock or the Common Stock, the holders of the Preferred Stock of each series then outstanding shall be entitled to be paid out of the net assets of the corporation available for distribution to its shareholders the respective amounts per share fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 1., and no more. If upon dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation available for dis-

tribution to its shareholders shall be insufficient to pay the holders of all outstanding shares of Preferred Stock of all series the full amounts to which they shall be respectively entitled as aforesaid, the entire net assets of the corporation available for distribution shall be distributed ratably to the holders of all outstanding shares of Preferred Stock of all series in proportion to the amounts to which they shall be respectively so entitled. For the purposes of this subdivision, any dissolution, liquidation or winding up which may arise out of or result from the condemnation or purchase of all or a major portion of the properties of the corporation by (i) the United States Government or any authority, agency or instrumentality thereof, (ii) a State of the United States or any political subdivision, authority, agency or instrumentality thereof, or (iii) a district, cooperative or other association or entity not organized for profit, shall be deemed to be an involuntary dissolution, liquidation or winding up; and a consolidation, merger or amalgamation of the corporation with or into any other corporation or corporations shall not be deemed to be a dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary.

4. (a) Subject to the limitations set forth in subdivision III. C. 9. or fixed and determined in accordance with subdivision III. C. 1., the Preferred Stock of all series, or of any series thereof, or any part of any series thereof, at any time outstanding, may be redeemed by the corporation, at its election expressed by resolution of the board of directors, at any time or from time to time, at the then applicable redemption price fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 1. If less than all of the shares of any series are to be redeemed, the redemption shall be made either pro rata or by lot in such manner as the board of directors shall determine.
- (b) In the event the corporation shall so elect to redeem shares of the Preferred Stock, notice of the intention of the corporation to do so and of the date and place fixed for redemption shall be mailed not less than thirty days before the date fixed for redemption to each holder of shares of the Preferred Stock to be redeemed at his address as it shall appear on the books of the corporation, and on and after the date fixed for redemption and specified in such notice (unless the corporation shall default in making payment of the redemption price), such holders shall cease to be shareholders of the corporation with respect to such shares and shall have no interest in or claim against the corporation with respect to such shares, excepting only the right to receive the redemption price therefor from the corporation on the date fixed for redemption, without interest, upon endorsement, if required, and surrender of their certificates for such shares.
- (c) Contemporaneously with the mailing of notice of redemption of any shares of the Preferred Stock as aforesaid or at any time thereafter on or before the date fixed for redemption, the corporation may, if it so elects, deposit the aggregate redemption price of the shares to be redeemed with any bank or trust company doing business in The City of New York, New York, or Portland, Oregon, having a capital and surplus of at least \$25,000,000, named in such notice, payable on the date fixed for redemption in the proper amounts to the respective holders of the shares to be redeemed, upon endorsement, if required, and surrender of their certificates for such shares, and on and after the making of such deposit such holders shall cease to be shareholders of the corporation with respect to such shares and shall have no interest in or claim against the corporation with respect to such shares, excepting only the right to exercise such redemption, conversion or exchange rights, if any, on or before the date fixed for redemption as may have been provided with respect to such shares or the right to receive the redemption price of their shares from such bank or trust company on the date fixed for redemption, without interest, upon endorsement, if required, and surrender of their certificates for such shares.
- (d) If the corporation shall have elected to deposit the redemption moneys with a bank or trust company as permitted by subdivision (c) above, any moneys so deposited which shall remain un-

claimed at the end of six years after the redemption date shall be repaid to the corporation, and upon such repayment holders of Preferred Stock who shall not have made claim against such moneys prior to such repayment shall be deemed to be unsecured creditors of the corporation for an amount, without interest, equal to the amount they would theretofore have been entitled to receive from such bank or trust company. Any redemption moneys so deposited which shall not be required for such redemption because of the exercise, after the date of such deposit, of any right of redemption, conversion or exchange or otherwise, shall be returned to the corporation forthwith. The corporation shall be entitled to receive any interest allowed by any bank or trust company on any moneys deposited with such bank or trust company as herein provided, and the holders of any shares called for redemption shall have no claim against any such interest.

(e) Nothing herein contained shall limit any legal right of the corporation to purchase or otherwise acquire any shares of the Preferred Stock.

5. The holders of shares of the Preferred Stock shall have no right to vote in the election of directors or for any other purpose, except as may be otherwise provided by law or by subdivisions III. C. 6, 7 and 8. Holders of Preferred Stock shall be entitled to notice of each meeting of shareholders at which they shall have any right to vote, but shall not be entitled to notice of any other meeting of shareholders.

6. (a) If at any time dividends payable on any share or shares of Preferred Stock shall be in arrears in an amount equal to four full quarterly dividends or more per share, a default in preferred dividends for the purpose of this subdivision shall be deemed to have occurred, and having so occurred, such default shall be deemed to exist thereafter until, but only until, all unpaid accumulated dividends on all shares of Preferred Stock shall have been paid to the last preceding dividend period. If and whenever a default in preferred dividends shall occur, a special meeting of shareholders of the corporation shall be held for the purpose of electing directors upon the written request of the holders of at least 10% of the total number of shares of Preferred Stock then outstanding. Such meeting shall be called by the secretary of the corporation upon such written request and shall be held at the earliest practicable date upon like notice as that required for the annual meeting of shareholders of the corporation and at the place for the holding of such annual meeting. If notice of such special meeting shall not be mailed by the secretary within thirty days after personal service of such written request upon the secretary of the corporation or within thirty days of mailing the same in the United States of America by registered mail addressed to the secretary at the principal office of the corporation, then the holders of at least 10% of the total number of shares of Preferred Stock then outstanding may designate in writing one of their number to call such meeting and the person so designated may call such meeting upon like notice as that required for the annual meeting of shareholders and to be held at the place for the holding of such annual meeting. Any holder of Preferred Stock so designated shall have access to the stock books of the corporation for the purpose of causing a meeting of shareholders to be called pursuant to the foregoing provisions of this subdivision.

(b) At any such special meeting, or at the next annual meeting of shareholders of the corporation for the election of directors and at each other meeting, annual or special, for the election of directors shall held thereafter (unless at the time of any such meeting such default in preferred dividends shall no longer exist), the holders of the outstanding shares of Preferred Stock, voting separately as a class irrespective of series, shall have the right to elect the smallest number of directors which shall constitute at least one-fourth of the total number of directors of the corporation, or two directors, whichever shall be the greater, and the holders of the outstanding shares of Common Stock, voting as a class, shall have the right to elect all other members of the board of directors.

anything herein or in the bylaws of the corporation to the contrary notwithstanding. The terms of office, as directors, of all persons who may be directors of the corporation at any time when such special right to elect directors shall become vested in the holders of the Preferred Stock shall terminate upon the election of any new directors to succeed them as aforesaid.

- (c) At any meeting, annual or special, of the corporation, at which the holders of Preferred Stock shall have the special right to elect directors as aforesaid, the presence in person or by proxy of the holders of a majority of the total number of shares of Preferred Stock then outstanding shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of a majority of the total number of shares of Common Stock then outstanding shall be required to constitute a quorum of such class for the election of directors; provided, however, that the absence of a quorum of the holders of shares of any such class shall not prevent the election at any such meeting or adjournment thereof of directors by the other class, if the necessary quorum of the holders of such other class shall be present at such meeting or any adjournment thereof; and provided further, that in the absence of a quorum of holders of shares of any class, a majority of the holders of the shares of such class who are present in person or by proxy shall have power to adjourn the election of the directors to be elected by such class from time to time, without notice other than announcement at the meeting, until the requisite quorum of holders of such class shall be present in person or by proxy, but no such adjournment shall be made to a date beyond the date for the mailing of the notice of the next annual meeting of shareholders of the corporation or special meeting in lieu thereof.
 - (d) So long as a default in preferred dividends shall exist, any vacancy in the office of a director elected by the holders of the Preferred Stock may be filled at any meeting of shareholders, annual or special, for the election of directors held thereafter, and a special meeting of shareholders, or of the holders of shares of the Preferred Stock, may be called for the purpose of filling any such vacancy. So long as a default in preferred dividends shall exist, any vacancy in the office of a director elected by the holders of the Common Stock may be filled by majority vote of the remaining directors elected by the holders of Common Stock.
 - (e) If and when the default in preferred dividends which permitted the election of directors by the holders of the Preferred Stock shall cease to exist, the holders of the Preferred Stock shall be divested of any special right with respect to the election of directors, and the voting power of the holders of the Preferred Stock and of the holders of the Common Stock shall revert to the status existing before the first dividend payment date on which dividends on the Preferred Stock were not paid in full, subject to reversion in the event of each and every subsequent like default in preferred dividends. Upon the termination of any such special right, the terms of office of all persons who may have been elected directors by vote of the holders of the Preferred Stock pursuant to such special right shall forthwith terminate, and the resulting vacancies shall be filled by the majority vote of the remaining directors.
7. So long as any shares of the Preferred Stock shall be outstanding, the corporation shall not, without the written consent or affirmative vote of the holders of at least two-thirds of the total number of shares of the Preferred Stock then outstanding, (i) create or authorize any new class of stock ranking prior to the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, or (ii) amend, alter or repeal any of the express terms of the Preferred Stock then outstanding in a manner substantially prejudicial to the holders thereof. Notwithstanding the foregoing provisions of this subdivision, if any proposed amendment, alteration or repeal of any of the express terms of any outstanding shares of the Preferred Stock would be substantially prejudicial to the holders of shares of one or more, but not all, of the series of the Preferred Stock, only the written consent or affirmative vote of the holders of at least two-thirds of the total number of outstanding shares of all series so affected

shall be required. Any affirmative vote of the holders of the Preferred Stock, or of any one or more series thereof, which may be required in accordance with the foregoing provisions of this subdivision, upon a proposal to create or authorize any class of stock ranking prior to the Preferred Stock or to amend, alter or repeal the express terms of outstanding shares of the Preferred Stock or of any one or more series thereof in a manner substantially prejudicial to the holders thereof may be taken at a special meeting of the holders of the Preferred Stock or of the holders of one or more series thereof called for the purpose, notice of the time, place and purposes of which shall have been given to the holders of the shares of the Preferred Stock entitled to vote upon any such proposal, or at any meeting, annual or special, of the shareholders of the corporation, notice of the time, place and purposes of which shall have been given to holders of shares of the Preferred Stock entitled to vote on such a proposal.

8. So long as any shares of the Preferred Stock shall be outstanding, the corporation shall not, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding:

(a) issue any shares of the Preferred Stock, or of any other class of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, unless (i) the net income of the corporation available for the payment of dividends for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issuance of such shares (including, in any case in which such shares are to be issued in connection with the acquisition of new property, the net income of the property so to be acquired, computed on the same basis as the net income of the corporation) is at least equal to two times the annual dividend requirements on all shares of the Preferred Stock, and on all shares of all other classes of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, which will be outstanding immediately after the issuance of such shares, including the shares proposed to be issued, and (ii) the gross income of the corporation available for the payment of interest for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issuance of such shares (including, in any case in which such shares are to be issued in connection with the acquisition of new property, the gross income of the property so to be acquired, computed on the same basis as the gross income of the corporation) is at least equal to one and one-half times the aggregate of the annual interest requirements on all securities evidencing indebtedness of the corporation, and the annual dividend requirements on all shares of the Preferred Stock and on all shares of all other classes of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, which will be outstanding immediately after the issuance of such shares, including the shares proposed to be issued; or

(b) issue any shares of the Preferred Stock, or of any other class of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, unless the aggregate of the capital of the corporation applicable to the Common Stock and the surplus of the corporation (paid-in, earned or other, if any) shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the corporation on all shares of the Preferred Stock, and on all shares of all other classes of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, which will be outstanding immediately after the issuance of such shares, including the shares proposed to be issued; provided, however, that if, for the purposes of meeting the requirements of this subdivision, it shall become necessary to take into consideration any surplus of the corporation the corporation shall not thereafter pay any dividends on shares of the Preference Stock or the Common Stock which would result in reducing the aggregate of the capital of the corporation applicable to the Common Stock and the surplus of the corporation to an amount less than the

aggregate amount payable, on involuntary dissolution, liquidation or winding up of the corporation, on all shares of the Preferred Stock and of any stock ranking prior to or on a parity with the Preferred Stock, as to dividends or upon dissolution, liquidation or winding up, at the time outstanding.

In any case where it would be appropriate, under generally accepted accounting principles, to combine or consolidate the financial statements of any predecessor or subsidiary of the corporation with those of the corporation, the foregoing computations may be made on the basis of such combined or consolidated financial statements. Any affirmative vote of the holders of the Preferred Stock, which may be required in accordance with the foregoing provisions of this subdivision, may be taken at a special meeting of the holders of the Preferred Stock called for the purpose, notice of the time, place and purposes of which shall have been given to the holders of the outstanding shares of the Preferred Stock, or at any meeting, regular or special, of the shareholders of the corporation, notice of the time, place and purposes of which shall have been given to the holders of the outstanding shares of the Preferred Stock.

9. The series of Preferred Stock heretofore established and outstanding on the date of the adoption of these Restated Articles of Incorporation, together with a statement of the rights and preferences of each series, are as follows:

\$4.68 Series

- (a) The Preferred Stock \$4.68 Series, of which 18,600 shares were outstanding at the time of the adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

(i) the rate of dividend of shares of said Series shall be \$4.68 per annum; the dividend payment dates shall be the 15th days of February, May, August and November in each year except that the date of payment of the first dividend shall be November 15, 1963; and dividends shall be cumulative from the date of issue;

(ii) the price at which shares of said Series may be redeemed shall be \$105 per share if the date of redemption is on or prior to July 31, 1968; \$103 per share if the date of redemption is after July 31, 1968 and on or prior to July 31, 1971; \$101 per share if the date of redemption is after July 31, 1971 and on or prior to July 31, 1974; and \$100 per share if the date of redemption is after July 31, 1974; in each case plus unpaid accumulated dividends, if any, to the date of redemption; provided, however, that no shares of said Series may be redeemed on or prior to July 31, 1968, in whole or in part by the use, directly or indirectly, of the proceeds from the issuance of any class or series of Preferred Stock of the corporation bearing an effective dividend rate (calculated in accordance with acceptable financial practice) that is less than \$4.68 per annum;

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$100 per share and in the event of voluntary liquidation shall be an amount equal to the then applicable redemption price of shares of said Series plus unpaid accumulated dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a purchase fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) will each year, beginning in 1966, so long as any shares of said Series are outstanding, make an offer, in the manner hereinafter specified, to the holders of shares of said Series, to purchase on June 15 in each such year, 1,800 shares

of said Series at \$100 per share and accumulated dividends up to such June 15 (hereinafter called "\$4.68 Series Purchase Offer"); provided, however, that (i) if in any year the net income of the corporation for the preceding calendar year (which net income shall be determined in accordance with the requirements of the regulatory authority of the State of Oregon having jurisdiction of the corporation and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be less than half the sum of \$180,000 plus the maximum obligation, expressed in dollars, due during the year in which such \$4.68 Series Purchase Offer is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to offer to purchase shares of said Series in such year shall be limited to such amount as it shall in its sole discretion determine; and (ii) if in any year the amount of such net income of the corporation for the preceding calendar year (after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be not less than half, and not equal to, the sum of \$180,000 plus the maximum obligation, expressed in dollars, due during the year in which such \$4.68 Series Purchase Offer is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to offer to purchase shares of said Series in such year shall be the proportion of said amount so determined which \$180,000 bears to the maximum aggregate of all sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any Preferred Stock of the corporation. The total number of shares to be purchased and the number of shares to be purchased from any holder shall be adjusted to the nearest full share so that fractional shares need not be purchased. The obligation of the corporation to make annually the \$4.68 Series Purchase Offer and to purchase shares of said Series tendered for sale in accordance with the terms thereof, hereinafter is referred to as the "\$4.68 Series Purchase Fund Obligation" and is subject to the terms and conditions hereinafter set forth.

(2) Beginning on or prior to April 30, 1966, and on or prior to April 30 in each year thereafter, the corporation shall deliver to the Transfer Agent for said Series a certificate signed by the president or a vice president or the treasurer or an assistant treasurer of the corporation stating (i) (a) whether or not the corporation's obligation, expressed in dollars, to offer to purchase shares of said Series is limited by reason of subdivision (1) (ii) above, and if so, the amount of such obligation as so limited, and (b) the number of shares of said Series for which a \$4.68 Series Purchase Offer is to be made by the corporation in such year, or (ii) that the net income of the corporation for the preceding calendar year was such that the corporation has no \$4.68 Series Purchase Fund Obligation in the current year, or (iii) that the making of a \$4.68 Series Purchase Offer by the corporation, in the opinion of counsel for the corporation accompanying such certificate, would be contrary to an applicable law or to a rule or regulation of a governmental authority having jurisdiction in the premises; provided, however, that if, on April 1 of any year, there are not funds legally available, in the opinions of the signer of such certificate and of counsel for the corporation accompanying such certificate, for the payment of the current \$4.68 Series Purchase Fund Obligation, the corporation may presume for the purposes hereof that the making of a \$4.68 Series Purchase Offer would be contrary to an applicable law.

(3) If the certificate filed in any such year shall state that a \$4.68 Series Purchase Offer is to be made in such year, the Transfer Agent for said Series with whom such certificate is filed

shall, on or prior to May 15 of such year, cause to be mailed to the holders of record of the shares of said Series at the close of business on the May 1 preceding such mailing (or, if the board of directors of the corporation has declared a dividend on the shares of said Series, payable on May 15, to the holders receiving such dividend payment at the time of mailing such dividend payment checks), a notice, in the name of the corporation, that the corporation will on June 15 of such year accept tenders of shares required to satisfy the \$4.68 Series Purchase Fund Obligation then due at \$100 per share and accumulated dividends to such June 15; provided, however, that such tender must be received by the Transfer Agent not later than the close of business on the fifth full business day preceding such June 15 and that such tender must be irrevocable until the close of business on June 16 of such year. Tenders may be accepted regardless of whether the holder so tendering held shares of said Series at the time notice was given. The corporation may require, and in such event said notice shall specify, that each offer to sell shares of said Series shall be accompanied by the certificate or certificates for the shares so offered, the signature of the holder thereof to be guaranteed by a bank or trust company (not a savings bank) or by a firm having membership in the New York Stock Exchange, together with evidence satisfactory to the Transfer Agent of the right of the holder of such shares to so sell the same to the corporation. The decision of counsel for the corporation as to the right of the holder of such shares to sell the same to the corporation shall control and be conclusive. Any offer to sell shall be subject to acceptance in whole or in part.

(4) In any year in which a \$4.68 Series Purchase Offer is made, the Transfer Agent for said Series shall on June 15 of such year, on behalf of the corporation, accept tenders to sell shares of said Series received by it up to the full number of shares covered by the \$4.68 Series Purchase Offer subject to the limitations on expenditures set forth in the certificate delivered to the Transfer Agent. If more shares are properly tendered pursuant to any annual \$4.68 Series Purchase Offer than are to be purchased, the Transfer Agent shall accept the tender of such number of shares of each tendering shareholder as will bear the same ratio to the total number of shares to be purchased, as the number of shares of said Series held of record by such tendering shareholder bears to the aggregate number of shares of said Series held of record by all tendering shareholders. If one or more holders tender less than their proportionate share so that any of the number of shares to be purchased remain unallocated after apportionment among tendering shareholders on the foregoing basis the shares then remaining unallocated shall be again apportioned on the same basis among any excess tenders and such process shall be repeated until tenders have been accepted for the full number of shares to be purchased.

(5) On or prior to June 15 in each year in which a \$4.68 Series Purchase Offer shall have been made, the corporation shall deposit with the Transfer Agent for said Series cash sufficient to purchase those shares of said Series, if any, accepted for purchase pursuant to the \$4.68 Series Purchase Offer made in such year. The Transfer Agent shall, on or before the next succeeding June 20, return to the corporation any funds deposited with it and not used or required to purchase shares of said Series, pursuant to the \$4.68 Series Purchase Offer for such year. The \$4.68 Series Purchase Fund Obligation in any year shall be deemed to be fully satisfied if the corporation shall have complied with these provisions notwithstanding that the total number of shares purchased by it shall be less than the total number of shares covered by the \$4.68 Series Purchase Offer for that year because insufficient offers to sell were received by it. The \$4.68 Series Purchase Fund Obligation shall not be cumulative.

(6) Shares of said Series, purchased pursuant to any \$4.68 Series Purchase Offer, shall be

cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation.

(7) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the board of directors or the corporation from authorizing and issuing any other series of Preferred Stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of Preferred Stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the dates applicable to said Series and in the event there is a deficiency in funds legally available to meet the total obligation due on any date for said Series and any other series of Preferred Stock of the corporation, the funds actually available, if any, or the total number of shares of said Series which the corporation may offer to purchase, shall be prorated between said Series and such other series of Preferred Stock so that the percentage allocated to any particular preferred stock shall correspond with its portion of the total amount due.

(8) After June 15, 1966, so long as any shares of said Series shall be outstanding, no dividends on the Preference Stock or the Common Stock of the corporation shall, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, be declared and set apart for payment unless the \$4.68 Series Purchase Fund Obligation applicable to the June 15 immediately preceding the declaration of such dividend shall have been fully met, in that the corporation has offered to purchase 1,800 shares of said Series and has purchased or has available funds to purchase, pursuant to such \$4.68 Series Purchase Offer, such 1,800 shares at \$100 per share plus accumulated dividends to such June 15.

(9) Whenever any of the dates mentioned with respect to the \$4.68 Series Purchase Offer or \$4.68 Series Purchase Fund Obligation shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

\$4.75 Series

(b) The Preferred Stock \$4.75 Series, of which 20,485 shares were outstanding at the time of the adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

(i) the rate of dividend of shares of said Series shall be \$4.75 per annum of the par value thereof; the dividend payment dates shall be the 15th days of February, May, August and November in each year except that the date of payment of the first dividend shall be May 15, 1964; and dividends shall be cumulative from the date of issue;

(ii) the price at which shares of said Series may be redeemed shall be \$105 per share if the date of redemption is on or prior to January 31, 1969; \$103 per share if the date of redemption is after January 31, 1969 and on or prior to January 31, 1972; \$101 per share if the date of redemption is after January 31, 1972 and on or prior to January 31, 1975; and \$100 per share if the date of redemption is after January 31, 1975; in each case plus unpaid accumulated dividends, if any, to the date of redemption; provided, however, that no shares of said Series may be redeemed on or prior to January 31, 1969; in whole or in part by the use, directly or indirectly, of the proceeds from the issuance of any class or series of Preferred Stock of the corporation bearing an effective dividend rate (calculated in accordance with acceptable financial practice) that is less than \$4.75 per annum;

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$100 per share and in the event of voluntary liquidation shall be an amount equal to the then applicable redemption price of shares of said Series plus unpaid accumulated dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a purchase fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) will each year, beginning in 1967, so long as any shares of said Series are outstanding, make an offer, in the manner hereinafter specified, to the holders of shares of said Series, to purchase on June 15 in each such year, 1,800 shares (less that number of shares, if any, surrendered in accordance with the provisions of the following subdivision) of said Series at prices up to but not exceeding \$100 per share and accumulated dividends up to such June 15 (hereinafter called "\$4.75 Series Purchase Offer"); provided, however, that (i) if in any year the net income of the corporation for the preceding calendar year (which net income shall be determined in accordance with the requirements of the regulatory authority of the State of Oregon having jurisdiction of the corporation and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be less than half the sum of \$180,000 plus the maximum obligation, expressed in dollars, due during the year in which such \$4.75 Series Purchase Offer is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to offer to purchase shares of said Series in such year shall be limited to such amount as it shall in its sole discretion determine; and (ii) if in any year the amount of such net income of the corporation for the preceding calendar year (after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be not less than half, and not equal to, the sum of \$180,000 plus the maximum obligation, expressed in dollars, due during the year in which such \$4.75 Series Purchase Offer is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to offer to purchase shares of said Series in such year shall be the proportion of said amount so determined which \$180,000 bears to the maximum aggregate of all sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any Preferred Stock of the corporation. The total number of shares to be purchased and the number of shares to be purchased from any holder shall be adjusted to the nearest full share so that fractional shares need not be purchased. The obligation of the corporation to make annually the \$4.75 Series Purchase Offer and to purchase shares of said Series tendered for sale in accordance with the terms thereof, is hereinafter referred to as the "\$4.75 Series Purchase Fund Obligation" and is subject to the terms and conditions hereinafter set forth.

(2) In addition to or in lieu of making a \$4.75 Series Purchase Offer, the \$4.75 Series Purchase Fund Obligation may also be satisfied in whole or in part by the surrender by the corporation for cancellation to the Transfer Agent for said Series, on or before June 15 of the year as to which the \$4.75 Series Purchase Fund Obligation being met with such surrender is applicable, of shares of said Series theretofore acquired by the corporation; shares so surrendered in excess of 1,800 shares shall be credited to the \$4.75 Series Purchase Fund Obligation.

gation of the next succeeding year or years. Such surrender, however, shall not reduce the corporation's obligation expressed in dollars to offer to purchase said Series pursuant to subdivision (1) (ii) above, but the number of shares of said Series which the corporation shall offer to purchase shall be reduced to the difference between 1,800 shares and the number of shares so surrendered.

(3) Beginning on or prior to April 30, 1967, and on or prior to April 30 in each year thereafter, the corporation shall deliver to the Transfer Agent for said Series a certificate signed by the president or a vice president or the treasurer or an assistant treasurer of the corporation stating (i) (a) whether or not the corporation's obligation, expressed in dollars, to offer to purchase shares of said Series is limited by reason of subdivision (1) (ii) above, and if so, the amount of such obligation as so limited, (b) the number of shares of said Series, if any, to be surrendered by the corporation for cancellation on or prior to June 15 in such year, and (c) the number of shares of said Series for which a \$4.75 Series Purchase Offer is to be made by the corporation in such year, or (ii) that the net income of the corporation for the preceding calendar year was such that the corporation has no \$4.75 Series Purchase Fund Obligation in the current year, or (iii) that the making of a \$4.75 Series Purchase Offer by the corporation, in the opinion of counsel for the corporation accompanying such certificate, would be contrary to an applicable law or to a rule or regulation of a government authority having jurisdiction in the premises; provided, however, that if, on April 1 of any year, there are not funds legally available, in the opinions of the signer of such certificate and of counsel for the corporation accompanying such certificate, for the payment of the current \$4.75 Series Purchase Fund Obligation, the corporation may presume for the purposes hereof that the making of a \$4.75 Series Purchase Offer would be contrary to an applicable law.

(4) If the certificate filed in any such year shall state that a \$4.75 Series Purchase Offer is to be made in such year, the Transfer Agent for said Series with whom such certificate is filed shall, on or prior to May 15 of such year, cause to be mailed to the holders of record of the shares of said Series at the close of business on the May 1 preceding such mailing (or, if the board of directors of the corporation has declared a dividend on the shares of said Series, payable on May 15, to the holders receiving such dividend payment at the time of mailing such dividend payment checks), a notice, in the name of the corporation, that the corporation will on June 15 of such year accept tenders of shares required to satisfy the \$4.75 Series Purchase Fund Obligation then due at prices not exceeding \$100 per share and accumulated dividends to such June 15; provided, however, that such tender must be received by the Transfer Agent not later than the close of business on the fifth full business day preceding such June 15 and that such tender must be irrevocable until the close of business on June 16 of such year. Tenders may be accepted regardless of whether the holder so tendering held shares of said Series at the time notice was given. The corporation may require, and in such event said notice shall specify, that each offer to sell shares of said Series shall be accompanied by the certificate or certificates for the shares so offered, the signature of the holder thereof to be guaranteed by a bank or trust company (not a savings bank) or by a firm having membership in the New York Stock Exchange, together with evidence satisfactory to the Transfer Agent of the right of the holder of such shares to so sell the same to the corporation. The decision of counsel for the corporation as to the right of the holder of such shares to sell the same to the corporation shall control and be conclusive. Any offer to sell shall be subject to acceptance in whole or in part.

(5) In any year in which a \$4.75 Series Purchase Offer is made, the Transfer Agent for said Series shall on June 15 of such year, on behalf of the corporation, accept tenders to sell shares of said Series received by it up to the full number of shares covered by the \$4.75

Series Purchase Offer subject to the limitations on expenditures set forth in the certificate delivered to the Transfer Agent upon such basis as will result in the lowest aggregate cost to the corporation. The Transfer Agent shall to the extent necessary select among tenders made at the same price by lot in such manner as it may determine.

(6) On or prior to June 15 in each year in which a \$4.75 Series Purchase Offer shall have been made, the corporation shall surrender to the Transfer Agent for said Series, for cancellation, certificates for the number of shares of said Series, if any, specified in the certificate for such year to be surrendered by the corporation to the Transfer Agent and deposit with the Transfer Agent cash sufficient to purchase shares of said Series, if any, accepted for purchase pursuant to the \$4.75 Series Purchase Offer made in such year. The Transfer Agent shall, on or before the next succeeding June 20, return to the corporation any funds deposited with it and not used or required to purchase shares of said Series, pursuant to the \$4.75 Series Purchase Offer for such year. The \$4.75 Series Purchase Fund Obligation in any year shall be deemed to be fully satisfied if the corporation shall have complied with these provisions notwithstanding that the total number of shares purchased by it shall be less than the total number of shares covered by the \$4.75 Series Purchase Offer for that year because insufficient offers to sell were received by it. The \$4.75 Series Purchase Fund Obligation shall not be cumulative.

(7) Shares of said Series, purchased pursuant to any \$4.75 Series Purchase Offer, or surrendered in whole or partial satisfaction of the \$4.75 Series Purchase Fund Obligation in any year, shall be cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation.

(8) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the board of directors or the corporation from authorizing and issuing any other series of Preferred Stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of Preferred Stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the dates applicable to said Series and in the event there is a deficiency in funds legally available to meet the total obligation due on any date for said Series and any other series of Preferred Stock of the corporation, the funds actually available, if any, or the total number of shares of said Series which the corporation may offer to purchase, shall be prorated between said Series and such other series of Preferred Stock so that the percentage allocated to any particular Preferred Stock shall correspond with its portion of the total amount due.

(9) After June 15, 1967, so long as any shares of said Series shall be outstanding, no dividends on the Preference Stock or the Common Stock of the corporation shall, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, be declared and set apart for payment unless the \$4.75 Series Purchase Fund Obligation applicable to the June 15 immediately preceding the declaration of such dividend shall have been fully met by one of the following: (a) the surrender by the corporation to the Transfer Agent for cancellation of 1,800 shares of said Series therefore acquired by it, or (b) the corporation has offered to purchase 1,800 shares of said Series and has purchased or has available funds to purchase, pursuant to such \$4.75 Series Purchase Offer, such 1,800 shares at prices not exceeding \$100 per share plus accumulated dividends to such June 15, or (c) the corporation offered to purchase that number of shares of said Series and has purchased or has funds available for the purchase there-

of pursuant to such \$4.75 Series Purchase Offer at \$100 per share plus accumulated dividends to such June 15 which when added to the number of shares of said Series, if any, theretofore acquired by and surrendered for cancellation to the Transfer Agent by the corporation shall aggregate 1,800 shares of said Series.

(10) Whenever any of the dates mentioned with respect to the \$4.75 Series Purchase Offer or \$4.75 Series Purchase Fund Obligation shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

\$6.875 Series

(c) The Preferred Stock \$6.875 Series, of which 28,000 shares were outstanding at the time of the adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

(i) the rate of dividend of shares of said Series shall be \$6.875 per annum of the par value thereof; the dividend payment dates shall be the 15th days of February, May, August and November in each year; and dividends shall be cumulative from the date of original issue;

(ii) the price at which shares of said Series may be redeemed shall be \$110 per share if the date of redemption is on or prior to December 31, 1977; \$106 per share if the date of redemption is after December 31, 1977 and on or prior to December 31, 1980; \$103 per share if the date of redemption is after December 31, 1980 and on or prior to December 31, 1983; and \$100 per share if the date of redemption is after December 31, 1983; in each case plus unpaid accumulated dividends, if any, to the date of redemption; provided, however, that no shares of said Series may be redeemed (otherwise than by operation of the sinking fund provided for in subdivision (v) below) prior to December 31, 1974, directly or indirectly from the proceeds of or in anticipation of any refunding operation involving the incurring of indebtedness, or the issuance of stock, the holder of which will have a preference to the holders of the Common Stock with respect to the payment of dividends, having an effective interest rate, dividend rate or cost (calculated in accordance with acceptable financial practice) of less than the annual dividend rate borne by the shares of said Series;

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$100 per share and in the event of voluntary liquidation shall be an amount equal to the then applicable redemption price of shares of said Series plus unpaid accumulated dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a sinking fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) shall, as a sinking fund for the retirement of shares of said Series, redeem, in the manner herein provided, 2,100 shares of said Series on June 15, 1969 and 2,100 shares of said Series on the 15th day of June of each year thereafter so long as any shares of said Series shall remain outstanding, in each case at the par value thereof per share plus accrued dividends to the date fixed for redemption; provided, however, that (i) if in any year the net income of the corporation for the preceding calendar year (which net income shall be determined in accordance with the requirements of the regulatory authority of the State of Oregon having jurisdiction of the corporation and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not de-

clared or paid) shall be less than half the sum of \$210,000 plus the maximum obligation, expressed in dollars, due during the year in which said Series sinking fund redemption is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to redeem shares of said Series for sinking fund purposes in such year shall be limited to such amount, if any, as it shall in its sole discretion determine; and (ii) if in any year the amount of such net income of the corporation for the preceding calendar year (determined as aforesaid and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be not less than half, and not equal to, the sum of \$210,000 plus the maximum obligation, expressed in dollars, due during the year in which said Series sinking fund redemption is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to redeem shares of said Series for sinking fund purposes in such year shall be the proportion of said amount so determined which \$210,000 bears to the maximum aggregate of all sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any Preferred Stock of the corporation in such year. The total number of shares to be redeemed and the number of shares to be redeemed from any holder shall be adjusted to the nearest full share so that fractional shares need not be redeemed. The corporation may, on any redemption date as above provided and at its option, credit against its sinking fund obligation such number of shares of said Series theretofore redeemed by the corporation otherwise than for the account of its sinking fund obligation or such number of shares of said Series theretofore purchased by the corporation at a price per share not in excess of \$100 plus accrued dividends and in either case not theretofore applied as a credit on its sinking fund obligation. The sinking fund for said Series shall not be cumulative. Notice of redemption for each sinking fund shall be given, and deposit of the aggregate redemption price may be made, subject to the general terms and provisions for redemption of the Preferred Stock set forth in subdivision III. C. 4.

(2) Shares of said Series redeemed pursuant to the provisions of the sinking fund or credited thereto shall be cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation.

(3) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the board of directors of the corporation from authorizing and issuing any other series of Preferred Stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of Preferred Stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the dates applicable to said Series and in the event there is a deficiency in the funds available in any particular year for the fulfillment of the maximum requirements of the purchase funds, sinking funds or other analogous devices of all outstanding series of Preferred Stock of the corporation in accordance with the terms thereof, such funds as are available in accordance with such terms for such purpose shall be prorated among all such series so that the percentage allocated to any particular Preferred Stock shall correspond with its portion of the total amount due.

(4) After June 15, 1969, so long as any shares of said Series shall be outstanding, no dividends on the Preference Stock or the Common Stock of the corporation shall, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, be declared and set apart for payment unless

the corporation, on the June 15th immediately preceding the declaration of such dividend, shall have redeemed 2,100 shares of said Series at \$100 per share plus accumulated dividends to such June 15th or in accordance with the terms hereof shall have taken credits against the shares of said Series sinking fund which, with shares redeemed pursuant to such fund obligation, aggregate 2,100 shares of said Series.

(5) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

\$8.00 Series

(d) The Preferred Stock \$8.00 Series, of which 36,296 shares were outstanding at the time of the adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

(i) the rate of dividend of shares of said Series shall be \$8.00 per annum; the dividend payment dates shall be the 15th days of February, May, August and November in each year; provided, however, that the initial dividend payment date shall be August 15, 1971; and dividends shall be cumulative from the date of original issue;

(ii) the price at which shares of said Series may be redeemed shall be \$110 per share if the date of redemption is on or prior to April 30, 1981; \$106 per share if the date of redemption is after April 30, 1981 and on or prior to April 30, 1984; \$103 per share if the date of redemption is after April 30, 1984 and on or prior to April 30, 1987; and \$100 per share if the date of redemption is after April 30, 1987; in each case plus unpaid accumulated dividends, if any, to the date of redemption; provided, however, that no shares of said Series may be redeemed (otherwise than by operation of the sinking fund provided for in subdivision (v) below) prior to April 30, 1981, directly or indirectly from the proceeds of or in anticipation of any refunding operation involving the incurring of indebtedness, or the issuance of stock, the holder of which will have a preference to the holders of the Common Stock with respect to the payment of dividends, having an effective interest rate, dividend rate or cost (calculated in accordance with acceptable financial practice) of less than the annual dividend rate borne by the shares of said Series;

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$100 per share and in the event of voluntary liquidation shall be an amount equal to the then applicable redemption price of shares of said Series plus unpaid accumulated dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a sinking fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) shall, as a sinking fund for the retirement of shares of said Series, redeem, in the manner herein provided, 2,100 shares of said Series on June 15, 1974 and 2,100 shares of said Series on the 15th day of June of each year thereafter so long as any shares of said Series shall remain outstanding, in each case at the par value thereof per share plus accrued dividends to the date fixed for redemption; provided, however, that (i) if in any year the net income of the corporation for the preceding calendar year (which net income shall be determined in accordance with the requirements of the regulatory authority of the State of Oregon having jurisdiction of the corporation and after deducting from such net income one year's dividend requirement on any Preferred Stock of

the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be less than half the sum of \$210,000 plus the maximum obligation, expressed in dollars, due during the year in which said Series sinking fund redemption is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to redeem shares of said Series for sinking fund purposes in such year shall be limited to such amount, if any, as it shall in its sole discretion determine; and (ii) if in any year the amount of such net income of the corporation for the preceding calendar year (determined as aforesaid and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be not less than half, and not equal to, the sum of \$210,000 plus the maximum obligation, expressed in dollars, due during the year in which said Series sinking fund redemption is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to redeem shares of said Series for sinking fund purposes in such year shall be the proportion of said amount so determined which \$210,000 bears to the maximum aggregate of all sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any Preferred Stock of the corporation in such year. The total number of shares to be redeemed and the number of shares to be redeemed from any holder shall be adjusted to the nearest full share so that fractional shares need not be redeemed. The corporation may, on any redemption date as above provided and at its option, credit against its sinking fund obligation such number of shares of said Series theretofore redeemed by the corporation otherwise than for the account of its sinking fund obligation or such number of shares of said Series theretofore purchased by the corporation at a price per share not in excess of \$100 plus accrued dividends and in either case not theretofore applied as a credit on its sinking fund obligation. The sinking fund for said Series shall not be cumulative. Notice of redemption for each sinking fund shall be given, and deposit of the aggregate redemption price may be made, subject to the general terms and provisions for redemption of the Preferred Stock set forth in subdivision III. C. 4.

(2) Shares of said Series redeemed pursuant to the provisions of the sinking fund or credited thereto shall be cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation.

(3) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the board of directors of the corporation from authorizing and issuing any other series of Preferred Stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of Preferred Stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the dates applicable to said Series and in the event there is a deficiency in the funds available in any particular year for the fulfillment of the maximum requirements of the purchase funds, sinking funds or other analogous devices of all outstanding series of Preferred Stock of the corporation in accordance with the terms thereof, such funds as are available in accordance with such terms for such purpose shall be prorated among all such series so that the percentage allocated to any particular Preferred Stock shall correspond with its portion of the total amount due.

(4) After June 15, 1974, so long as any shares of said Series shall be outstanding, no dividends on the Preference Stock or the Common Stock of the corporation shall, without the

written consent or affirmative vote of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, be declared and set apart for payment unless the corporation, on the June 15th immediately preceding the declaration of such dividend, shall have redeemed 2,100 shares of said Series at \$100 per share plus accumulated dividends to such June 15th or in accordance with the terms hereof shall have taken credits against the shares of said Series sinking fund which, with shares redeemed pursuant to such fund obligation, aggregate 2,100 shares of said Series.

(5) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

§2.42 Series

(e) The Preferred Stock \$2.42 Series, of which 300,000 shares were outstanding at the time of adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

(i) the rate of dividend of shares of said Series shall be \$2.42 per annum; the dividend payment dates shall be the 15th days of February, May, August and November in each year; provided, however, that the initial dividend payment date shall be May 15, 1978; and dividends shall be cumulative from the date of original issue;

(ii) the price at which shares of said Series may be redeemed shall be \$29.10 per share if the date of redemption is prior to January 1, 1988; \$28.30 per share if the date of redemption is after December 31, 1987 and prior to January 1, 1993; and \$27.50 per share if the date of redemption is after December 31, 1992; in each case plus unpaid accumulated dividends, if any, to the date of redemption; provided, however, that no shares of said Series may be redeemed prior to January 1, 1983;

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$25 per share and in the event of voluntary liquidation shall be an amount equal to the then applicable redemption price of shares of said Series plus unpaid accumulated dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a sinking fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) as a sinking fund for the retirement of shares of said Series, (a) shall redeem, in the manner herein provided, 20,000 shares of said Series on June 15, 1984 and 20,000 shares of said Series on the 15th day of June of each year thereafter so long as any shares of said Series shall remain outstanding, and (b) at its option, may redeem, in the manner herein provided, not to exceed 20,000 additional shares of said Series on June 15, 1984 and not to exceed 20,000 additional shares of said Series on the 15th day of June of each year thereafter so long as any shares of said Series shall remain outstanding, in each case at \$27.50 per share plus accrued dividends to the date fixed for redemption; provided, however, that (i) if in any year the net income of the corporation for the preceding calendar year (which net income shall be determined in accordance with the requirements of the regulatory authority of the State of Oregon having jurisdiction of the corporation and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be less than half the sum of \$550,000 plus the maxi-

imum obligation, expressed in dollars, due during the year in which said Series sinking fund redemption is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to redeem shares of said Series for sinking fund purposes in such year shall be limited to such amount, if any, as it shall in its sole discretion determine; and (ii) if in any year the amount of such net income of the corporation for the preceding calendar year (determined as aforesaid and after deducting from such net income one year's dividend requirement on any Preferred Stock of the corporation outstanding at the end of such preceding calendar year whether or not declared or paid) shall be not less than half, and not equal to, the sum of \$550,000 plus the maximum obligation, expressed in dollars, due during the year in which said Series sinking fund redemption is to be made, for sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any other Preferred Stock of the corporation, then the corporation's obligation, expressed in dollars, to redeem shares of said Series for sinking fund purposes in such year shall be the proportion of said amount so determined which \$550,000 bears to the maximum aggregate of all sinking funds, purchase funds, or other analogous devices, if any, for the retirement of any preferred stock of the corporation in such year. The total number of shares to be redeemed and the number of shares to be redeemed from any holder shall be adjusted to the nearest full share so that fractional shares need not be redeemed. The corporation may, on any redemption date as above provided and at its option, credit against its sinking fund obligation such number of shares of said Series theretofore redeemed by the corporation, otherwise than for the account of its sinking fund obligation or optional right, or such number of shares of said Series theretofore purchased by the corporation at a price per share not in excess of \$27.50 plus accrued dividends, and in either case not theretofore applied as a credit on its sinking fund obligation. The sinking fund for said Series shall not be cumulative. Notice of redemption for each sinking fund shall be given, and deposit of the aggregate redemption price may be made, subject to the general terms and provisions for redemption of the Preferred Stock set forth in subdivision III. C. 4.

(2) Shares of said Series redeemed pursuant to the provisions of the sinking fund or credited thereto shall be cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation.

(3) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the Board of Directors of the corporation from authorizing and issuing any other series of Preferred Stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of Preferred Stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the dates applicable to said Series and in the event there is a deficiency in the funds available in any particular year for the fulfillment of the maximum requirements of the purchase funds, sinking funds or other analogous devices of all outstanding series of Preferred Stock of the corporation in accordance with the terms thereof, such funds as are available in accordance with such terms for such purpose shall be prorated among all such series so that the percentage allocated to any particular series of Preferred Stock shall correspond with its portion of the total amount due.

(4) After June 15, 1984, so long as any shares of said Series shall be outstanding, no dividends on the Preference Stock or the Common Stock of the corporation shall, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of Preferred Stock then outstanding, be declared and set apart for payment unless

the corporation, on the June 15th immediately preceding the declaration of such dividend, shall have redeemed 20,000 shares of said Series at \$27.50 per share plus accumulated dividends to such June 15th or in accordance with the terms hereof shall have taken credits against the shares of said Series sinking fund which, with shares redeemed pursuant to such fund obligation, aggregate 20,000 shares of said Series.

(vi) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

\$8.75 Series

(f) The Preferred Stock \$8.75 Series, of which 150,000 shares were outstanding at the time of the adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

(i) (1) the rate of dividend of shares of said Series shall be \$8.75 per annum plus that amount, if any, which will maintain each holder's after Federal income tax dividend yield on each dividend with respect to which any legislative enactment, administrative action, judicial decision or other change in law shall reduce or eliminate the dividends received deduction of 70% provided by Section 243(a)(1) of the Internal Revenue Code of 1986, as amended, as in effect on April 1, 1988 (the "Dividends Received Deduction"), at the level at which such yield would have been if such dividend had been paid to such holder on April 1, 1988 (each holder's after Federal income tax dividend yield on April 1, 1988 being calculated on the bases of (i) a cost per share of \$100, (ii) the Dividends Received Deduction, and (iii) an assumed Federal income tax rate of 34%; and, thereafter, such holder's after Federal income tax dividend yield being calculated on the bases of (i) and (iii) and any reduced dividends received deduction at the time then in effect); provided, however, that any such increased dividend shall be payable only (A) on shares of said Series in respect of which the holder shall have delivered to the corporation no later than 360 days after the effective date of any such reduction or elimination of the Dividends Received Deduction a written notice (I) stating that such holder is entitled to an increased dividend as a result of such reduction or elimination, (II) specifying the amount per share of such increase, and (III) specifying the total number of shares of said Series held by such holder, and (B) in respect of dividends payable after the date of receipt of such notice by the corporation; (2) the dividend payment dates shall be the 15th days of February, May, August and November in each year, commencing on August 15, 1988; and (3) dividends shall be cumulative from the date of original issue;

(ii) (1) other than as provided in subdivision (2) below, shares of said Series shall not be redeemable at the election of the corporation prior to May 1, 1993. On and after May 1, 1993, the shares of said Series may be redeemed, at the election of the corporation, at the following redemption prices:

If Redeemed During 12 Months Period Ending April 30	Redemption Price Per Share	If Redeemed During 12 Months Period Ending April 30	Redemption Price Per Share
1994	\$108.75	2001	\$104.69
1995	\$108.17	2002	\$104.11
1996	\$107.59	2003	\$103.53
1997	\$107.01	2004	\$102.95
1998	\$106.43	2005	\$102.37
1999	\$105.85	2006	\$101.79
2000	\$105.27	2007	\$101.21
		2008	\$100.63

and thereafter \$100 per share, plus an amount in each case equal to accrued unpaid dividends, if any, to the date of redemption; and (2) all but not less than all of the shares of said Series held by any holder which shall have given notice that such holder will be entitled to an increased dividend in accordance with subdivision (i)(1) above may be redeemed, at the election of the corporation, at the redemption price of \$100 per share, plus an amount equal to accrued unpaid dividends to the date of redemption, within the period of 360 days commencing on the date of receipt by the corporation of such notice.

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$100 per share and in the event of voluntary liquidation occurring prior to May 1, 1994, shall be \$108.75, and occurring on or after May 1, 1994, shall be an amount equal to the then applicable redemption price of shares of said Series, plus in each case accrued unpaid dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a sinking fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) as a sinking fund for the retirement of shares of said Series, shall redeem, in the manner herein provided, 7,500 shares of said Series on June 15, 1994 and 7,500 shares of said Series on the 15th day of June of each year thereafter so long as any shares of said Series shall remain outstanding, at \$100.00 per share plus accrued unpaid dividends to the date fixed for redemption. The total number of shares to be redeemed and the number of shares to be redeemed from any holder shall be adjusted to the nearest full share so that fractional shares need not be redeemed. The corporation may, on any redemption date as above provided and at its option, credit against its sinking fund obligation such number of shares of said Series theretofore redeemed by the corporation, otherwise than for the account of its sinking fund obligation, or such number of shares of said Series theretofore purchased by the corporation at a price per share not in excess of \$100.00 plus accrued dividends, and in either case not theretofore applied as a credit on its sinking fund obligation. The sinking fund for said Series shall not be cumulative. Notice of redemption for each sinking fund shall be given, and deposit of the aggregate redemption price may be made, subject to the general terms and provisions for redemption of the Preferred Stock set forth in subdivision III C.4 of these Restated Articles of Incorporation.

(2) Shares of said Series redeemed pursuant to the provisions of the sinking fund or credited thereto shall be cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation.

(3) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the Board of Directors of the corporation from authorizing and issuing any other series of preferred stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of preferred stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the date applicable to said Series and in the event there is a deficiency in the funds available in any particular year for the fulfillment of the maximum requirements of the purchase funds, sinking funds or other analogous devices of all outstanding series of preferred stock of

the corporation in accordance with the terms thereof, such funds as are available in accordance with such terms for such purpose shall be prorated among all such series so that the percentage allocated to any particular series of preferred stock shall correspond with its portion of the total amount due.

(4) After June 15, 1994, so long as any shares of said Series shall be outstanding, no dividends on the Common Stock or the Preference Stock of the corporation shall, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of said Series of Preferred Stock then outstanding, be declared and set apart for payment unless the corporation, on the June 15th immediately preceding the declaration of such dividend, shall have redeemed 7,500 shares of said Series at \$100.00 per share plus accrued unpaid dividends to such June 15th or in accordance with the terms hereof shall have taken credits against the shares of said Series sinking fund which, with shares redeemed pursuant to such fund obligation, aggregate 7,500 shares of said Series.

(vi) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

Preference Stock

10. The shares of the Preference Stock may be divided into and issued in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series of the Preference Stock and all other classes of capital stock of the corporation. To the extent that these Restated Articles of Incorporation shall not have established series of the Preference Stock and fixed and determined the variations in the relative rights and preferences as between series, the board of directors shall have authority, and is hereby expressly vested with authority, to divide the Preference Stock into series and, within the limitations set forth in these Restated Articles of Incorporation and such limitations as may be provided by law, to fix and determine the relative rights and preferences of any series of the Preference Stock so established. Such action by the board of directors shall be expressed in a resolution or resolutions adopted by it prior to the issuance of shares of each series, which resolution or resolutions shall also set forth the distinguishing designation of the particular series of the Preference Stock established thereby. Without limiting the generality of the foregoing, authority is hereby expressly vested in the board of directors so to fix and determine with respect to any series of the Preference Stock:

- (a) The rate of dividend;
- (b) The price at which and the terms and conditions on which shares may be redeemed;
- (c) The amount payable upon shares in the event of voluntary and involuntary liquidation;
- (d) Sinking fund provisions, if any, for the redemption or purchase of shares;
- (e) The terms and conditions, if any, on which shares may be converted if the shares of any series are issued with the privilege of conversion; and
- (f) Any other relative right or preference as permitted by law.

All shares of the Preference Stock of the same series shall be identical except that shares of the same series issued at different times may vary as to the dates from which dividends thereon shall be cumulative; and all shares of the Preference Stock, irrespective of series, shall constitute one and the same class of stock, shall be of equal rank, and shall be identical except as to the designation thereof, the date or dates from which dividends on shares thereof shall be cumulative, and the relative rights and preferences set forth above in clauses (a) through (f) of this subdivision, as to which there may be variations between different series. Except as otherwise may be provided by law or by the resolutions

establishing any series of Preference Stock in accordance with the foregoing provisions of this subdivision, whenever the written consent, affirmative vote, or other action on the part of the holders of the Preference Stock may be required for any purpose, such consent, vote or other action shall be taken by the holders of the Preference Stock as a single class irrespective of series and not by different series.

11. The payment of dividends on the shares of the Preference Stock shall be subordinate to the dividend and other distributive rights of the holders of the Preferred Stock. No dividend shall be paid on the Preference Stock, unless (i) dividends on all outstanding shares of each particular series of the Preferred Stock, at the annual dividend rates fixed and determined either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 1., shall have been paid or declared and set apart for payment for all past dividend periods and for the then current dividend periods, and (ii) all amounts due and payable to the holders of the Preferred Stock, by virtue of purchase funds, sinking funds, or other analogous devices for the retirement of the Preferred Stock, or by virtue of dissolution, liquidation or winding up of the corporation, shall have been paid or funds for the payment thereof shall have been set apart for payment. Subject to the foregoing, the holders of shares of the Preference Stock of each series shall be entitled to receive dividends, when and as declared by the board of directors, out of any funds legally available for the payment of dividends, at the annual rate fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 10., and no more, payable quarterly on the 15th day of February, May, August and November in each year or on such other date or dates as the board of directors shall determine in the resolutions establishing such series. Such dividends shall be cumulative in the case of shares of each series either from the date of issuance of shares of such series or from the first day of the current dividend period within which shares of such series shall be issued, as the board of directors shall determine, so that if dividends on all outstanding shares of each particular series of the Preference Stock, at the annual dividend rates fixed and determined either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 10., shall not have been paid or declared and set apart for payment for all past dividend periods and for the then current dividend periods, the deficiency shall be fully paid or dividends equal thereto declared and set apart for payment at said rates before any dividends on the Common Stock shall be paid or declared and set apart for payment. In the event more than one series of the Preference Stock shall be outstanding, the corporation, in making any dividend payment on the Preference Stock, shall make payments ratably upon all outstanding shares of the Preference Stock in proportion to the amount of dividends accumulated thereon to the date of such dividend payment. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments which may be in arrears.
12. Distribution or payment upon dissolution, liquidation or winding up of the corporation to the holders of the Preference Stock shall be subordinate to the dividend and other distributive rights of the holders of the Preferred Stock. No such distribution or payment shall be made on the Preference Stock, unless all amounts due by virtue of the dissolution, liquidation or winding up of the corporation to the holders of all outstanding shares of the Preferred Stock of all series shall have been paid or funds for the payment thereof set apart for payment. Subject to the foregoing, in the event of any dissolution, liquidation or winding up of the corporation, before any distribution or payment shall be made to the holders of the Common Stock, the holders of the Preference Stock of each series then outstanding shall be entitled to be paid out of the net assets of the corporation available for distribution to its shareholders the respective amounts per share fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 10., and no more. If upon dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation available for distribution to its shareholders

(after all amounts due by virtue of the dissolution, liquidation or winding up of the corporation to the holders of all outstanding shares of the Preferred Stock of all series shall have been paid or funds for the payment thereof set apart for payment) shall be insufficient to pay the holders of all outstanding shares of Preference Stock of all series the full amounts to which they shall be respectively entitled as aforesaid, the net assets of the corporation so available for distribution shall be distributed ratably to the holders of all outstanding shares of Preference Stock of all series in proportion to the amounts to which they shall be respectively so entitled. For the purposes of this subdivision, any dissolution, liquidation or winding up which may arise out of or result from the condemnation or purchase of all or a major portion of the properties of the corporation by (i) the United States Government or any authority, agency or instrumentality thereof (ii) a State of the United States or any political subdivision, authority, agency or instrumentality thereof, or (iii) a district, cooperative or other association or entity not organized for profit, shall be deemed to be an involuntary dissolution, liquidation or winding up; and a consolidation, merger or amalgamation of the corporation with or into any other corporation or corporations shall not be deemed to be a dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary.

13. (a) Subject to the limitations set forth in subdivision III. C. 15., or fixed and determined in accordance with subdivision III. C. 10., the Preference Stock of all series, or of any series thereof, or any part of any series thereof, at any time outstanding, may be redeemed by the corporation, at its election expressed by resolution of the board of directors, at any time or from time to time, at the then applicable redemption price fixed and determined with respect to each series either by these Restated Articles of Incorporation or in accordance with subdivision III. C. 10. If less than all of the shares of any series are to be redeemed, the redemption shall be made either pro rata or by lot in such manner as the board of directors shall determine.
- (b) In the event the corporation shall so elect to redeem shares of the Preference Stock, notice of the intention of the corporation to do so and of the date and place fixed for redemption shall be mailed not less than thirty days before the date fixed for redemption to each holder of shares of the Preference Stock to be redeemed at his address as it shall appear on the books of the corporation, and on and after the date fixed for redemption and specified in such notice (unless the corporation shall default in making payment of the redemption price), such holders shall cease to be shareholders of the corporation with respect to such shares and shall have no interest in or claim against the corporation with respect to such shares, excepting only the right to receive the redemption price therefor from the corporation on the date fixed for redemption, without interest, upon endorsement, if required, and surrender of their certificates for such shares.
- (c) Contemporaneously with the mailing of notice of redemption of any shares of the Preference Stock as aforesaid or at any time thereafter on or before the date fixed for redemption, the corporation may, if it so elects, deposit the aggregate redemption price of the shares to be redeemed with any bank or trust company doing business in The City of New York, New York, or Portland, Oregon, having a capital and surplus of at least \$25,000,000, named in such notice, payable on the date fixed for redemption in the proper amounts to the respective holders of the shares to be redeemed, upon endorsement, if required, and surrender of their certificates for such shares, and on and after the making of such deposit such holders shall cease to be shareholders of the corporation with respect to such shares and shall have no interest in or claim against the corporation with respect to such shares, excepting only the right to exercise such redemption, conversion or exchange rights, if any, on or before the date fixed for redemption as may have been provided with respect to such shares or the right to receive the redemption price of their shares from such bank or trust company on the date fixed for redemption, without interest, upon endorsement, if required, and surrender of their certificates for such shares.

- (d) If the corporation shall have elected to deposit the redemption moneys with a bank or trust company as permitted by subdivision (c) above, any moneys so deposited which shall remain unclaimed at the end of six years after the redemption date shall be repaid to the corporation, and upon such repayment holders of Preference Stock who shall not have made claim against such moneys prior to such repayment shall be deemed to be unsecured creditors of the corporation for an amount, without interest, equal to the amount they would theretofore have been entitled to receive from such bank or trust company. Any redemption moneys so deposited which shall not be required for such redemption because of the exercise, after the date of such deposit, of any right of redemption, conversion or exchange or otherwise, shall be returned to the corporation forthwith. The corporation shall be entitled to receive any interest allowed by any bank or trust company on any moneys deposited with such bank or trust company as herein provided, and the holders of any shares called for redemption shall have no claim against any such interest.
- (e) Nothing herein contained shall limit any legal right of the corporation to purchase or otherwise acquire any shares of the Preference Stock.
14. The holders of shares of the Preference Stock shall have no right to vote in the election of directors or for any other purpose, except as may be otherwise provided by law or by resolutions establishing any series of Preference Stock in accordance with subdivision III. C. 10. Holders of Preference Stock shall be entitled to notice of each meeting of shareholders at which they shall have any right to vote, but shall not be entitled to notice of any other meeting of shareholders.
15. The series of Preference Stock heretofore established and outstanding on the date of the adoption of these Restated Articles of Incorporation, together with a statement of the rights and preferences of each series, are as follows:

\$2.375 Series

- (a) The Convertible Preference Stock \$2.375 Series, of which 126,397 shares were outstanding at the time of the adoption of these Restated Articles of Incorporation, shall have the following rights and preferences:

- (i) the rate of dividend of shares of said Series shall be \$2.375 per annum; the dividend payment dates shall be the 15th days of February, May, August and November in each year; provided, however, that the initial dividend payment date shall be November 15, 1980; and dividends shall be cumulative from the date of original issue;

- (ii) the prices at which shares of said Series may be redeemed shall be as follows:

Twelve Month period ending June 30,	Redemption price	Twelve Month period ending June 30,	Redemption price
1981	\$27.38	1986	\$26.19
1982	27.14	1987	25.95
1983	26.90	1988	25.71
1984	26.66	1989	25.48
1985	26.43	1990	25.24

and thereafter \$25, in each case, plus unpaid accumulated dividends, if any, to the date of redemption;

- (iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$25 per share and in the event of voluntary liquidation shall be an amount equal to the then applicable redemption price of shares of said Series, in each case, plus unpaid accumulated dividends, if any, to the date of payment;

(iv) shares of said Series shall be convertible as follows:

(1) Subject to the provisions for adjustment hereinafter set forth, each share of said Series shall be convertible, at the option of the holder thereof, upon surrender to any Transfer Agent for said Series, or to the corporation if no such Transfer Agent shall exist, of the certificate for the share to be converted, into shares of the common stock at the rate of 1.6502 shares of the common stock for each share of said Series. The right to convert shares of said Series called for redemption shall terminate at the close of business on the 15th day preceding the date fixed for redemption, unless the corporation shall default in the payment of the redemption price. Upon conversion of any shares of said Series, no allowance or adjustment shall be made for dividends on either class of shares, but conversion shall not relieve the corporation from its obligation to pay any dividends which shall have been declared and shall be payable to holders of shares of said Series of record as of a date prior to the date of such conversion even though the payment date for such dividend is subsequent to the date of conversion.

(2) The number of shares of the common stock into which each share of said Series shall be convertible shall be subject to adjustment from time to time as follows:

(A) Upon the (i) payment of a dividend on the common stock in shares of the common stock, (ii) subdivision of the outstanding common stock, (iii) combination of the outstanding common stock into a smaller number of shares, or (iv) issuance by reclassification of the common stock (whether pursuant to a merger or consolidation or otherwise) of any shares of the corporation, each holder of shares of said Series shall be entitled to receive, for each share converted after the record date for any of these events, the number of shares of the corporation which he would have held after the happening of such event had such share been converted on the record date therefor. The conversion rate shall be adjusted whenever any of these events shall occur, effective as of the date following the record date therefor.

(B) Upon the issuance of rights or warrants to the holders of the common stock, as such, entitling them to subscribe for or purchase shares of the common stock at a price per share less than the Market Price (as defined in subdivision (D) below) on the record date for the determination of shareholders entitled to receive such rights or warrants, the number of shares of the common stock into which each share of said Series shall be convertible shall be adjusted, effective as of the date following such record date, by multiplying the number of shares of the common stock into which such share would have been convertible on such record date by a fraction, of which the numerator shall be the number of shares of the common stock outstanding on such record date plus the number of additional shares of the common stock offered for subscription or purchase, and of which the denominator shall be the number of shares of the common stock outstanding on such record date plus the number of shares of the common stock which the aggregate offering price of the shares of the common stock so offered would have purchased at such Market Price. For the purposes of this subdivision (B), (i) the issuance of rights or warrants to subscribe for or purchase shares or securities convertible into shares of the common stock shall be deemed to be the issuance of rights or warrants to subscribe for or purchase shares of the common stock; (ii) the sum of the aggregate offering price of such shares or securities plus the minimum aggregate amount, if any, payable upon conversion of such shares or securities into shares of the common stock divided by the total number of shares of the common stock into which such shares or securities could be converted at their earliest conversion date shall be deemed to be the price per share at which the shares of the common stock may be sub-

scribed for or purchased; (iii) the minimum number of shares of the common stock into which such shares or securities could be converted at their earliest conversion date shall be deemed to be the number of additional shares of the common stock offered for subscription or purchase; (iv) the number of shares of the common stock which the aggregate offering price of such shares or securities plus the minimum aggregate amount, if any, payable upon conversion of such shares or securities into shares of the common stock would have purchased at the Market Price on the record date for the determination of shareholders entitled to receive such rights or warrants shall be deemed to be the number of shares of the common stock which the aggregate offering price of the shares so offered would have purchased at such Market Price; and (v) the right of the holders of the common stock to invest in additional shares of the common stock pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan, as it may be amended from time to time, shall not be deemed to be a right or warrant.

(C) Upon the distribution to the holders of the common stock, as such (whether pursuant to a merger or consolidation or otherwise), of evidences of its indebtedness, investments in subsidiaries, or other assets (excluding distributions after December 31, 1979, not exceeding in net value as reflected on the books of the corporation the aggregate net income available for common stock of the corporation after such date plus \$12,000,000, all determined in accordance with generally accepted accounting principles) or rights to subscribe to the same (excluding those referred to in subdivision (B) above), the number of shares of the common stock into which each share of said Series shall be convertible shall be adjusted, effective as of the date following the record date for the determination of shareholders entitled to receive such distribution or rights, by multiplying the number of shares of the common stock into which such share would have been convertible on such record date by a fraction, of which the numerator shall be the Market Price of the common stock (as defined in subdivision (D) below) on such record date, and of which the denominator shall be such Market Price less such net value of the portion of the evidences of indebtedness, investments in subsidiaries, or other assets or rights so distributed allocable to such share of the common stock.

(D) For the purposes of any computation under subdivisions (B) and (C) above, the Market Price of the common stock on any date shall be deemed to be the average of the daily closing prices for the 30 consecutive full business days commencing 45 full business days before the day in question. The closing price for each day shall be the average of the closing bid and asked prices, regular way, (i) as officially quoted by the National Association of Securities Dealers, Inc., or (ii) as quoted on the principal United States stock exchange or market for the common stock as determined by the board of directors of the corporation, or (iii) if in the reasonable judgment of the board of directors of the corporation, there exists no principal United States stock exchange or market for the common stock, as reasonably determined by the board of directors of the corporation.

(E) No adjustment in the conversion rate shall be required unless such adjustment, plus any adjustments not previously made by reason of this subdivision (E), would require an increase or decrease of at least 1% in the number of shares of common stock into which each share of said Series then shall be convertible; provided, however, that any adjustments which by reason of this subdivision (E) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this subdivision (E) shall be made to the nearest ten thousandth of a share.

(F) Whenever any adjustment is required in the rate at which each share of said Series shall be convertible, the corporation shall (i) file with each Transfer Agent for the

shares of said Series a statement setting forth the adjusted rate of conversion, describing the adjustment and the method of calculation used, and stating the effective date of the adjustment, and (ii) cause a copy of such statement to be mailed to the holders of record of the shares of said Series.

(3) No fractional shares or scrip representing fractional shares shall be issued upon the conversion of shares of said Series. If any such conversion would otherwise require the issuance of a fractional share, an amount equal to such fraction multiplied by the Market Price of the common stock (determined as provided in subdivision (D) above) on the day of conversion shall be paid to the holder in cash by the corporation.

(4) Shares of said Series shall be deemed to have been converted and the holder converting the same to have become the holder of record of shares of the common stock for all purposes whatever as of the date on which the certificate or certificates for such shares shall have been surrendered as aforesaid. The corporation shall not be required to make any conversion, and no surrender of the certificate or certificates for shares of said Series shall be effective for such purpose, while the transfer books for the shares of either said Series or the common stock shall be closed for any purpose, but the surrender of a certificate or certificates for shares of said Series for conversion during any period in which either transfer book shall be closed shall become effective for all purposes of conversion immediately upon the reopening of such books.

(5) The corporation shall reserve for the conversion of said Series that number of shares of its authorized but unissued common stock into which all shares of said Series from time to time outstanding may be converted.

(v) All shares of said Series redeemed by the corporation or surrendered to it for conversion into shares of the common stock shall be cancelled and thereupon restored to the status of authorized but unissued Preference Stock of the corporation, undesignated as to series.

(vi) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, any action to be taken on such date may be taken on the next succeeding full business day.

Common Stock

16. Subject to the limitations set forth in subdivisions III. C. 2. and 11. (and subject to the rights of any class of stock hereafter authorized), dividends may be paid upon the Common Stock when and as declared by the board of directors of the corporation out of any funds legally available for the payment of dividends.
17. Subject to the limitations set forth in subdivisions III. C. 3. and 12. (and subject to the rights of any other class of stock hereafter authorized), upon any dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the net assets of the corporation shall be distributed ratably to the holders of the Common Stock.
18. Subject to the limitations set forth in subdivisions III. C. 6, 7, 8, 9 and 15. (and subject to the rights of any class of stock hereafter created), and except as may be otherwise provided by law or by the resolutions establishing any series of Preference Stock in accordance with subdivision III. C. 10., the holders of the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. In the election of directors of the corporation, every holder of record of any share or shares of the Common Stock of the corporation shall have the right to cast as many votes for one candidate as shall equal the number of such shares multiplied by the number of directors to be elected, or to distribute such number of votes among any two or more candidates for such election.

19. Upon the issuance for money or other consideration of any shares of capital stock of the corporation, or of any security convertible into capital stock of the corporation, no holder of shares of the capital stock, irrespective of the class or kind thereof, shall have any preemptive or other right to subscribe for, purchase or receive any proportionate or other amount of such shares of capital stock, or such security convertible into capital stock, proposed to be issued; and the board of directors may cause the corporation to dispose of all or any of such shares of capital stock, or of any such security convertible into capital stock, as and when said board may determine, free of any such right, either by offering the same to the corporation's then shareholders or by otherwise selling or disposing of such shares of other securities, as the board of directors may deem advisable.

ARTICLE IV

- A. The business and affairs of the corporation shall be managed by a board of directors. Except as provided in subdivision B. below, the number of members of the board, their classifications and terms of office, and the manner of their election and removal shall be as follows:
 1. The number of directors shall be that number, not less than nine or more than thirteen, determined from time to time by resolution adopted by affirmative vote of a majority of the entire board of directors. The directors shall be divided into three classes, designated Class I, Class II, and Class III. Each class shall consist, as nearly as possible, of one-third of the total number of directors. At the 1984 annual meeting of shareholders, Class I directors shall be elected for a one-year term, Class II directors for a two-year term, and Class III directors for a three-year term. At each succeeding annual meeting of shareholders, successors to directors whose terms expire at that annual meeting shall be of the same class as the directors they succeed, and shall be elected for three-year terms. If the number of directors should be changed by resolution of the board of directors, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director.
 2. A director shall hold office until the annual meeting for the year in which his or her term shall expire and until his or her successor shall have been elected and qualified, subject, however, to prior death, resignation, retirement or removal from office. Any newly created directorship resulting from an increase in the number of directors and any other vacancy on the board of directors, however caused, may be filled by the affirmative vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. The term of a director elected to fill a newly created directorship or any other vacancy shall expire at the same time as the terms of the other directors of the class in which that vacancy occurred.
 3. One or more of the directors may be removed with or without cause by the affirmative vote of the holders of not less than two-thirds of the shares entitled to vote thereon at a meeting of the shareholders called expressly for that purpose; provided, however, that for as long as the corporation shall have cumulative voting, if fewer than all the directors should be candidates for removal, no one of them shall be removed if the votes cast against his or her removal would be sufficient to elect him or her if then cumulatively voted at an election of the class of directors of which he or she shall be a part.
 4. No person, except those persons nominated by the board, shall be eligible for election as a director at any annual or special meeting of shareholders unless a written request that his or her name be placed in nomination shall be received from a shareholder of record entitled to vote at such election by the secretary of the corporation not later than the latter of (a) the thirtieth day prior to the date fixed for the meeting, or (b) the tenth day after the mailing of notice of that meeting, together with the written consent of the nominee to serve as a director.

- B. Notwithstanding the provisions of subdivision A. above, whenever the holders of any one or more classes of the capital stock of the corporation shall have the right, voting separately as a class or classes, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of these Restated Articles of Incorporation applicable thereto. Directors so elected shall not be divided into classes unless expressly provided by such provisions, and during their prescribed terms of office, the board of directors shall consist of such directors in addition to the directors determined as provided in subdivision A. above.
- C. This Article IV may not be repealed or amended in any respect unless such action shall be approved by the affirmative vote of the holders of not less than two-thirds of the shares entitled to vote at an election of directors determined as provided in subdivision A. above, at a meeting of the shareholders called expressly for that purpose.

ARTICLE V

- A. For purposes of this Article V:
 - 1. The term "Affiliate", as used to indicate a relationship with a specified "Person" (as hereinafter defined), shall mean a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.
 - 2. The term "Associate", as used to indicate a relationship with a specified Person, shall mean (a) any Person (other than the corporation) of which such specified Person is a director, officer, partner, trustee, guardian, fiduciary or official or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities or any beneficial interest, (b) any Person who is a director, officer, partner, trustee, guardian, fiduciary or official or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities or any beneficial interest of or in such specified Person (other than the corporation), and (c) any relative or spouse of such specified Person, or any relative of such spouse who has the same home as such specified Person.
 - 3. The term "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934 as in effect on April 9, 1984; provided, however, that, notwithstanding the provisions of such Rule, a Person shall be deemed to be the Beneficial Owner of any share of the capital stock of the corporation that such Person shall have the right to acquire at any time pursuant to any agreement, contract, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise, and any such share of capital stock shall be deemed to be outstanding for purposes of subdivision V.A.9.
 - 4. The term "Business Transaction" shall include, without limitation, (a) any merger, consolidation or plan of exchange of the corporation, or any Person controlled by or under common control with the corporation, with or into any "Related Person" (as hereinafter defined), (b) any merger, consolidation or plan of exchange of a Related Person with or into the corporation or any Person controlled by or under common control with the corporation, (c) any sale, lease, exchange, transfer or other disposition (in one transaction or a series of transactions) including without limitation a mortgage or any other security device, of all or any "Substantial Part" (as hereinafter defined) of the property and assets of the corporation, or any Person controlled by or under common control with the corporation, to or with a Related Person, (d) any purchase, lease, exchange, transfer or other acquisition (in one transaction or a series of transactions), including without limitation a mortgage or any other security device, of all or any Sub-

- stantial Part of the property and assets of a Related Person, by or with the corporation or any Person controlled by or under common control with the corporation, (e) any recapitalization of the corporation that would have the effect of increasing the voting power of a Related Person, (f) the issuance, sale, exchange or other disposition of any securities of the corporation, or of any Person controlled by or under common control with the corporation, by the corporation or by any Person controlled by or under common control with the corporation, (g) any liquidation, spinoff, splitoff, splitup or dissolution of the corporation, and (h) any agreement, contract or other arrangement providing for any of the transactions described in this subdivision.
5. The term "Continuing Director" shall mean a director who was a director of the corporation on April 9, 1984 and a director who shall become a director subsequent thereto whose election, or whose nomination for election by the shareholders, shall have been approved by a vote of a majority of the then Continuing Directors.
 6. The term "Highest Purchase Price" shall mean, with respect to the shares of any class or series of the capital stock of the corporation, the highest amount of consideration paid by a Related Person for a share of the same class and series at any time regardless of whether the share was acquired before or after such Related Person became a Related Person; provided, however, that the Highest Purchase Price shall be appropriately adjusted to reflect the occurrence of any reclassification, recapitalization, stock split, reverse stock split or other readjustment in the number of outstanding shares of that class or series, or the declaration of a stock dividend thereon. The Highest Purchase Price shall include any brokerage commissions, transfer taxes and soliciting dealers' fees paid by such Related Person with respect to any shares of the capital stock acquired by such Related Person.
 7. The term "Other Consideration" shall include, without limitation, capital stock to be retained by the shareholders of the corporation in a Business Transaction in which the corporation shall be the survivor.
 8. The term "Person" shall mean any natural person, corporation, partnership, trust, firm, association, government, governmental agency or any other entity whether acting in an individual, fiduciary or other capacity.
 9. The term "Related Person" shall mean (a) any Person which, together with its Affiliates and Associates, shall be the Beneficial Owner in the aggregate of 10 percent or more of the capital stock of the corporation, and (b) any Affiliate or Associate (other than the corporation or a wholly owned subsidiary of the corporation) of any such Person. Two or more Persons acting in concert for the purpose of acquiring, holding or disposing of the capital stock of the corporation shall be deemed to be a "Related Person". A Related Person shall be deemed to have acquired a share of capital stock at the time when such Related Person became the Beneficial Owner thereof. With respect to the shares of the capital stock of the corporation owned by any Related Person, if the price paid for such shares cannot be determined by a majority of the Continuing Directors, the price so paid shall be deemed to be the market price of the shares in question at the time when such Related Person became the Beneficial Owner thereof.
 10. The term "Substantial Part" shall mean 10% or more of the fair market value of the total assets of a Person, as reflected on the most recent balance sheet of such Person available to the Continuing Directors on the date of mailing of the notice of the meeting of shareholders called for the purpose of voting with respect to a Business Transaction involving the assets constituting any such Substantial Part.
- B. The corporation shall not enter into any Business Transaction with a Related Person or in which a Related Person shall have an interest (except proportionately as a shareholder of the corporation) without first obtaining both (1) the affirmative vote of the holders of not less than two-thirds of the outstanding shares of the capital stock of the corporation not held by such Related Person, and (2)

the determination of a majority of the Continuing Directors that the cash or fair market value of the property, securities or Other Consideration to be received per share by the holders, other than such Related Person, of the shares of each class or series of the capital stock of the corporation in such Business Transaction shall not be less than the Highest Purchase Price paid by such Related Person in acquiring any of its holdings of shares of the same class or series, unless the Continuing Directors by a majority vote shall either (a) have expressly approved the acquisition of the shares of the capital stock of the corporation that caused such Related Person to become a Related Person, or (b) have expressly approved such Business Transaction.

- C. For the purposes of this Article V, a majority of the Continuing Directors shall have the power to make a good faith determination, on the basis of information known to them, of: (1) the number of shares of capital stock of the corporation of which any Person shall be the Beneficial Owner, (2) whether a Person is an Affiliate or Associate of another Person, (3) whether a Person has an agreement, contract, arrangement or understanding with another Person as to the matters referred to in subdivision V.A.3. or clause (h) of subdivision V.A.4., (4) the Highest Purchase Price paid by a Related Person for shares of any class or series of the capital stock, (5) whether the assets subject to any Business Transaction constitute a Substantial Part, (6) whether any Business Transaction is one in which a Related Person has an interest (except proportionately as a shareholder of the corporation), and (7) such other matters with respect to which a determination may be required under this Article V.
- D. In determining whether to give their approval as provided in subdivision V.B., the Continuing Directors shall give due consideration to all relevant factors involved, including, without limitation, (1) the value of the corporation in a freely negotiated transaction and its future value as an independent entity, (2) the recognition of gain or loss to the corporation for tax purposes or the postponement of such recognition in a tax-free transaction, (3) the anticipated developments of the business of the corporation not yet reflected in the price of its shares, and (4) the impact on employees, customers, suppliers and the public generally within the geographical area it serves.
- E. This Article V may not be repealed or amended in any respect unless such action shall be approved by the affirmative vote of the holders of not less than two-thirds of the capital stock of the corporation not held by a Related Person at a meeting of the shareholders called expressly for that purpose.

ARTICLE VI

No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for conduct as a director; provided that this Article VI shall not eliminate the liability of a director for any act or omission for which such elimination of liability is not permitted under the Oregon Business Corporation Act. No amendment to the Oregon Business Corporation Act that further limits the acts or omissions for which elimination of liability is permitted shall affect the liability of a director for any act or omission which occurs prior to the effective date of such amendment.

ARTICLE VII

The corporation shall indemnify to the fullest extent then permitted by law any person who is made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (including an action, suit or proceeding by or in the right of the corporation) by reason of the fact that the person is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise against all judgments, amounts paid in settlement, fines and such

expenses (including attorneys' fees), actually and reasonably incurred in connection therewith. This Article shall not be deemed exclusive of any other provisions for indemnification of directors and officers that may be included in any statute, bylaw, agreement, vote of shareholders or directors or otherwise, both as to action in any official capacity and as to action in another capacity while holding an office.

ARTICLE VIII

- A. The amount of the corporation's stated capital at the time of the adoption of these Restated Articles of Incorporation is \$69,376,264.89.

FILED

CLERK OF THE SECRETARY
OF STATE OF THE STATE OF ORE.

ARTICLES OF AMENDMENT

(PREFERENCE STOCK \$6.95 SERIES DESIGNATION CERTIFICATE)

of

NORTHWEST NATURAL GAS COMPANY CORPORATION DIVISION

1. The name of the corporation is NORTHWEST NATURAL GAS COMPANY.

2. The following resolution was duly adopted by the Board of Directors of the corporation on December 8, 1992 as an Amendment to the Restated Articles of Incorporation and does not require shareholder action:

RESOLVED, that, pursuant to authority expressly vested in the Board of Directors by the Restated Articles of Incorporation of the corporation, there hereby is established a series of the Preference Stock of the corporation, consisting of 250,000 shares, designated as "Preference Stock \$6.95 Series", the shares of which shall be identical with the shares of all other series of the Preference Stock, except for the preferences, limitations and relative rights fixed and determined hereafter:

(i) The rate of dividend of shares of said Series shall be \$6.95 per annum; the dividend payment dates shall be the 15th days of February, May, August and November in each year, commencing on February 15, 1993; and dividends shall be cumulative from the date of original issue;

(ii) The shares of said Series shall not be redeemable prior to December 31, 2002; and on such date, all of the outstanding shares of said Series shall be subject to mandatory redemption (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) at the mandatory redemption price of \$100 per share, plus unpaid accumulated dividends; provided, however, that the payment of such mandatory redemption price shall be subordinate to the dividend and other distributive rights of the Preferred Stock, so that such redemption price shall not be paid and the shares of said Series shall not be redeemed unless (i)

dividends on all outstanding shares of each particular series of the Preferred Stock, at the annual dividend rates fixed and determined either by these Restated Articles of Incorporation or in accordance with subdivision III.C.1 thereof, shall have been paid or declared and set apart for payment for all past dividend periods and for the then current dividend periods, and (ii) all amounts due and payable to the holders of Preferred Stock, by virtue of purchase funds, sinking funds, or other analogous devices for the retirement of the Preferred Stock, or by virtue of dissolution, liquidation or winding up of the corporation, shall have been paid or funds for the payment thereof shall have been set apart for payment;

(iii) The amount payable upon shares of said Series in the event of either involuntary or voluntary liquidation shall be \$100 per share, plus unpaid accumulated dividends, if any, to the date of payment;

(iv) All shares of said Series redeemed by the corporation shall be cancelled and thereupon restored to the status of authorized but unissued Preference Stock of the corporation, undesignated as to series; and

(v) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

Dated: December 8, 1992

NORTHWEST NATURAL GAS COMPANY

(Corporate Seal)

By *Archie Ball Ball*
Its Senior Vice President

FILED

DEC - 1 1993

SECRETARY OF STATE

ARTICLES OF AMENDMENT

(PREFERRED STOCK \$7.125 SERIES DESIGNATION CERTIFICATE)
of
NORTHWEST NATURAL GAS COMPANY

1. The name of the corporation is NORTHWEST NATURAL GAS COMPANY.

2. The following resolution was duly adopted by the Board of Directors of the corporation on November 18, 1993 as an Amendment to the Restated Articles of Incorporation and does not require shareholder action:

RESOLVED, that pursuant to authority expressly vested in the Board of Directors by the Restated Articles of Incorporation, as amended, of the corporation there hereby is established a series of the Preferred Stock of the corporation, consisting of 150,000 shares, designated as "Preferred Stock \$7.125 Series", the shares of which shall be identical with the shares of all other series of the Preferred Stock except for the preferences, limitations and relative rights fixed and determined hereafter:

(i)(1) the rate of dividend of shares of said Series shall be \$7.125 per annum plus that amount, if any, which will maintain each holder's after Federal income tax dividend yield on each dividend with respect to which any legislative enactment, administrative action, judicial decision or other change in law shall reduce or eliminate the dividends received deduction of 70% provided by Section 243(a)(1) of the Internal Revenue Code of 1986, as amended, as in effect on April 1, 1988 (the "Dividends Received Deduction"), at the level at which such yield would have been if such dividend had been paid to such holder on April 1, 1988 (each holder's after Federal income tax dividend yield on April 1, 1988 being calculated on the bases of (i) a cost per share of \$100, (ii) the Dividends Received Deduction, and (iii) an assumed Federal income tax rate of 34%; and, thereafter, such holder's after Federal income tax dividend yield being calculated on the bases of (i) and (iii) and any reduced

dividends received deduction at the time then in effect); provided, however, that any such increased dividend shall be payable only (A) on shares of said Series in respect of which the holder shall have delivered to the corporation no later than 360 days after the effective date of any such reduction or elimination of the Dividends Received Deduction a written notice (I) stating that such holder is entitled to an increased dividend as a result of such reduction or elimination, (II) specifying the amount per share of such increase, and (III) specifying the total number of shares of said Series held by such holder, and (B) in respect of dividends payable after the date of receipt of such notice by the corporation; (2) the dividend payment dates shall be the 15th days of February, May, August and November in each year, commencing on February 15, 1994; and (3) dividends shall be cumulative from December 1, 1993;

(ii)(1) Other than as provided in subdivision (2) below, shares of said Series shall not be redeemable at the election of the corporation prior to May 1, 1998. On and after May 1, 1998, the shares of said Series may be redeemed, at the election of the corporation, at the following redemption prices:

If Redeemed During 12-Months Period Ending <u>April 30</u>	Redemption Price <u>Per Share</u>	If Redeemed During 12-Months Period Ending <u>April 30</u>	Redemption Price <u>Per Share</u>
1999	\$104.750	2004	\$102.375
2000	\$104.275	2005	\$101.900
2001	\$103.800	2006	\$101.425
2002	\$103.325	2007	\$100.950
2003	\$102.850	2008	\$100.475

and thereafter \$100 per share, plus an amount in each case equal to accrued unpaid dividends, if any, to the date of redemption; and (2) all but not less than all of the shares of said Series held by any holder which shall have given notice that such holder will be entitled to an increased

dividend in accordance with subdivision (i)(1) above may be redeemed, at the election of the corporation, at the redemption price of \$100 per share, plus an amount equal to accrued unpaid dividends, if any, to the date of redemption, within the period of 360 days commencing on the date of receipt by the corporation of such notice;

(iii) the amount payable upon shares of said Series in the event of involuntary liquidation shall be \$100 per share and in the event of voluntary liquidation (1) occurring prior to May 1, 1994, shall be \$107.125 per share, (2) occurring during the 12-months periods ending April 30, 1995, 1996, 1997 and 1998, shall be, respectively, \$106.650, \$106.175, \$105.700 and \$105.225 per share and (3) occurring on or after May 1, 1998, shall be an amount equal to the then applicable redemption price of shares of said Series, plus in each case, an amount equal to accrued unpaid dividends, if any, to the date of payment;

(iv) shares of said Series shall not be, by their terms, convertible;

(v) shares of said Series shall be entitled to the benefits of a sinking fund as follows:

(1) The corporation (unless such action, in the opinion of counsel for the corporation, would be contrary to any applicable law or to any rule or regulation of any governmental authority having jurisdiction in the premises) as a sinking fund for the retirement of shares of said Series, shall redeem, in the manner herein provided, 7,500 shares of said Series on June 15, 1994 and 7,500 shares of said Series on the 15th day of June of each year thereafter so long as any shares of said Series shall remain outstanding, at \$100.00 per share plus accrued unpaid dividends to the date fixed for redemption. The total number of shares to be redeemed and the number of shares to be redeemed from any holder shall be adjusted to the nearest full share so that fractional shares need not be redeemed. The corporation may, on any redemption date as above provided and at its option, credit against its sinking fund obligation such number of shares of said Series theretofore redeemed by the

corporation, otherwise than for the account of its sinking fund obligation, or such number of shares of said Series theretofore purchased by the corporation at a price per share not in excess of \$100.00 plus accrued unpaid dividends, and in either case not theretofore applied as a credit on its sinking fund obligation. The sinking fund for said Series shall not be cumulative. Notice of redemption for each sinking fund shall be given, and deposit of the aggregate redemption price may be made, subject to the general terms and provisions for redemption of the Preferred Stock set forth in subdivision III.C.4 of the Restated Articles of Incorporation;

(2) Shares of said Series redeemed pursuant to the provisions of the sinking fund or credited thereto shall be cancelled, shall not be reissued as shares of said Series, and shall be restored to the status of authorized but unissued shares of the Preferred Stock of the corporation;

(3) Unless otherwise provided by law, nothing herein contained shall prevent or in any manner restrict the Board of Directors of the corporation from authorizing and issuing any other series of Preferred Stock entitled to a purchase fund, sinking fund or other analogous device for the benefit of the holders of such other series of Preferred Stock of the corporation, whether or not the provisions therefor shall correspond with the provisions for said Series; provided that the dates on which such other fund or device shall operate in any particular year shall correspond with the date applicable to said Series and in the event there is a deficiency in the funds available in any particular year for the fulfillment of the maximum requirements of the purchase funds, sinking funds or other analogous devices of all outstanding series of Preferred Stock of the corporation in accordance with the terms thereof, such funds as are available in accordance with such terms for such purpose shall be prorated among all such series so that the percentage allocated to any particular series of Preferred Stock shall correspond with its portion of the total amount due; and

(4) After June 15, 1994, so long as any shares of said Series shall be outstanding, no dividends on the Common Stock or the Preference Stock of the corporation shall, without the written consent or affirmative vote of the holders of at least a majority of the total number of shares of said Series then outstanding, be declared and set apart for payment, unless the corporation, on the June 15th immediately preceding the declaration of such dividend, shall have redeemed 7,500 shares of said Series at \$100.00 per share plus accrued unpaid dividends to such June 15th or in accordance with the terms hereof shall have taken credits against the shares of said Series sinking fund which, with shares redeemed pursuant to such fund obligation, aggregate 7,500 shares of said Series; and

(vi) Whenever any of the dates mentioned with respect to said Series shall not be a full business day in the City of Portland, Oregon, then any action to be taken on said date may be taken on the next succeeding full business day.

Dated: December 1, 1993

NORTHWEST NATURAL GAS COMPANY

By Raymond J. Foley
Its Senior Vice President

(Corporate Seal)

014302-14

MINUTE BOOK

FILED

MAY 27 1994

SECRETARY OF STATE

ARTICLES OF AMENDMENT
TO
RESTATED ARTICLES OF INCORPORATION
OF
NORTHWEST NATURAL GAS COMPANY

1. The name of the corporation is Northwest Natural Gas Company.
2. Subdivision A of Article III of the Restated Articles of Incorporation is amended to read as follows:

"The aggregate number of shares of capital stock which the corporation shall have authority to issue is 63,500,000 shares, divided into 1,500,000 shares of Preferred Stock without par value, issuable in series as hereinafter provided, 2,000,000 shares of Preference Stock without par value, issuable in series as hereinafter provided, and 60,000,000 shares of Common Stock of the par value of \$3-1/6 per share."

3. The amendment was adopted by the shareholders of the corporation on May 26, 1994.
4. 13,244,529 shares of Common Stock were outstanding and entitled to vote on the amendment.
5. 9,981,213 shares of Common Stock were voted for the amendment and 1,060,991 shares of Common Stock were voted against the amendment.

DATED: May 27, 1994

NORTHWEST NATURAL GAS COMPANY

BY



Bruce R. DeBolt
Senior Vice President

Exhibit B

A copy of the Company's Bylaws, as amended.

BYLAWS
of
NORTHWEST
NATURAL
GAS
COMPANY

As Adopted by the Board of Directors
July 17, 1975
As Amended through July 22, 2004

CONTENTS

ARTICLE I.		ARTICLE VI.	
OFFICES:	Page	NOTICES:	Page
Section 1. Office	1	Section 1. Form and Manner	5
Section 2. Registered Office	1	Section 2. Waiver	6
ARTICLE II.		ARTICLE VII.	
MEETINGS OF SHAREHOLDERS:		OFFICERS:	
Section 1. Annual Meeting	1	Section 1. Election	6
Section 2. Special Meetings	1	Section 2. Compensation	6
Section 3. Notice	1	Section 3. Term	6
Section 4. Fixing Record Date	1	Section 4. Removal	6
Section 5. Record of Shareholders	2	Section 5. President	6
Section 6. Quorum	2	Section 6. Vice Presidents	6
Section 7. Voting	2	Section 7. Secretary	6
Section 8. Conduct of Meetings	2	Section 8. Treasurer	6
Section 9. Proper Business for Meetings	2	ARTICLE VIII.	
ARTICLE III.		CONTRACTS, LOANS, CHECKS AND DEPOSITS:	
BOARD OF DIRECTORS:		Section 1. Contracts	7
Section 1. Directors	3	Section 2. Loans	7
Section 2. Chairman of the Board	3	Section 3. Checks and Drafts	7
Section 3. Compensation	3	Section 4. Deposits	7
ARTICLE IV.		ARTICLE IX.	
MEETINGS OF THE BOARD OF DIRECTORS:		CERTIFICATES FOR SHARES AND THEIR TRANSFER:	
Section 1. Regular Meetings	3	Section 1. Certificates for Shares	7
Section 2. Special Meetings	4	Section 2. Transfer	7
Section 3. Waiver of Notice	4	Section 3. Owner of Record	7
Section 4. Quorum	4	ARTICLE X.	
Section 5. Manner of Acting	4	INDEMNIFICATION AND INSURANCE:	
Section 6. Action Without a Meeting	4	Section 1. Indemnification	7
ARTICLE V.		Section 2. Insurance	8
COMMITTEES OF THE BOARD:		ARTICLE XI.	
Section 1. Governance Committee	4	SEAL	8
Section 2. Audit Committee	4	ARTICLE XII.	
Section 3. Organization and Executive Compensation Committee	4	AMENDMENTS	8
Section 4. Strategic Planning Committee	5		
Section 5. Finance Committee	5		
Section 6. Public Affairs and Environmental Policy Committee	5		
Section 7. Other Committees	5		
Section 8. Changes of Size and Function	5		
Section 9. Conduct of Meetings	5		
Section 10. Compensation	5		

The following Bylaws were adopted by Northwest Natural Gas Company on July 17, 1975 superseding amended Bylaws originally adopted in conformity with an order of the District Court of the United States for the District of Oregon enforcing a plan for rearrangement of the Company's capital structure effective December 31, 1951, and subsequently amended by the stockholders on May 17, 1954, May 20, 1957, May 21, 1973, and May 20, 1974.

**BYLAWS
OF
NORTHWEST NATURAL GAS COMPANY**

ARTICLE I.

OFFICES

Section 1. Office. The principal office of the company shall be located in the City of Portland, Oregon. The company also may have offices at such other places both within and without the State of Oregon as the board of directors from time to time may determine.

Section 2. Registered Office. The registered office of the company required by law to be maintained in the state shall be at the same location as the principal office unless otherwise designated by resolution of the board of directors.

ARTICLE II.

MEETINGS OF SHAREHOLDERS

Section 1. Annual Meeting. The annual meeting of shareholders of the company for the election of directors and for the transaction of other business shall be held at the company's office in the City of Portland, Oregon, or such other place in that City as shall be determined by the board of directors, on the fourth Thursday of May in each year, unless such day shall be a legal holiday, in which event such meeting shall be held on the next business day. If such meeting shall not be held on such day in any year, it shall be held within 60 days thereafter on such day as shall be fixed by the board of directors and be specified in the notice of the meeting. Every such meeting shall be held at the hour of two o'clock p.m., or at such other hour as shall be fixed by the board and specified in such notice.

Amended 1/1/85

Section 2. Special Meetings. Special meetings of the shareholders of the company may be called by the board of directors or the holders of not less than one-tenth of all shares entitled to vote at the meeting. Each special meeting shall be held for such purposes, at such place in the City of Portland, Oregon, and at such time as shall be specified in the notice thereof.

Section 3. Notice. Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than 10 nor more than 50 days before the date of the meeting, either personally or by mail, by or at the direction of the board of directors or the persons calling the meeting, to each shareholder of record entitled to vote at such meeting.

Section 4. Fixing Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 50 days and, in the case of a meeting of shareholders, not less than 10 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the board declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

Section 5. Record of Shareholders. The officer or agent having charge of the transfer books for shares of the company shall make, at least 10 days before each meeting of shareholders, a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order with the address of and the number of shares held by each, which record, for a period of 10 days prior to such meeting, shall be kept on file at the registered office of the company and shall be subject to inspection by any shareholder at any time during usual business hours. Such record also shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original transfer books for shares shall be prima facie evidence as to who are the shareholders entitled to examine such record or transfer books or to vote at any meeting of the shareholders.

Section 6. Quorum. A majority of the shares of the company entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of shareholders. If a quorum is present, in person or by proxy, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders, unless the vote of a greater number, or voting by classes, is required by law or the Restated Articles of Incorporation.

If a quorum shall not be represented at any meeting of shareholders, the shareholders represented may adjourn the meeting from time to time without further notice. At such adjourned meeting, at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders represented at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Amended 12/13/01

Section 7. Voting. Each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by law or the Restated Articles of Incorporation. At each election of directors holders of shares of common stock have the right to cumulative voting as provided for in the Restated Articles of Incorporation. A shareholder may vote either in person or by proxy. A shareholder may authorize a person or persons to act for the shareholder as proxy in any manner permitted by law. An authorization of a proxy is effective when received by the secretary of the company or other officer or agent authorized to tabulate votes.

Amended 5/23/02

Section 8. Conduct of Meetings. Every meeting of shareholders shall be presided over by the chairman of the board, in his or her absence by the president, in their absence by a vice president or, if none be present, by a chairman appointed by the shareholders present at the meeting. The minutes of such meeting shall be recorded by the secretary or an assistant secretary but, if neither be present, by a secretary appointed for that purpose by the chairman of the meeting. The board of directors may adopt by resolution such rules and regulations for the conduct of meetings of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the board of directors, the chairman of any meeting of shareholders shall have the exclusive right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the board of directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (a) the establishment of an agenda or order of business for the meeting; (b) rules and procedures for maintaining order at the meeting and the safety of those present; (c) limitations on attendance at or participation in the meeting to shareholders of record of the company, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (d) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the board of directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Amended 5/23/02

Section 9. Proper Business for Meetings. (a) No business shall be conducted at any meeting of shareholders that has not been properly brought before the meeting. To be properly brought before a special meeting of shareholders, business must be specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors or the persons calling the meeting. To be properly brought before an annual meeting of shareholders, business must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise brought before the meeting by or at the direction of the board of directors or

the chairman of the board, or (iii) otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the company. To be timely, a shareholder's notice must be delivered to the secretary at the principal executive office of the company not less than 90 days prior to the first anniversary of the previous year's annual meeting of shareholders; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed (other than as a result of adjournment) by more than 30 days from the anniversary of the previous year's annual meeting, notice by a shareholder to be timely must be delivered not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission; (b) A shareholder's notice to the secretary shall set forth (i) one or more matters appropriate for shareholder action that the shareholder proposes to bring before the meeting, (ii) a brief description of the matters desired to be brought before the meeting and the reasons for conducting such business at the meeting, (iii) the name and record address of the shareholder, (iv) the class and number of shares of the company that the shareholder owns or is entitled to vote and (v) any material interest of the shareholder in such matters; and (c) The chairman of the meeting shall have the power and duty (i) to determine whether any proposed business was properly brought before the meeting in accordance with the procedures set forth in this Section 9, and (ii) if the chairman determines that any proposed business was not brought before the meeting in compliance with this Section 9, to declare that such proposed business shall not be transacted.

ARTICLE III.

BOARD OF DIRECTORS

Section 1. Directors. The business and affairs of the company shall be managed by its board of directors. The number of members of the board, their classification and terms of office, and the manner of their election and removal shall be determined as provided by the Restated Articles of Incorporation. Directors need not be residents of the State of Oregon or shareholders of the company. Effective July 1, 2002, no person who has reached the age of 70 years shall be eligible to be elected a director.

Amended 5/17/84
Amended 5/23/02
Amended 12/18/03

Section 2. Chairman of the Board. The board of directors may elect one of its members as chairman of the board. The chairman of the board, if that position be filled, shall preside at all meetings of the shareholders and the board of directors and shall have such other duties and responsibilities as may be prescribed by the board of directors. If there shall be no chairman of the board, or in his or her absence or disability, the president also shall exercise the duties and responsibilities of that position.

Amended 1/1/85

Section 3. Compensation. Directors shall receive such reasonable compensation for their services as may be fixed from time to time by resolution of the board of directors, and shall be reimbursed for their expenses properly incurred in the performance of their duties as directors. No such payment shall preclude any director from serving the company in any other capacity and receiving such reasonable compensation for such services as may be fixed by resolution of the board.

Amended 5/17/84

ARTICLE IV.

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Regular Meetings. Regular meetings of the board of directors shall be held in the company's offices at two o'clock p.m., Pacific Time, on the fourth Thursday of February, April, May, July and September, and on the third Thursday of December, or on such other date or at such other hour and place as shall be specified in the notice of meeting. The date, time and place for holding regular meetings of the board of directors may be changed upon the giving of notice to all directors by or at the request of the chairman of the board or the president. The board may provide by resolution the time and place either within or without the State of Oregon for holding of meetings or may omit the holding of any meeting without other notice than such resolution.

Amended 5/26/88
Amended 5/23/91
Amended 12/16/93
Amended 7/25/96
Amended 5/28/98

Amended 1/1/85
Amended 2/24/95
Amended 5/23/02

Section 2. Special Meetings. Special meetings of the board of directors may be called by or at the request of the chairman of the board, the chairman of the governance committee, the president or any two directors. The person or persons authorized to call special meetings of the board may fix any place, either within or without the State of Oregon, as the place for holding any special meeting of the board called by them. Notice of the time and place of special meetings shall be given to each director at least one day in advance by the secretary or other officer performing his or her duties.

Section 3. Waiver of Notice. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise provided by law or the Restated Articles of Incorporation, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board of directors need be specified in the notice or waiver of notice of such meeting.

Amended 5/17/84

Section 4. Quorum. A majority of the number of directors at any time fixed by resolution adopted by the affirmative vote of a majority of the entire board of directors shall constitute a quorum for the transaction of business. If a quorum shall not be present at any meeting of directors, the directors present may adjourn the meeting from time to time without further notice until a quorum shall be present.

Section 5. Manner of Acting. Except as otherwise provided by law or the Restated Articles of Incorporation, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

Section 6. Action Without a Meeting. Any action required or permitted to be taken at a meeting of the board of directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors entitled to vote with respect to the subject matter thereof.

ARTICLE V.

COMMITTEES OF THE BOARD

Amended 5/17/84
Amended 1/1/85
Amended 11/21/91
Amended 2/24/95
Amended 5/23/96
Amended 5/23/02

Section 1. Governance Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint a governance committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The committee shall have and may exercise all of the authority of the board of directors in the management of the company, except with respect to matters upon which by law only the board of directors may act. The committee's responsibilities shall include serving as the nominating committee of the board; making recommendations to the board on board and board committee composition and structure, including recommendations with respect to committee and committee chairmanship assignments; and conducting periodic board self-assessments, peer reviews of individual directors and evaluations of committee effectiveness. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 2/24/95
Amended 5/23/02

Section 2. Audit Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint an audit committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The duties of the committee shall be to discuss and review with the company's independent auditors the annual audit of the company, including the scope of the audit, and report the results of this review to the board; to meet with the independent auditors at such other times as the committee shall deem to be advisable; and to perform such other functions as the board by resolution from time to time may direct.

Amended 2/22/90
Amended 2/24/95
Amended 5/23/02

Section 3. Organization and Executive Compensation Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint an organization and executive compensation committee composed of three or more independent directors. The board shall designate one member of the committee as chairman. The duties of the committee shall be to discuss and review the management of the affairs of the company relating to its organization and to executive personnel and their compensation, and to perform such other functions as the board by resolution from time to time may direct.

Section 4. Strategic Planning Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members a strategic planning committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be to review and make recommendations to the board with respect to the company's long-term strategic goals, objectives and plans. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 7/24/03
Amended 9/25/03

Section 5. Finance Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint a finance committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be to discuss and review the management of the affairs of the company relating to financing, including the development of financial planning goals and financial policy, and to perform such other functions as the board by resolution from time to time may direct.

Amended 2/24/95
Amended 2/25/99
Amended 9/25/03

Section 6. Public Affairs and Environmental Policy Committee. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members a public affairs and environmental policy committee composed of three or more directors, a majority of whom shall not be officers or retired officers of the company. The board shall designate one member of the committee who is not an officer or retired officer of the company as chairman. The duties of the committee shall be (i) to consider, review and monitor significant matters of public interest and societal trends, and the company's community affairs, charitable contributions, diversity and equal employment opportunity compliance programs, and (ii) to monitor significant environmental issues affecting the company and to recommend to the board appropriate environmental policies. The committee shall also perform such other functions as the board by resolution from time to time may direct.

Amended 5/22/03
Amended 9/25/03

Section 7. Other Committees. The board of directors at any time, by resolution adopted by a majority of the board of directors, may appoint from among its members such other committees and the chairmen thereof as it may deem to be advisable. Each such committee shall have such powers and authority as are set forth in the resolutions pertaining thereto from time to time adopted by the board.

Amended 2/24/95

Section 8. Changes of Size and Function. Subject to the provisions of law, the board of directors shall have the power at any time to increase or decrease the number of members of any committee, to fill vacancies thereon, to change any members thereof and to change the functions and terminate the existence thereof.

Section 9. Conduct of Meetings. Each committee shall conduct its meetings in accordance with the applicable provisions of these bylaws relating to the conduct of meetings of the board of directors. Each committee shall adopt such further rules and regulations regarding its conduct, keep such minutes and other records and appoint such subcommittees and assistants as it shall deem to be appropriate.

Section 10. Compensation. Persons serving on any committee shall receive such reasonable compensation for their services on such committee as may be fixed by resolution of the board of directors, provided that no person shall receive compensation for his or her services on any committee while serving as an officer of the company.

ARTICLE VI.

NOTICES

Section 1. Form and Manner. Whenever, under the provisions of law or the Restated Articles of Incorporation, notice is required to be given to any director or shareholder, unless otherwise specified, it shall be given in writing by mail addressed to such director or shareholder at his or her address as it appears on the stock transfer books or other records of the company, with postage thereon prepaid, and such notice shall be deemed to be delivered when deposited in the United States Mail. Notice to directors also may be given by telephone or in any other manner which is reasonably

calculated to give adequate notice.

Section 2. Waiver. Whenever any notice whatever is required to be given under the provisions of law, the Restated Articles of Incorporation or these bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE VII.

OFFICERS

Amended 1/1/85

Section 1. Election. The board of directors, at its first meeting following the annual meeting of shareholders each year, shall elect one of its members as president and shall elect a secretary. At such meeting, or at any other time it shall deem appropriate, the board may elect one or more vice presidents and a treasurer. The board also may elect or appoint such other officers and agents as it may deem necessary. Any two or more offices may be held by the same person, except the offices of president and secretary.

Section 2. Compensation. The officers of the company shall receive such reasonable compensation for their services as from time to time may be fixed by resolution of the board of directors.

Amended 5/17/84

Section 3. Term. The term of office of all officers shall commence upon their election or appointment and shall continue until the first meeting of the board of directors following the annual meeting of shareholders and thereafter until their successors shall be elected or until their resignation or removal. A vacancy occurring in any office of the company for whatever reason may be filled by the board.

Section 4. Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board whenever in its judgment the best interests of the company will be served thereby but such removal shall be without prejudice to the contract rights, if any, of the officer or agent so removed.

Amended 10/18/84
Amended 3/1/96

Section 5. President. Unless otherwise determined by the board of directors, the president shall be the chief executive officer of the company and, subject to the control of the board of directors, shall be responsible for the general administration and operation of the company. He shall have such other duties and responsibilities as may pertain to such office or be prescribed by the board of directors. In the absence or disability of the president, an officer designated by the board shall exercise the duties and responsibilities of the president.

Section 6. Vice Presidents. Each vice president shall have such duties and responsibilities as may be prescribed by the board of directors and the president. The board or the president may confer a special title upon a vice president.

Section 7. Secretary. The secretary shall record and keep the minutes of the shareholders in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; and perform such other duties as may be prescribed by the board or the president. The secretary shall have custody of the corporate seal of the company and shall affix the seal to any instrument requiring it and attest the same by his or her signature.

The assistant secretaries shall have such duties as may be prescribed from time to time by the board, the president or the secretary. In the absence or disability of the secretary, his or her duties shall be performed by an assistant secretary.

Amended 1/1/85

Section 8. Treasurer. The treasurer shall have charge and custody and be responsible for all funds and securities of the company; deposit all moneys and other valuable effects in the name and to the credit of the company in such depositories as may be designated by the board of directors; and disburse the funds of the company as may be authorized by the board and take proper vouchers for such disbursements. The treasurer shall have such other duties as may be prescribed from time to time by the board or the president. In the absence or disability of the treasurer, his or her duties shall be performed by an assistant treasurer.

ARTICLE VIII.

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. Contracts. The board of directors by resolution may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the company, and such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the company and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the board of directors. Such authority may be general or confined to specific instances.

Section 3. Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the company shall be signed by such officer or officers, agent or agents of the company and in such manner as shall from time to time be determined by resolution of the board of directors.

Section 4. Deposits. All funds of the company not otherwise employed shall be deposited from time to time to the credit of the company in such banks, trust companies or other depositories as the board of directors or officers of the company designated by the board may select, or be invested as authorized by the board.

ARTICLE IX.

CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. Certificates for Shares. The shares of the company shall be represented by certificates; provided, however, the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of the company's shares shall be uncertificated shares. When shares are not represented by certificates then within a reasonable time after the issuance or transfer of such shares, the company shall send or cause to be sent to the shareholder to whom such shares have been issued or transferred a written statement of the information required by the laws of the State of Oregon to be on certificates.

Amended 1/1/93
Amended 7/22/04

Certificates representing shares of the company shall be issued only for whole numbers of shares and shall be in such form as the board of directors may, from time to time, prescribe in accordance with the laws of the State of Oregon. Such certificates shall be signed by the president or a vice president and by the secretary or an assistant secretary and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles thereof. In case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the company as the board may authorize.

Section 2. Transfer. Shares of stock of the company shall be transferable on the books of the company by the holder of record thereof, or by his or her legal representative who shall furnish proper evidence of authority to transfer, or by his or her attorney thereunto authorized by duly executed power of attorney, and on surrender for cancellation of the certificates, if any, for such shares. The board of directors may appoint one or more transfer agents and registrars of stock of the company.

Amended 7/22/04

Section 3. Owner of Record. The company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE X.

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. The company shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee or agent of the company, or is or was serving at the request of the

company as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise or any employee benefit plan, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the defense or settlement of such action, suit or proceeding to the fullest extent permissible under the Oregon Business Corporation Act or the indemnification provisions of any successor Act. The foregoing rights of indemnification shall not be exclusive of any other rights to which any such person so indemnified may be entitled, under any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office; shall continue as to a person who has ceased to be a director, officer, employee or agent; and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 2. Insurance. The company may purchase and maintain insurance (and pay the entire premium therefor) on behalf of any person who is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the company would have the power to indemnify him or her against such liability under the provisions of the Oregon Business Corporation Act or any successor Act; and on behalf of any person who is or was a fiduciary under the Employee Retirement Income Security Act of 1974 with regard to an employee benefit plan of the company against any liability asserted against him or her and incurred by him or her in his or her fiduciary capacity.

ARTICLE XI.

SEAL

The corporate seal of the company shall be circular in form and shall bear an inscription containing the name of the company, the year of its organization, the state of its incorporation and the words "Corporate Seal."

ARTICLE XII.

AMENDMENTS

These bylaws, or any of them, may be altered, amended or repealed, or new bylaws adopted, by resolution of a majority of the board of directors, subject to repeal or change by action of the shareholders.

CERTIFICATE

I, C. J. Rue, Secretary of Northwest Natural Gas Company, a corporation organized and existing under the laws of the State of Oregon, HEREBY CERTIFY that the foregoing eight printed pages entitled "Bylaws of Northwest Natural Gas Company" constitute a full and true copy of the Bylaws of said corporation as of the date hereof.

WITNESS my hand and seal of said corporation this ____ day of _____.

C. J. Rue
Secretary

EXHIBIT C

A draft copy of the proposed resolutions to be adopted at the Company's Board of Directors meeting to be held September 21-22, 2005 relating to the Company's back-up line of credit. The Company will forward under separate cover a certified copy of the final resolutions.

Approval of Bank Lines of Credit

Mr. Anderson recalled that the Board previously authorized management to prepare and file the required applications with the Public Utility Commission of Oregon (“OPUC”) and the Washington Utilities and Transportation Commission (“WUTC”) to secure the required approvals for entering into primary bank lines of credit aggregating up to \$250 million with one or more banks pursuant to unsecured credit agreements providing for committed bank lines, all or a portion of which may provide for commitments exceeding a 364-day period. The primary purpose of these lines is to provide a credit backup for the Company’s commercial paper program. He reported that applications have been filed with both the OPUC and WUTC.

He also recalled that, recently, the terms of the lines of credit have been with four banks with lines aggregating up to \$150 million, with one-half of that amount committed for 364 days and the other half committed for three years. He recommended, based on the Company’s short-term borrowing forecast and current market conditions for bank lines, that the Board authorize bank lines of credit up to \$250 million, of which the entire amount of the bank line would be committed for five years. He said the Company has negotiated lines of credit aggregating \$200 million, but believes it would be prudent to provide the ability to increase the aggregate amount to \$250 million if deemed appropriate. He also recommended that an additional bank, Wachovia Bank, participate in the lines of credit. He said that the existing lines of credit would be terminated contingent upon the closing of the new lines of credit. Management believes it would be a prudent financial course for the Company to extend the term of the multi-year credit line. In addition to a lengthened term, Mr. Anderson reported that the new credit lines eliminate the minimum net worth covenant, leaving only a single financial covenant requiring maintenance of a consolidated funded indebtedness to total capitalization ratio.

Mr. Papé reported that the Finance Committee had unanimously endorsed management’s recommendation that the Company be authorized to enter into an unsecured credit facility for committed bank lines of credit as outlined by Mr. Anderson, and had suggested that the authorized amount of the bank lines of credit and the total amount of short-term debt authorized to be outstanding at any one time be increased from \$150 million to up to \$250 million.

After discussion, and upon motion duly made and seconded, the Board, with Mr. Reiten, a director of U.S. Bancorp, an affiliate of U.S. Bank, one of the participants in the lines of credit, abstaining, adopted the following resolutions:

RESOLVED, that the Board of Directors of Northwest Natural Gas Company (the “Company”) ratifies, approves and confirms the actions of the officers of the Company in negotiating and arranging, on behalf of the Company, primary lines of credit aggregating \$200 million with Wells Fargo Bank, Bank of America, N.A., J.P. Morgan Chase Bank, Wachovia Bank and U.S. Bank, N.A., pursuant to an unsecured credit agreement to be entered into providing for committed bank lines, with each bank’s total

commitment to be committed for a five-year period ending no sooner than September 30, 2010; and further

RESOLVED, that the Board of Directors of the Company approves an increase in the aggregate amount of short-term borrowings which the Company is authorized to have outstanding at any one time to a level not to exceed the lesser of (a) the aggregate amount of the Company's primary lines of credit or (b) \$250 million; and further

RESOLVED, that the President, any Vice President, the Treasurer or an Assistant Treasurer of the Company (each an "Authorized Officer"), or any one of them, are authorized in the Company's name and behalf, to negotiate, execute, approve and deliver a credit agreement, note, borrowing certificate, and all related documents, instruments, certificates or agreements contemplated in connection therewith (collectively the "Credit Documents"), in such form and with such changes as the Authorized Officers, or any one of them, shall approve, such approval to be conclusively evidenced by such Authorized Officer's execution thereof; and further

RESOLVED, that the Authorized Officers, or any one of them, are authorized, in the Company's name and behalf to cause the Company to perform all of its obligations under the Credit Documents; and further

RESOLVED, that the Authorized Officers or one or more employees of the Company to whom such authority may from time to time may be delegated in writing by any two Authorized Officers (the "Authorized Delegates"), or any one of the Authorized Officers or Authorized Delegates, is authorized, in the Company's name and behalf, at any time and from time to time, to borrow such sums of money as may be required for the purposes of the Company within the limitations set forth in the prior resolutions and in the Credit Documents, and to pay any required fees, issue such notes, execute such other instruments, make any such securities or regulatory filings, and do such other acts as may be necessary and proper to effect such borrowings under the Credit Documents; and further

RESOLVED, that the Authorized Officers, or any one of them, are hereby authorized to negotiate, execute, approve and deliver to any bank that is party to such unsecured lines of credit or any additional bank that becomes a party to such unsecured line of credit, in the future, one or more amendments, supplements, extensions, modifications or waivers to the Credit Documents which such Authorized Officers, or any one of them, shall approve, such approval to be conclusively evidenced by such Authorized Officer's execution thereof; provided that such amendments,

supplements, extensions, modifications or waivers may not result in the primary lines of credit aggregating more than \$250 million; and further

RESOLVED, that the officers and Authorized Delegates of the Company, or any one of them, are authorized and directed, in the Company's name and behalf, to execute and deliver such instruments and documents and to do or cause to be done any and all such acts and things as they may deem to be desirable or appropriate in order to carry out the purposes of the foregoing resolutions.

EXHIBIT D

Form of Credit Agreement for the Five-Year Facility along with the documents ancillary thereto.

CREDIT AGREEMENT

BETWEEN

NORTHWEST NATURAL GAS COMPANY

and

[BANK]

Dated as of October 1, 2005

TABLE OF CONTENTS

	<u>Page</u>
SECTION I. DEFINITIONS	
1.1 Defined Terms.....	1
1.2 Other Definitional Provisions	9
SECTION II. THE LOANS	9
2.1 Loan Commitment.....	9
2.2 Termination or Reduction of Commitments; Extension of Commitment Termination Date.....	10
2.3 Interest Rate Options	11
2.4 Election Procedures	12
2.5 Principal and Interest Payments; Prepayments.....	13
2.6 Modification to Adjusted LIBOR Rate or Adjusted C/D Rate Calculations	13
2.7 Unavailability of Certain Loans	14
2.8 Changes in Law Rendering Certain Loans Illegal	14
2.9 Capital Adequacy Adjustment	14
2.10 Commitment and Upfront Fees	15
2.11 Indemnity.....	15
2.12 Use of Proceeds.....	15
2.13 Other Agreements	15
2.15 General Indemnity.....	15
SECTION III. REPRESENTATIONS AND WARRANTIES	16
3.1 Corporate Existence; Authorization	16
3.2 Enforceability.....	16
3.3 Financial Information	16
3.4 Compliance with Laws.....	16
3.5 No Material Litigation.....	17
3.6 Ownership of Property.....	17
3.7 Taxes	17
3.8 Subsidiaries.....	17
3.9 Public Utility Holding Company Act	17
3.10 ERISA	18
3.11 Environmental	18
3.12 Ranking	18
SECTION IV. CONDITIONS PRECEDENT	18
4.1 Conditions to Closing	18
4.2 Conditions to All Loans.....	19
SECTION V. AFFIRMATIVE COVENANTS	19
5.1 Financial Statements.....	19
5.2 Certificates; Other Information	20
5.3 Payment of Taxes	20
5.4 Conduct of Business	20
5.5 Maintenance of Property; Insurance	20
5.6 Inspection of Property; Books and Records; Discussions	21

5.7	Notices	21
5.8	Debt Rating	21
SECTION VI. NEGATIVE COVENANTS		21
6.1	Maintenance of Consolidated Funded Indebtedness to Total Capitalization	21
6.2	Limitation on Fundamental Changes.....	22
SECTION VII. EVENTS OF DEFAULT		22
SECTION VIII. MISCELLANEOUS		24
8.1	Notices	24
8.2	Waiver; Amendment.....	24
8.3	Survival.....	24
8.4	Successors and Assigns	24
8.5	Attorneys' Fees	24
8.6	Governing Laws; Jurisdiction.....	25
8.7	Counterparts.....	25
8.8	Participations.....	25
8.9	Entire Agreement	26
8.10	Receipt of Document.....	26
8.11	Interest Rate Limitation	26
8.12	USA Patriot Act	26
SCHEDULE I	Bank Information and Specific Terms.....	28
SCHEDULE II	Form of Note.....	29
SCHEDULE III	Borrowing Certificate	31
SCHEDULE IV	Subsidiaries	33

This CREDIT AGREEMENT, between NORTHWEST NATURAL GAS COMPANY, an Oregon corporation (the "Company" or "Borrower"), and _____ ("Bank") is dated as of the Effective Date set forth on such **Schedule I**.

WHEREAS, the parties hereto agree and acknowledge that this Agreement is one of a series of substantially similar credit agreements with various banks (collectively, the "Credit Agreements") evidencing the commitment of each such bank to lend funds to the Company for general corporate purposes, including support of the commercial paper program of the Company; and

WHEREAS, certain terms of the Bank's agreement to lend hereunder shall be set forth on **Schedule I** hereto and such Schedule may be amended from time to time;

NOW, THEREFORE, in order to induce the Bank to make loans hereunder, and in consideration thereof and of the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

SECTION I. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms have the following meanings:

"Adjusted C/D Rate": with respect to any Interest Period for a C/D Rate Loan, a rate per annum (rounded, if necessary, to the next higher 1/100th of one percent (0.01%) determined by the following formula:

$$\text{Adjusted C/D Rate} = \frac{\text{Base C/D Rate} + \text{Assessment Rate}}{1 - \text{Reserve Factor}}$$

This rate reflects market rates and published regulatory assessments and reserves. It does not necessarily reflect the Bank's cost of funds or any particular funding source for the Bank.

"Adjusted LIBOR Rate": with respect to any Interest Period for a LIBOR Loan, a rate per annum (rounded, if necessary, to the next higher 1/16th of one percent) determined by the following formula:

$$\text{Adjusted LIBOR Rate} = \frac{\text{Base LIBOR Rate}}{1 - \text{Reserve Factor}}$$

This rate reflects market rates and published regulatory reserves, if applicable. It does not necessarily reflect the Bank's cost of funds or any particular funding source for the Bank.

"Agreement": this Credit Agreement, entered into with the Bank identified on **Schedule I** hereto, as amended, supplemented or modified from time to time.

"Assessment Rate": with respect to any Interest Period for a C/D Rate Loan, the maximum assessment rate per annum (rounded, if necessary, to the next higher 1/100th of one percent (0.01%)) imposed by the Federal Deposit Insurance Corporation (or any successor) upon U.S. commercial banks for the insurance of domestic, U.S. Dollar denominated time deposits in effect on the date of the Notice of Election.

"Available Commitment": at a particular time, an amount equal to the difference between (a) the aggregate amount of the Bank's Commitment Amount at such time, including only such portion of the Bank's Excess Line Commitment, if any, which the Company has requested be available in accordance with subsection 2.1 (b) hereof, and (b) the aggregate principal amount of the Loans outstanding at such time.

"Base C/D Rate": with respect to any Interest Period for a C/D Rate Loan, the rate of interest per annum (rounded upward to the next higher 1/100th of one percent) determined by the Bank to be the current rate for secondary market certificates of deposit in the approximate amount of such C/D Rate Loan and having a maturity approximately equal to such Interest Period at the time selected by the Bank on the first day of such interest period.

"Base LIBOR Rate": with respect to any Interest Period for a LIBOR Loan, the rate (rounded to the nearest 1/16th of one percent determined by the Bank to be the current rate at which United States dollar deposits are offered by the Bank to first-class banks in the London Interbank market in the approximate amount of such LIBOR Loan and having a maturity approximately equal to such Interest Period, as of approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"Borrowing Date": any Business Day specified in a Notice of Election as a date on which the Company requests the Bank to make a Loan hereunder.

"Business Day": a day other than a Saturday, Sunday or other day on which the Bank is authorized or required by law to close or a LIBOR Business Day as defined herein and, if such date relates to a LIBOR loan, means a LIBOR Business Day.

"Business of the Company": the businesses described in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 and the Company's 2004 Annual Report to Shareholders, and other businesses related to, growing out of, or compatible with, such businesses.

"C/D Margin": the rate per annum added to the Adjusted CD Rate as set forth on **Schedule I** hereto.

"C/D Rate Loans": Loans hereunder at such time as they are made and/or are being maintained at a rate of interest based upon the Adjusted C/D Rate.

"Closing Date": the date on which the conditions specified in subsection 4.1 are satisfied in full.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Commitment": the Bank's obligation to extend credit to the Company by making Loans to the Company in accordance with the terms and conditions of this Agreement.

"Commitment Amount": the Total Commitment Amount set forth on **Schedule I** which is the maximum amount which the Bank shall be committed to have outstanding at any one time in Loans under this Agreement under its Primary Line Commitment and Excess Line Commitment, if any.

"Commitment Period": the period from and including the date hereof to but not including the Commitment Termination Date or such earlier date as the Commitment shall terminate as provided herein.

"Commitment Termination Date": the date that is the last day of the Period of Primary and Excess Line Commitment set forth on Schedule I of this Agreement, or such later date to which the Commitment Termination Date shall be extended pursuant to subsection 2.2 or, if any such date is not a Business Day, the Business Day next preceding such date.

"Consolidated Funded Indebtedness": at a particular date, all Indebtedness, whether secured or unsecured, which matures (or which by the terms thereof is renewable or may be extended at the option of the obligor for a period ending) more than one year after such date, calculated for the Company and its Subsidiaries on a consolidated basis.

"Credit Agreements": as defined in the Recitals hereto.

"Default": any of the events specified in Section VII, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Dollars" and "\$": dollars in lawful currency of the United States of America.

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

"Excess Line Commitment": the amount, if any, set forth as such on **Schedule I** hereto, which shall represent the portion of the Bank's Commitment above its Primary Line Commitment that it will make available for Loans to the Company on a monthly basis upon request in accordance with subsection 2.1(b) of this Agreement.

"Event of Default": any of the events specified in Section VII, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, event or act has been satisfied.

"Fed Funds Rate": with respect to any Interest Period, a fluctuating rate of interest equal for each day during such period to (a) the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Lender Bank of New York or (b) if such rate is not so published for any day the average of the quotations at approximately 11:00 a.m. New York time on such day on such transactions received by the Bank from three Federal Funds brokers of recognized standing selected by the Bank in its sole discretion.

"Fed Funds Rate Loan": Loans hereunder at such time as they are made and/or are being maintained at a rate of interest based on the Fed Funds Rate.

"Funded Indebtedness": of a Person, at a particular date, all Indebtedness, whether secured or unsecured, which matures (or which by the terms thereof is renewable or may be extended at the option of the obligor for a period ending) more than one year after such date.

"GAAP": generally accepted accounting principles in the United States of America in effect from time to time.

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Indebtedness": of a Person, at a particular date, the sum (without duplication) at such date of (a) indebtedness for borrowed money or for the deferred purchase price of property, goods or services (except trade accounts payable arising in the ordinary course of business) in respect of which such Person is liable, as obligor, (b) obligations of such Person under capitalized leases; (c) obligations under synthetic leases; (d) debts of third persons secured by property owned by borrower and obligations under a guaranty; and (e) any non-contingent reimbursement obligations of such Person in respect of letters of credit, acceptances, or similar obligations issued or created for the account of such Person.

"Interest Payment Date": (a) as to any Prime Rate Loan or Fed Funds Rate Loan, the last day to occur while such Loan is outstanding and, if earlier, the end of each calendar quarter, (b) as to any LIBOR Loans in respect of which the Company has selected an Interest Period of one, two or three months or any C/D Rate Loans in respect of which the Company has selected an Interest Period of 30, 60 or 90 days, the last day of such Interest Period, (c) as to any LIBOR Loan or C/D Rate Loan in respect of which the Company has selected, if available, a longer Interest Period than that described in clause (b), each date which is three months or 90 days, respectively, or a whole multiple thereof, from

the first day of such Interest Period and the last day of such Interest Period and (d) as to any Negotiated Rate Loan the dates agreed to by the Company and the Bank.

"Interest Period":

(a) initially, the period commencing on the Borrowing Date, or on the date of conversion of a Loan from a fluctuating rate to a fixed rate, with respect to any Loan and ending on the date specified by the Company in its Notice of Election given with respect to Section 2.4; and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending on the date specified by the Company in its Notice of Election given with respect to Section 2.4;

Subject to the following:

(i) if any Interest Period pertaining to a LIBOR Loan would otherwise end on a day that is not a LIBOR Business Day, that Interest Period shall be extended to the next succeeding LIBOR Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding LIBOR Business Day;

(ii) if any Interest Period pertaining to any other Loan would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day;

(iii) if any Interest Period pertaining to a LIBOR Loan that begins on the last LIBOR Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) such Interest Period shall end on the last LIBOR Business Day of a calendar month;

(iv) any Interest Period pertaining to a LIBOR Loan shall be for a period of one, two, three or six months, as may be elected by the Company;

(v) any Interest Period pertaining to a C/D Rate Loan shall be for a period of 30, 60, 90 or 180 days, as may be elected by the Company; and

(vi) the Company shall select no Interest Period that would otherwise extend beyond the Commitment Termination Date.

"Investment": of a Person means any loan, advance, extension of credit (other than accounts receivable arising in the ordinary course of business on terms customary in the trade), deposit account or contribution of capital by such Person or any investment in, or other acquisition of, the stock, partnership

interest, notes, debentures, or other securities of any other Person made by such Person.

"LIBOR Business Day": any Business Day on which dealings in foreign currencies and exchange between banks may be carried on in London, England and in New York City.

"LIBOR Loans": Loans hereunder at such time as they are made and/or are being maintained at a rate of interest based upon the Adjusted LIBOR Rate.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any capitalized lease, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Loans": the collective reference to the loans made by the Bank to the Company hereunder.

"Moody's": Moody's Investors Service, Inc., or its successor.

"Negotiated Rate Loans": Loans hereunder at such time as they are made and/or are being maintained at a fixed rate of interest negotiated by the Company and the Bank in accordance with subsection 2.3(e) of this Agreement.

"Net Income": the Company's net income for a specified period as reported in the Consolidated Statements of Income in the Company's reports to the Securities and Exchange Commission on Form 10-Q or in the Quarterly Financial Information in the Company's reports to the Securities and Exchange Commission on Form 10-K.

"Note": the note entered into by the Company in connection with this Agreement in the form of **Schedule II** hereto.

"Notice of Election": as set forth in subsection 2.4 hereof.

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Person": an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": means an employee pension benefit plan that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code as to which the Company or any member of the Controlled Group may have any liability.

"Primary Line Commitment": the portion of the Bank's Commitment identified as such on **Schedule I**.

"Prime Rate": at any particular date, the rate of interest published as the "prime rate" in the Wall Street Journal. If more than one rate is listed under the heading "prime rate" in the Wall Street Journal, the Prime Rate shall be the base prime rate on corporate loans posted by at least 75% of the nation's 30 largest banks. If the Wall Street Journal is not published on a date for which the Prime Rate must be determined, the Prime Rate shall be the prime rate published in the Wall Street Journal on the nearest-preceding date on which the Wall Street Journal was published. In the event that the Wall Street Journal ceases publishing its "prime rate," Prime Rate for purposes of this Agreement shall be determined by a comparable index mutually agreed upon by the Bank and the Company. The Prime Rate is not intended to be the lowest rate of interest charged by the Bank in connection with extensions of credit to debtors.

"Prime Rate Loans": Loans hereunder at such time as they are made and/or are being maintained at a rate of interest based upon the Prime Rate.

"Rating Level Margin": the rates per annum, if any, set forth as such on **Schedule I** hereto as applicable to C/D Rate Loans, LIBOR Loans or Fed Funds Rate Loans.

"Rating Level I": exists on any date if, on such date, the Company's senior unsecured debt is rated A or higher by S&P and A2 or higher by Moody's; or is rated at this level by one of the rating agencies and no lower than A- or A3 by the other rating agency.

"Rating Level II": exists on any date if, on such date, the Company's senior unsecured debt is rated A- by S&P and A3 by Moody's; or is rated at this level or higher by one of the rating agencies and no lower than BBB+ or Baa1 by the other rating agency.

"Rating Level III": exists on any date if, on such date, the Company's senior unsecured debt is rated BBB+ by S&P and Baa1 by Moody's; or is rated at this level or higher by one of the rating agencies and no lower than BBB or Baa2 by the other rating agency.

"Rating Level IV": exists on any date if, on such date, the Company's senior unsecured debt is rated BBB by S&P and Baa2 by Moody's; or is rated at this level or higher by one of the rating agencies and no lower than BBB- or Baa3 by the other rating agency.

"Rating Level V": exists on any date if, on such date the Company's senior unsecured debt is rated BBB- or lower by S&P and Baa3 or lower by Moody's, only one rating agency (S&P or Moody's) provides a long-term debt rating for the Company, or neither S&P nor Moody's provides a long-term debt rating for the Company.

"Reportable Event": means a reportable event as defined in Section 4043 of ERISA and the regulations issued under such section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation waived the requirements of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided, however, that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(d) of the Code.

"Regulation D": means Regulation D of the Board of Governors of the Federal Reserve System, as amended from time to time.

"Requirement of Law": as to any Person, the Certificate of Incorporation and Bylaws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Reserve Factor": means, with respect to any Interest Period of any LIBOR Loan or C/D Rate Loan, the maximum aggregate reserve percentage (expressed as a decimal, rounded to the nearest 1/100th of one percent) in effect which may be imposed under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurodollar deposits (in the case of LIBOR Loans) or non-personal time deposits (in the case of C/D Rate Loans) with a maturity and size comparable to that of the applicable Interest Period as in effect on the date of the Notice of Election.

"Responsible Officer": the President, any Senior Vice President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Company.

"S&P": Standard & Poor's or its successor.

"Schedules": means **Schedules I, II, III and IV** hereto which are hereby incorporated and made part of this Agreement.

"Significant Subsidiary": a Subsidiary which is a "significant subsidiary" as that term is defined in Rule 1-02(w) of Regulation S-X promulgated by the Securities and Exchange Commission (as in effect on the date of this Agreement).

"Single Employer Plan": means a Plan maintained by the Company or any member of the Controlled Group for employees of the Company or any member of the Controlled Group.

"Subsidiary": as to any Person, a corporation of which shares of stock having ordinary voting power (other than stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation are at the time owned, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Company.

"Total Capitalization": the sum of Funded Indebtedness, capital stock, additional paid-in capital and retained earnings of the Company and its Subsidiaries, taken on a consolidated basis after eliminating all intercompany items.

"Total Equity": the remainder of Total Capitalization minus Funded Indebtedness.

"Type": as to any Loan, its nature as a Prime Rate Loan, LIBOR Loan, C/D Rate Loan, Fed Funds Rate Loan or Negotiated Rate Loan.

"Unfunded Liabilities": means the amount (if any) by which the present value of all vested nonforfeitable benefits under all Single Employer Plans exceeds the fair market value of all such Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plans.

1.2 Other Definitional Provisions. (a) Unless otherwise specified herein, all terms defined in this Agreement shall have the defined meanings when used in the Note, **Schedule I** or any Exhibits or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Company and its Subsidiaries not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1 to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

SECTION II. THE LOANS

2.1 Loan Commitment. (a) Subject to the terms and conditions hereof, the Bank agrees to make Loans to the Company from time to time during the Commitment Period in an aggregate principal amount at any one time outstanding not to exceed its Commitment Amount. During the Commitment Period the Company may use the Commitment by borrowing, prepaying the Loans in whole or in part and reborrowing, all in accordance with the terms and conditions hereof.

(b) Any Excess Line Commitment of the Bank shall be a part of the Bank's Commitment Amount to the extent that the Company has given notice to the Bank on or prior to the first day of any month that the Company requests that the Bank make that portion of the Excess Line Commitment available, in increments of \$500,000, to the Company during such month; provided, however, that at any time as there may exist any outstanding Loans under the Excess Line Commitment, the Company shall be deemed to have given notice requesting availability under the Excess Line Commitment.

(c) The Loans may be, to the extent any such Type is available in accordance with **Schedule I** hereto, either (i) LIBOR Loans, (ii) Prime Rate Loans, (iii) C/D Rate Loans (iv) Fed Funds Rate Loans, (v) Negotiated Rate Loans or (vi) a combination thereof, provided that no LIBOR Loan or C/D Rate Loan shall be made within the period commencing one month or 30 days, respectively, prior to the Commitment Termination Date but excluding such date.

(d) The Loans made by the Bank shall be evidenced by a promissory note of the Company, substantially in the form of **Schedule II**, with appropriate insertions, payable to the order of the Bank and representing the obligation of the Company to pay the aggregate unpaid principal amount of all Loans made by the Bank with interest thereon as prescribed in subsection 2.3. Each Note shall (i) be dated the Closing Date, (ii) be stated to mature on the Commitment Termination Date and (iii) bear interest for the period from the date thereof until paid in full on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum determined as provided in, and payable as specified in, subsections 2.3 and 2.5. The Bank is hereby authorized to record the date, Type and amount of each Loan made by the Bank, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each prepayment of principal thereof, and, in the case of LIBOR Loans, C/D Rate Loans or Negotiated Rate Loans, the length of each Interest Period and the interest rate with respect thereto, on the schedule annexed to and constituting a part of its Note, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded; provided, however, that the failure of the Bank to make any such recordation or any error in any such recordation shall not affect the obligations of the Company hereunder or under such Note; provided, further, however, that in the absence of any such recordation, the loan accounts and records of the Bank shall constitute prima facie evidence of the outstanding amount of any Loans and interest accrued thereon.

2.2 Termination or Reduction of Commitments; Extension of Commitment Termination Date. (a) The Company shall have the right, upon not less than three Business Days' notice to the Bank, to terminate the Commitment or, from time to time, reduce the amount of the Commitment, provided that (i) no such reduction or termination shall be permitted if, after giving effect thereto and to any prepayments of the Loans made on the effective date thereof, the then outstanding principal amount of the Loans would exceed the amount of the Commitment then in effect and (ii) any termination of the Commitment while LIBOR Loans or C/D Rate Loans are outstanding and any reduction of the aggregate amount of the Commitment that reduces the amount of the Commitment below the principal amount of the LIBOR Loans or C/D Rate Loans then outstanding may be made only on the last day of the respective

Interest Period for such LIBOR Loans or C/D Rate Loans. Termination of the Commitment shall also terminate the obligation of the Bank to make Loans.

(b) The Commitment once terminated or reduced may not be reinstated.

2.3 Interest Rate Options. The Company shall have the options set forth on **Schedule I** hereto from which to choose interest rates payable on amounts outstanding under the Loans, as the Company shall specify in the related Notice of Election (each an "Interest Rate Option"). The Interest Rate Options to be made available by the Bank at the time of any requests for Loans shall include a LIBOR Loan and at least one and as many as all of the following as are elected on **Schedule I**:

(a) Prime Rate Loans.

A Prime Rate Loan shall bear interest at the per annum rate equal to the Bank's Prime Rate, fully floating, and each change in said rate to become effective on the effective date of each change announced by the Bank. Interest shall be computed on the outstanding principal amount on the basis of a 365-day or 366-day year, as applicable, and actual days elapsed. If at any time there is no Interest Rate Option in effect for an amount outstanding hereunder, the Company shall be deemed to have elected the Prime Rate for such amount.

(b) C/D Rate Loans.

A C/D Rate Loan shall bear interest at the Adjusted C/D Rate plus the applicable Rating Level Margin set forth on **Schedule I** for each Interest Period. Interest shall be computed on the outstanding principal amount for the actual number of days elapsed from the first day of the applicable Interest Period to, but not including, the last day thereof, on the basis of a 360-day year.

(c) LIBOR Loans.

A LIBOR Loan shall bear interest at the Adjusted LIBOR Rate plus the applicable Rating Level Margin for each Interest Period set forth on **Schedule I**. Interest shall be computed on the outstanding principal amount for the actual number of days elapsed from the first day of the applicable Interest Period to, but not including, the last day thereof, on the basis of a 360-day year.

(d) Fed Funds Rate Loans.

A Fed Funds Rate Loan shall bear interest at the Fed Funds Rate, fully floating, plus the applicable Rating Level Margin for each Interest Period set forth on **Schedule I**. Interest shall be computed on the outstanding principal amount on the basis of a 360-day year, as applicable, and actual days elapsed.

(e) Negotiated Rate Loans.

The Company may request the Bank to provide a bid stating the lowest fixed rate at which the Bank would be willing to make a Loan to the Company for

the Interest Period, with the Interest Payment Dates and method of interest calculation, and in the amount requested. Such request for a bid may be made by the Company at any time prior to the proposed Borrowing or conversion of outstanding Loans. Any Loan made at such bid rate shall be a Negotiated Rate Loan. The Bank shall advise Company of its bid rate and the Company may choose to accept such rate in its sole discretion by electing a Negotiated Rate Loan in its Notice of Election. Interest on a Negotiated Rate Loan shall be computed on the basis of a 360-day year, as applicable, and actual days elapsed.

2.4 Election Procedures.

(a) The Company shall give notice of each proposed Borrowing and/or interest rate election ("Notice of Election") to the Bank in writing or by telephone, and confirmed as soon as practicable in writing. Such Notice is to be received by the Bank no later than 10:00 a.m., Pacific time, on the proposed date of the Loan and/or commencement date of the Interest Period; except that Notice of Election to borrow or convert to (i) a LIBOR Loan shall be received no later than 10:00 a.m. (Pacific time) three Business Days prior to the proposed date of the Loan or conversion or, (ii) a C/D Rate Loan shall be received by the Bank no later than two Business Days prior to the proposed date of the Loan or conversion. The Bank shall be entitled to rely on any Notice of Election given on behalf of the Company by any Responsible Officer or any other person authorized in writing by a Responsible Officer to give such Notice.

Each Notice of Election shall specify the amount (and how much of said amount is a conversion of an outstanding Loan) and date of the Loan, Interest Rate Option, and, in the case of a requested C/D Rate Loan, or LIBOR Loan the Interest Period, and in the case of a Negotiated Rate Loan for which a bid is being accepted the Interest Period and the Interest Payment Date(s).

(b) Each C/D Rate Loan, or LIBOR Loan shall be in the principal amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00) or an amount greater by multiples of One Hundred Thousand and No/100 Dollars (\$100,000.00). In the case of Prime Rate Loans or Negotiated Rate Loans, the Company may borrow in any principal amount up to the amount of the Commitment Amount.

(c) On the date of a proposed Loan, the Bank shall transfer to the Company the principal amount of the Loan to such account in such bank as the Company instructs the Bank in writing. Loans shall be made and repaid in immediately available funds unless the Company and the Bank may otherwise agree in writing in their sole discretion.

(d) When the Company makes borrowings under the Credit Agreements, it shall request such Loans equally from each of the Banks that are party to the Credit Agreements; provided, however that in no event shall the Company be required to request a Loan of less than \$2 million from any one Bank. For purposes of clarification, assuming that there are five Banks that are party to the Credit Agreements and that the Company chooses to borrow Loans aggregating \$10 million, the Company shall request \$2 million from each of the five Banks that are party to the Credit Agreement. If the Company chooses to borrow an additional \$4 million, the Company need only request loans in the amount of \$2 million from any two of the five Banks.

2.5 Principal and Interest Payments; Prepayments.

(a) The aggregate unpaid principal amount of all Loans outstanding under this Agreement, together with unpaid accrued interest thereon, shall be due and payable in full on the Commitment Termination Date. The Company may from time to time prepay any Prime Rate Loan or Fed Funds Rate Loan in whole or in part without premium or penalty. Borrower may not prepay a Negotiated Rate Loan, C/D Rate Loan or LIBOR Loan prior to the last day of the applicable Interest Period. Interest on each Loan shall be payable in arrears on each Interest Payment Date with respect thereto.

(b) All payments shall be made by the Company to the Bank not later than 12:00 Noon, Pacific time, on the date due, at the office of the Bank designated on **Schedule I** for such purpose, or such other place as the Bank may designate in writing.

(c) If any payment of principal or interest falls due on a day which is not a Business Day, then such due date shall be extended to the next following Business Day, subject to clause (i) of the definition of "Interest Period." Additional interest shall accrue and be payable for the period of any such extension. All payments hereunder shall be applied first to interest, then to principal.

(d) Any overdue principal on any of the Loans, and to the extent permitted by law, overdue interest thereon, shall bear interest, payable on demand, for each day from the date on which payment was due until the date of payment at a rate per annum equal to the Prime Rate plus 1.5% per annum (computed on the basis of a 360-day year and the actual number of days elapsed).

(e) When the Company makes any payment or prepayment on the Loans, it shall offer such payment or prepayment on a pro rata basis to each Bank that is a party to the Credit Agreements; provided however that in no event shall the Company be required to make a Loan payment or prepayment to any one bank for an amount less than \$2 million; and provided further that in no event shall the Company, as a result of this Section 2.5, be required to make any payment or prepayment on the Loans that would result in the Company's obligation to indemnify one or more Banks under Section 2.11 of this Agreement.

2.6 Modification to Adjusted LIBOR Rate or Adjusted C/D Rate Calculations. If after the date of this Agreement there is a change in any law, rule or regulation, or in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency, or compliance by the Bank with any request or direction (whether or not having the force of law) of any such authority, central bank or comparable agency that subjects the Bank to additional costs in, or reduces, in the Bank's opinion, the amount of any payment received or receivable by the Bank under this Agreement or under the Note by reason of obtaining funds in the LIBOR or domestic C/D markets, through imposition of additional taxes, reserves or any other conditions, then the formulas for calculating the Adjusted LIBOR Rate and Adjusted C/D Rate for LIBOR or C/D Rate Loans shall immediately be modified to reflect and include the impact of such change whether or not the Bank purchases funds

in the applicable LIBOR or domestic C/D markets. The Bank shall provide the Company with a statement detailing any modification of calculation.

2.7 Unavailability of Certain Loans. If, with respect to any Interest Period for a C/D Rate Loan or LIBOR Loan, the Bank determines that deposits in dollars are not being offered in the relevant market for such Interest Period, or that adequate and reasonable means do not exist for ascertaining the applicable rate for a LIBOR Loan or C/D Rate Loan, then the Bank shall promptly notify the Company thereof by telephone, confirmed in writing, and any request by the Company for such C/D Rate Loan or such LIBOR Loan shall be deemed to be rescinded. In the case of any outstanding C/D Rate Loans or LIBOR Loans so affected, on the last day of the then current Interest Period for such Loans, Borrower shall either repay the Loans in full or the Loans shall automatically be converted into Prime Rate Loans, or at the Company's election, Loans of another available Type. Thereafter, the obligation of the Bank to make C/D Rate Loans or LIBOR Loans, as the case may be, shall be suspended until the Bank revokes the notice to the Company referenced in this subsection 2.7.

2.8 Changes in Law Rendering Certain Loans Illegal. If after the date of this Agreement there is a change in any law (including the adoption of any new law), rule or regulation or in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency that renders it illegal for the Bank to make or maintain C/D Rate Loans or LIBOR Loans, or makes it illegal for the Bank to fund itself in the applicable LIBOR or C/D markets, then the Bank shall promptly so notify the Company, and upon the effective date of such event, suspend availability of the LIBOR option or C/D Rate option for the duration of the illegality. If Bank requests, as may be required by the relevant law, rule, regulation, interpretation or administration, the Company shall repay or convert to another Type any such LIBOR Loan or C/D Rate Loan.

2.9 Capital Adequacy Adjustment. If, after the date hereof, the adoption or effectiveness of any applicable law, rule or regulation regarding capital adequacy, or any change in any existing law, rule or regulation or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Bank's capital or assets as a consequence of the Bank's Commitment, Loans, credits or obligations under this Agreement to a level below that which the Bank could have achieved but for such adoption, effectiveness, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy), and the Bank demonstrates that the amount of the reduction reasonably attributable to such adoption, effectiveness, change or compliance is material to the Bank, then from time to time, within fifteen (15) days after demand by the Bank, the Company shall (a) pay to the Bank such additional amount or amounts as will compensate the Bank for such reduction or (b) prepay the outstanding balance hereunder without premium or penalty except as required in subsection 2.11. In determining such amount(s), the Bank may use any reasonable averaging and attribution methods.

2.10 Commitment and Upfront Fees. During the term of this Agreement, the Company shall pay to the Bank commitment fees and upfront fees computed at the rates set forth in **Schedule I**. The commitment fees and shall be computed for the actual number of days elapsed on the basis of a 360-day year, as applicable, and shall be due and payable quarterly in arrears on the last day of March, June, September and December and on the Commitment Termination Date, unless payment terms are otherwise provided on **Schedule I**. The upfront fees shall be due and payable upon execution of this Agreement. Payment of fees shall be made at the office of Bank designated by Bank on **Schedule I** for the purpose of payment.

2.11 Indemnity for Certain Fees. The Company agrees to indemnify the Bank and to hold the Bank harmless from any loss or expense which such Bank may sustain or incur as a consequence of (a) default by the Company in payment when due of the principal amount of or interest on any Loan, (b) default by the Company in making a borrowing or conversion after the Company has given a Notice of Election in accordance with subsection 2.4, and/or (c) the making by the Company of a payment of any LIBOR Loan or C/D Rate Loan on a day which is not the last day of the Interest Period pertaining thereto, including, without limitation, any such loss or expense arising from the reemployment of funds obtained by it to maintain its Loans hereunder or from fees payable to terminate the deposits from which such funds were obtained, but excluding loss of margin for the period after a prepayment described in clause (c) above and, as to clauses (a), (b) and (c) of this subsection 2.11, excluding any consequential damages. This covenant shall survive termination of this Agreement and payment of the Note.

2.12 Use of Proceeds. The proceeds of the Loans shall be used for general corporate purposes of the Company. The Company will not, nor will it permit any Subsidiary to, use any of the proceeds of the Loans to purchase or carry any "Margin Stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System, as amended from time to time).

2.13 Other Agreements. None of the Credit Agreements contains any provision, including, without limitation, any financial covenant, which (a) increases or expands material restrictions on the Borrower as compared to those contained herein; (b) provides for options for interest rates other than those listed on Schedule I; (c) provides for fees or penalty terms other than those described herein; (d) provides for maturity earlier than the maturity hereof; or (e) grants collateral for the obligations of the Borrower.

2.14 General Indemnity. The Company agrees to indemnify Bank and its respective directors, officers, employees and agents (each an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements (but excluding income, franchise and similar taxes), incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (a) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the transactions contemplated hereby; (b) use of the proceeds of the Loans; or (c) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party

thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of any Indemnitee. The provisions of this Section 2.14 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transaction contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any of the other related documents, or any investigation made by or on behalf of the bank.

SECTION III. REPRESENTATIONS AND WARRANTIES

In order to induce the Bank to enter into this Agreement and to extend credit hereunder, the Company hereby represents and warrants to the Bank that:

3.1 Corporate Existence; Authorization. The Company (a) has been duly incorporated and is validly existing as a corporation under the laws of its jurisdiction of incorporation, (b) has the requisite corporate power and authority to execute and deliver this Agreement, the Note and any other documents required hereunder and perform its obligations hereunder and thereunder and (c) has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement, the Note and any other documents required hereunder.

3.2 Enforceability. This Agreement and the Note are legal, valid and binding obligations of the Company, enforceable against it in accordance with their terms, and any other instrument or agreement required hereunder, when executed and delivered, will be similarly valid, binding and enforceable, except to the extent that the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, or other similar laws generally affecting creditors' rights and principles of equity applicable to the availability of the remedy of specific performance.

3.3 Financial Information. All fiscal year-end financial statements furnished by the Company to the Bank have been prepared in accordance with GAAP consistently applied, except as noted therein, and fairly present the consolidated financial position and the consolidated results of operations of the Company as of the dates and for the periods presented. Financial statements and other information and data furnished to the Bank other than fiscal year-end statements of the Company are in reasonable detail and present fairly the consolidated financial position and consolidated results of operations of the Company, subject to year-end audit adjustments.

3.4 Compliance with Laws. The operations of the Company and its Significant Subsidiaries are in compliance with all Requirements of Law, (a) except to the extent that the failure to comply therewith could not, in the aggregate, be reasonably expected to have a material adverse effect on the ability of the Company to perform its obligations under this Agreement or the Note or (b) except as disclosed in the Company's periodic reports filed prior to the date of this Agreement with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Neither the execution and delivery of this Agreement and the Note, nor the consummation of the transactions therein contemplated, will violate any Requirement of Law.

3.5 No Material Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Company, threatened by or against the Company or any of its Subsidiaries or against any of its or their respective properties or revenues:

(a) with respect to this Agreement or the Note or any of the transactions contemplated hereby; or

(b) which could, insofar as the Company may reasonably foresee, have a material adverse effect on the operations, business or financial condition of the Company and its Subsidiaries as a whole, except as disclosed in the Company's periodic reports filed with the Securities and Exchange Commission prior to the date of this Agreement under the Securities Exchange Act of 1934.

3.6 Ownership of Property. Each of the Company and its Significant Subsidiaries has title in fee simple to or valid leasehold interests in all its real property material to the operation of its business, and title to or valid leasehold interests in all its other property useful and necessary in its business.

3.7 Taxes. Each of the Company and its Significant Subsidiaries has filed or caused to be filed all tax returns which to the knowledge of the Company are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than those the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Company or its Subsidiaries, as the case may be); and no material tax liens have been filed and, to the knowledge of the Company, no material claims are being asserted with respect to any such taxes, fees or other charges.

3.8 Subsidiaries. **Schedule IV** hereto contains an accurate list of all of the presently existing Subsidiaries of the Company, setting forth their respective jurisdictions of incorporation and the percentage of their respective capital stock owned by the Company or other Subsidiaries. All of the issued and outstanding shares of capital stock of such Subsidiaries have been duly authorized and issued and are fully paid and nonassessable.

3.9 Public Utility Holding Company Act. Neither the Company nor any Subsidiary is (a) a "holding company" or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (b) an "Investment Company" within the meaning of the Investment Company Act of 1940. Except for an order of the Public Utility Commission of Oregon, which order is in full force and effect, and, except for a filing with the Washington Utilities and Transportation Commission, which filing as been made, no authorizations, approvals or consents of, no filings or registrations with, any Governmental Authority are necessary for the execution, delivery or performance by the Company of this Agreement or the Note or for the validity or enforceability hereof or thereof.

3.10 ERISA. Borrower is in compliance in all material respects with all applicable provisions of ERISA; Borrower has not violated any provision of any Plan maintained or contributed to by Borrower; no Reportable Event, as defined in ERISA, has occurred and is continuing with respect to any Plan initiated by Borrower; Borrower has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under generally accepted accounting principles.

3.11 Environmental. In the ordinary course of its business, the Borrower conducts an ongoing review of the effect of environmental laws on the business, operations, and properties of the Borrower, in the course of which it identifies and evaluates associated liabilities and costs (including, without limitation, any capital or operating expenditures required for clean-up or closure of properties presently or previously owned or operated, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of these reviews, the Borrower has reasonably concluded that environmental laws are unlikely to have a material adverse effect on the business, financial condition, results of operations, or prospects of the Borrower. The Company hereby represents and warrants that its business and assets and those of its Subsidiaries are operated in compliance with applicable environmental laws and that no enforcement action in respect thereof is threatened or pending. The Company covenants to continue to so operate. The Company further indemnifies and holds harmless the Bank and each of its directors, officers, employees, and agents from and against any and all environmental claims, damages, losses, liabilities, reasonable costs or expenses whatsoever which the Bank or any such director, officer, employee, or agent may incur (or which may be claimed against such entity) by reason of or in connection with the execution of the Credit Agreement and advancement of any Loans hereunder.

3.12 Ranking. All obligations and liabilities of the Company under this Agreement and the Note will constitute direct, unconditional and general obligations of the Company and will rank in right of payment at pari passu to all other Indebtedness of the Company under the Credit Agreements, including such Indebtedness under the Credit Agreements which is preferred as a result of being secured (but then only to the extent of such security).

SECTION IV. CONDITIONS PRECEDENT

4.1 Conditions to Closing. The obligations of the Bank hereunder are subject to the satisfaction of the following conditions precedent on the Closing Date:

(a) Note. The Bank shall have received a Note dated the Closing Date, conforming to the requirements hereof and executed by a duly authorized officer of the Company.

(b) Borrowing Certificate. The Bank shall have received a Borrowing Certificate of the Company dated the Closing Date, substantially in the form of **Schedule III**, with appropriate insertions and attachments, satisfactory in form and substance to the Bank, executed by the President, any Vice President, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary of the Company.

(c) Opinion of Counsel. The Bank shall have received a written opinion of the Company's counsel addressed to the Bank in form and substance satisfactory to the Bank, opining as to the matters set forth in subsections 3.1, 3.2 and 3.9 hereof.

(d) Governmental Approvals. All approvals, authorizations, consents, adjudications or orders of any governmental or regulatory authority required to be obtained in connection with the execution and delivery of this Agreement, the Note and any other documents required hereunder shall have been obtained. In the event that the approval of the Oregon Public Utility Commission or the Washington Utilities and Transportation Commission (the Commissions) is required for the Company to enter into an agreement with the Banks for a Commitment Period longer than 364 days, then the portion of this Agreement providing for a Commitment Period of 364 days from the effective date of the Agreement may proceed to closing and shall become effective as of that date, and the portion of this Agreement providing for a Commitment Period longer than 364 days shall be deemed to have closed and shall become effective upon the issuance of orders by the Commissions approving the Agreement.

4.2 Conditions to All Loans. The obligation of the Bank to make or convert any Loan to be made by it hereunder (including, without limitation, the initial Loan) is subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date:

(a) No Existing Default. No Default or Event of Default shall have occurred and be continuing hereunder on the Borrowing Date with respect to such Loan or after giving effect to the Loans to be made on such Borrowing Date, and

(b) Representations and Warranties. The representations and warranties of the Company set forth in Sections 3.1, 3.2, 3.3, 3.4, 3.9, 3.10 and 3.11 are true and correct as of such Borrowing Date, as though restated on and as of such date. Each borrowing by the Company hereunder shall constitute a representation and warranty by the Company hereunder as of the date of each such borrowing that the foregoing conditions of this subsection 4.2 have been satisfied.

SECTION V. AFFIRMATIVE COVENANTS

The Company hereby agrees that, so long as the Commitment remains in effect, the Note remains outstanding and unpaid or any other amount is owing to the Bank hereunder, the Company shall satisfy the covenants herein.

5.1 Financial Statements. The Company shall furnish to the Bank:

(a) as soon as practicable, but in any event within 120 days after the end of each fiscal year of the Company, a copy of the consolidated balance sheet of

the Company and its audited consolidated Subsidiaries as at the end of such year and the related consolidated statements of income, of earnings invested in the business and of cash flows for such year, setting forth in each case in comparative form the figures for the previous year, audited by independent certified public accountants of nationally recognized standing; and

(b) as soon as practicable, but in any event not later than 60 days after the end of each of the first three quarterly periods of each fiscal year of the Company, the Form 10-Q as filed by the Company with the Securities and Exchange Commission for each such fiscal quarter, certified by a Responsible Officer as being complete and correct (subject to normal year-end audit adjustments); and

(c) together with the financial statements required hereunder, a compliance certificate in form and substance satisfactory to the Bank signed by its chief financial officer showing the calculations necessary to determine compliance with this Agreement, including its calculation of maintenance of Consolidated Indebtedness to Total Capitalization, and stating that no Default or Event of Default exists, or if any Default or Event of Default exists, stating the nature and status thereof; all such financial statements to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as approved by such accountants or officer, as the case may be, and disclosed therein).

5.2 Certificates; Other Information. The Company shall furnish to the Bank as soon as practicable, but in any event within ten days after the same are sent, copies of all financial statements and reports which the Company sends to its shareholders, and within ten days after the same are filed, copies of all financial statements and reports which the Company may make to, or file with, the Securities and Exchange Commission or any successor or analogous Governmental Authority.

5.3 Payment of Taxes. The Company shall, and shall cause each of its Subsidiaries to, pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all taxes, except when the amount or validity thereof is currently being contested in good faith by appropriate proceedings, and reserves in conformity with GAAP with respect thereto have been provided on the books of the Company or its Subsidiaries, or such Subsidiary, as the case may be.

5.4 Conduct of Business. The Company shall (i) carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and to do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted, and (ii) comply with all Requirements of Law except to the extent that failure to comply therewith could not, in the aggregate, have a material adverse effect on (A) the operations, business or financial condition of the Company and its Subsidiaries taken as a whole; (B) the ability of the Company to perform its obligations under this Agreement or the Note; or (C) the rights of or benefits available to the Bank under this Agreement.

5.5 Maintenance of Property; Insurance. The Company shall, and shall cause each of its Subsidiaries to, keep all property useful and necessary in its business

in good working order and condition; maintain with financially sound and reputable insurance companies insurance on such property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to the Bank, upon written request, full information as to the insurance carried.

5.6 Inspection of Property; Books and Records; Discussions. The Company shall, and shall cause each of its Subsidiaries that have business operations to, keep proper books of records and accounts in which entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities; and permit representatives of the Bank, at the Bank's expense, to visit and inspect any of its properties and examine and make abstracts from any of its books and records upon reasonable notice and during regular working hours, and to discuss the business, operations, properties and financial and other condition of the Company and its Subsidiaries with officers and employees of the Company and its Subsidiaries, except that the rights available under this subsection shall not apply to such properties, documents or information as are classified in good faith as secret pursuant to federal governmental requirements.

5.7 Notices. The Company shall promptly give notice to the Bank:

(a) of the occurrence of any Default or Event of Default;

(b) of any litigation, investigation or proceeding involving the Company or any of its Subsidiaries which, if not cured or if adversely determined, as the case may be, would have a material adverse effect on the operations, business or financial condition of the Company and its Subsidiaries as a whole; and

(c) of any change of its senior unsecured debt rating by either Moody's or S&P.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Company proposes to take with respect thereto.

5.8 Debt Rating. The Company shall maintain at all times a senior unsecured debt rating from both Moody's and S&P. If either Moody's or S&P no longer provides a senior unsecured debt rating for the Company, then the Bank and Company will use the remaining rating service until they can negotiate an alternative agreement.

SECTION VI. NEGATIVE COVENANTS

The Company hereby agrees that, so long as the Commitment remains in effect, the Note remains outstanding and unpaid or any other amount is owing to the Bank hereunder, the Company shall not, directly or indirectly cause the following to occur.

6.1 Maintenance of Consolidated Funded Indebtedness to Total Capitalization. As at the end of any fiscal quarter of the Company, permit on a consolidated basis the sum of (i) Consolidated Funded Indebtedness, plus (ii) all notes

and other Indebtedness incurred through the borrowing of money or the obtaining of credit, payable on demand or maturing within one year from the date of determination and which is not renewable or extendable at the option of the debtor to a date more than one year from the date of such determination, plus (iii) all other final maturities, prepayment and sinking fund payments required to be made within one year after such date of determination, in respect of any Indebtedness incurred through the borrowing of money or the obtaining of credit (including the Notes), to be greater than 65% of Total Capitalization plus the amounts of (ii) and (iii), above.

6.2 Limitation on Fundamental Changes. With respect to the Company or any Significant Subsidiary, without the consent of the Bank, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve (or suffer any liquidation or dissolution), convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets, except for sales, leases or rentals of property or assets in the ordinary course of business, and except that:

(a) any consolidated Subsidiary of the Company may be merged or consolidated with or into the Company (provided that the Company shall be the continuing or surviving corporation) or with any one or more Subsidiaries of the Company (provided that if any such transaction shall be between a Subsidiary and a wholly-owned Subsidiary, the wholly-owned Subsidiary shall be the continuing or surviving corporation);

(b) any Subsidiary may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Company or another wholly-owned Subsidiary of the Company; and

(c) the Company may be merged with any other Person if (i) the Company is the surviving corporation, (ii) immediately after giving effect to such merger, there shall exist no condition or event which constitutes an Event of Default or which, with the giving of notice or lapse of time or both, would constitute an Event of Default, and (iii) all representations and warranties contained in Section III hereof are true and correct on and as of the date of the consummation of such merger, and after giving effect thereto, as though restated on and as of such date.

SECTION VII. EVENTS OF DEFAULT

Upon the occurrence and continuance of any of the following events:

(a) The Company shall fail to pay any principal of the Note when due in accordance with the terms thereof or hereof; or the Company shall fail to pay any interest on the Note, or any other amount payable to the Bank hereunder, within five days after any such amount becomes due in accordance with the terms thereof or hereof; or

(b) Any representation or warranty made or deemed made by the Company herein shall prove to have been incorrect in any material respect on or as of the date made; or

(c) The Company shall default in the observance or performance of any other agreement or covenant contained in this Agreement, and such default shall continue unremedied for a period of 30 days after written notice thereof shall have been given to the Company by the Bank; provided, however, that no such written notice or cure period shall apply to default in the observance or performance of the covenants described in Sections 6.1 and 6.2; or

(d) The Company shall default in any payment of principal of or interest on any Indebtedness for borrowed money under any one of the Credit Agreements; or

(e) The Company shall fail to make any payment in respect of any Funded Indebtedness (other than the Notes) having singly or in the aggregate an outstanding amount in excess of \$15 million when due or within any applicable grace period;

(f) A final judgment for the payment of money exceeding an aggregate of \$15 million shall be rendered or entered against the Company and/or any Significant Subsidiary and the same shall remain undischarged for a period of 60 days during which execution shall not be effectively stayed or contested in good faith; or

(g)(i) The Company is insolvent or is unable to pay its debts generally as they come due, or shall file or have filed against it any petition or other request for relief under any bankruptcy, reorganization, insolvency or moratorium law, or any other law or laws for the relief of, or relating to, debtors; or any such proceeding shall be instituted against the Company which is not dismissed within ninety (90) days after the institution thereof; or the Company shall take any corporate action to authorize any of the actions set forth above in this paragraph (g)(i); or (ii) A receiver, custodian or trustee shall be appointed to take possession of any assets of the Company, unless such appointment is set aside or withdrawn or ceases to be in effect within thirty (30) days from the date of said filing or appointment;

Then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (g) above with respect to the Company, automatically the Commitments shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the Note shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) the Bank may, by notice to the Company declare the Commitment to be terminated, whereupon the Commitment shall immediately terminate; and (ii) the Bank may, by notice of default to the Company, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the Note to be due and payable whereupon the same shall immediately become due and payable. Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Company.

SECTION VIII. MISCELLANEOUS

8.1 Notices. Except as otherwise expressly provided herein, any communications between the parties hereto or notices to be given hereunder shall be given in writing by personal delivery, telefax, or mailing the same, postage prepaid, to the Bank at its address for notices set forth on **Schedule I** hereto, and to the Company at 220 N.W. Second Avenue, Portland, Oregon 97209, Telephone 503/226-4211, Facsimile 503/220-2584 Attention: Treasurer, or to such other addresses as either party may hereafter indicate.

Any communication or notice so addressed and mailed shall be deemed to be given five (5) days after mailing. Any communication or notice otherwise delivered shall be deemed to be given or upon delivery or receipt. If notice is telexed, receipt shall be deemed to occur when telex is answered-back. If notice is telecopied, receipt shall be deemed to occur upon delivery as evidenced by confirmation sheet.

8.2 Waiver; Amendment.

(a) No delay or omission to exercise any right, power or remedy accruing to the Bank upon any breach or Default by the Company under this Agreement shall impair any such right, power or remedy of the Bank, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or Default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of the Bank of any breach or Default under this Agreement or any waiver on the part of the Bank of any provision or condition of this Agreement must be in writing and shall be effective only to the extent in such writing specifically set forth. All remedies, either under this Agreement or by law or otherwise afforded to Bank, shall be cumulative and not alternative.

(b) Neither this Agreement nor any provision hereof may be amended, waived, discharged or terminated orally, but only by an instrument in writing, signed by the Company and the Bank.

8.3 Survival. All warranties, representations and covenants made by the Company herein or in any certificate or other instrument delivered by it or on its behalf under this Agreement shall be considered to have been relied upon by the Bank and shall survive the making of any Loan hereunder and delivery to the Bank of the Note, regardless of any investigation made by the Bank or on its behalf. All statements in any such certificate or other instrument shall constitute warranties and representations by the Company hereunder.

8.4 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties except that the Company shall not have the right to assign its rights hereunder or any interest herein.

8.5 Attorneys' Fees. In the event of any action at law or suit in equity based in contract and arising out of this Agreement, the Note, or any other instrument

or agreement required or contemplated hereunder, the prevailing party, in addition to all other sums which the other party may be called upon to pay, shall be entitled to recover such additional sum for the prevailing party's attorneys' fees (including the allocated cost of internal counsel), incurred therein, as the trial court or any appellate court adjudges reasonable in said suit or action.

8.6 Governing Laws; Jurisdiction.

(a) This Agreement, the Note, and any other instrument or agreement required or contemplated hereunder, shall be governed by, and construed under, the laws of the State of Oregon without regard to principles of conflicts of law. Any suit or action in regard to or arising out of the terms or conditions of this Agreement shall be litigated in the state or federal courts situated in the State of Oregon, and the Company and the Bank hereby submit to the jurisdiction of those courts.

(b) The Company and the Bank hereby irrevocably submit to the jurisdiction of any state or federal court sitting in Portland, Oregon, for any action or proceeding relating to this Agreement. The Company waives any objection which it may now or hereafter have to a laying of venue in any such action or proceeding in any such forums, and also waives any claim that any such forum is an inconvenient forum. The Company and the Bank agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or any other manner provided by law. The Company agrees that it shall not bring suit or action arising out of this Agreement in the courts of any other jurisdiction, and the Bank agrees that it will not bring suit or action against the Company in any other jurisdiction provided that the Company maintains its corporate headquarters and a substantial business presence in Oregon.

(c) The Company and the Bank hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any related document. The Company and Bank hereto (i) certifies that no representative or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver; and (ii) acknowledges that it and the other parties hereto have been induced to enter into this Agreement by, among other things, this mutual waiver.

8.7 Counterparts. This Agreement may be executed in as many counterparts as may be deemed necessary or convenient, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument.

8.8 Participations.

(a) Bank may grant participations to one or more banks or other entities in all or any part of any Loan or Loans owing to the Bank hereunder and also the Note held by the Bank.

(b) In the event that Bank grants, assigns, or sells any of its interest in this Agreement or the Note, including the sale of a participation herein, such

grantee, assignee, purchaser or participant is hereby granted the right of setoff against any and all property which may come into its possession to the same extent as if it were the Bank; provided that such rights are employed solely to reduce the amount of the Company's obligations hereunder. The Bank shall have no liability for any setoff or action taken by any participant without the Bank's consent.

8.9 Entire Agreement. This Agreement, together with the Note and the other documents and agreements required hereunder, embodies the entire agreement and understanding between the Company and the Bank, and supersedes all prior and contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof. Terms and conditions of the Agreement relating, but not limited to, the term, security matters, events of Default, conditions to lend and affirmative and negative covenants shall not be amended, modified, or changed without the express written consent of each of the Banks that have executed Credit Agreements.

8.10 Receipt of Document. The Company and the Bank hereby acknowledge receipt of a copy of this Agreement.

8.11 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any of the Loans, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Bank in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this section shall be cumulated and the interest and Charges payable to the Bank in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefore) until such cumulated amount, together with interest thereon at the Federal Funds Rate to the date of repayment, shall have been received by the Bank.

8.12 USA Patriot Act. The Bank hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow the Bank to identify the Company in accordance with the Act.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement by their duly authorized officers as of the date first above written.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY THE BANK AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED

SOLELY BY THE BORROWER'S RESIDENCE MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY THE BANK TO BE ENFORCEABLE.

BANK: [BANK]

By _____

Title _____

COMPANY: NORTHWEST NATURAL GAS COMPANY

By _____

Title _____

SCHEDULE I

BANK INFORMATION AND SPECIFIC TERMS

BANK: (BANK NAME)

Lines of Commitment

- a. Amount of Primary Line Commitment: **\$ 40,000,000**
- b. Amount of Excess Line Commitment: **NA**
- c. Total Commitment Amount: **\$ 40,000,000**

Period of Primary & Excess Line Commitment **10-1-05 to 9-30-10
(5 years)**

Rating Level Spread (bp)

Interest Rate Options:	✓ If Available		I	III	IV	V
Prime Rate	✓	0	0	0	0	0
Adjusted C/D Rate						
Adjusted LIBOR Rate	✓	32.5	45	57.5	75	100
Fed Funds Rate						
Negotiated Rate						

Commitment fees and upfront fee (in basis points)

- a. Primary Line Commitment fees **7 basis points**
- b. Primary Line Upfront fee **5 basis points**

Additional Terms & Conditions (if any): **None**

See terms and conditions as set forth in the Credit Agreement. Terms used in this Schedule I have meanings ascribed thereto in the Credit Agreement.

Bank Address for Notices:

Bank Address for Payments:

Schedule Accepted:

Effective Date: **October 1, 2005**

NORTHWEST NATURAL GAS CO.

(BANK NAME)

By: _____

By: _____

Title: Treasurer and Controller

Title: _____

NOTE

FOR VALUE RECEIVED, the undersigned, **NORTHWEST NATURAL GAS COMPANY** (the "Company") hereby unconditionally promises to pay to the order of _____ (the "Bank"), in lawful money of the United States of America and in immediately available funds, on **September, 2010**, or such earlier date as may be determined pursuant to the Agreement (as hereinafter defined), or such later date to which the Commitment Termination Date (as defined in the Agreement) may be extended, the aggregate unpaid principal amount of all Loans made by the Bank to the undersigned pursuant to such Agreement, but not to exceed the Bank's maximum commitment of **\$40,000,000**. Such payment shall be made for the account of the Bank at the payment office specified in Schedule I. The undersigned further agrees to pay interest in like money at such office on the unpaid principal amount hereof from time to time from the date hereof at the applicable rates per annum and on the dates specified in Section II of the Agreement, until paid in full (both before and after judgment).

The holder of this Note is authorized to endorse the date, type, amount and Interest Period of all loans made by the Bank to the undersigned pursuant to the Agreement, and the date and amount of all payments and prepayments of principal of such loans, on the schedule annexed hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, and any such endorsement shall constitute prima facie evidence of the accuracy of the information so endorsed. No failure to make or error in making any such endorsement as authorized hereby shall affect the validity of the obligation to repay the unpaid principal amount of this Note with interest thereon as provided in the Agreement or the validity of any payment thereof made by the Company.

This Note is the Note referred to in the Credit Agreement dated as of October 1, 2005 as from time to time amended, supplemented or otherwise modified (the "Agreement") between the undersigned and the Bank and is entitled to the benefits thereof and is subject to optional and mandatory prepayment in whole or in part as provided therein.

Upon the occurrence of any one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be immediately due and payable, all as provided therein.

NORTHWEST NATURAL GAS COMPANY

By: _____
Title: Treasurer & Controller

BORROWING CERTIFICATE

Pursuant to subsection 4.1 of the Credit Agreement dated as of October 1, 2005, between NORTHWEST NATURAL GAS COMPANY (the "Company") and _____ (the "Bank ") identified on **Schedule I** thereto (the "Agreement"); the terms defined therein being used herein as therein defined), the Company hereby certifies as follows:

1. The representations and warranties of the Company set forth in Section III of the Agreement are true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof;
2. The conditions precedent set forth in subsection 4.1 of the Agreement have been or will be satisfied prior to or concurrently with the making of the initial Loans under the Agreement; and
3. No Default or Event of Default (both as defined in Section VII of the Agreement) has occurred or is continuing under the Agreement on the date thereof;

and the undersigned Stephen P. Feltz, Treasurer & Controller, and C. J. Rue, Secretary, of the Company hereby certify as follows:

4. C. J. Rue is and at all times since October 1, 1993 has been the duly elected and qualified Secretary of the Company;

and the undersigned Secretary of the Company hereby certifies as follows:

5. Attached hereto as Exhibit A is a true and complete copy of resolutions duly adopted by the Board of Directors of the Company on _____, 2005; such resolutions have not in any way been amended, modified, revoked or rescinded and have been in full force and effect since their adoption to and including the date hereof and are now in full force and effect; such resolutions are the only corporate proceedings of the Company now in force relating to or affecting the matters referred to therein; attached hereto as Exhibit B is a true and complete copy of the Bylaws of the Company as in effect at the date hereof; and attached hereto as Exhibit C is a true and complete copy of the Restated Articles of Incorporation of the Company as amended to the date hereof; and

6. The following persons are now duly elected and qualified officers of the Company, holding the offices indicated next to their respective names below, and such officers have held such offices with the Company at all times since May 26, 2005, to and including the date hereof, and the signatures appearing opposite their respective names below are the true and genuine signatures of such officers, and each of such officers is duly authorized to execute and deliver on behalf of the Company the Agreement and the Notes of the Company to be issued pursuant thereto and any certificate or other document to be delivered by the Company pursuant to the Agreement:

<u>Name</u>	<u>Office</u>	<u>Signature</u>
Mark S. Dodson	President and Chief Executive Officer	_____
David H. Anderson	Senior Vice President and Chief Financial Officer	_____
Stephen P. Feltz	Treasurer & Controller	_____
C. J. Rue	Secretary & Assistant Treasurer	_____

IN WITNESS WHEREOF, the undersigned have hereunto set our names in the capacities indicated.

Title: Treasurer & Controller

Title: Secretary

Date: October 1, 2005

SUBSIDIARIES

At _October 1, 2005, the Company had two wholly-owned subsidiaries: NNG Financial Corporation (Financial Corporation) and Northwest Energy Corporation (Northwest Energy).

NNG Financial Corporation

Financial Corporation has several financial investments, including investments as a limited partner in windpower electric generating projects and low-income housing projects.

Financial Corporation is incorporated in Oregon. All of its common stock is owned by the Company. Financial Corporation had about \$3.1 million of assets as of June 30, 2005.

Northwest Energy Corporation

Northwest Energy was incorporated in Oregon in 2001 to serve as the holding company for NW Natural and Portland General Electric Company (PGE) if the acquisition of PGE had been completed. However, in May 2002, NW Natural and Enron Corp. (Enron) entered into a Termination Agreement providing for the termination, effective as of July 1, 2002, of a Stock Purchase Agreement whereby NW Natural was to have acquired all of the issued and outstanding common stock of PGE, a wholly-owned subsidiary of Enron. Northwest Energy had no assets and no active operations as of June 30 2005.

EXHIBIT E

Balance Sheets of the Company at June 30, 2005, and Dec. 31, 2004.

Table of Contents**NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS**

Thousands (December 31)	2004	2003
Assets:		
Plant and property:		
Utility plant	\$ 1,794,972	\$ 1,657,589
Less accumulated depreciation	505,286	471,716
Utility plant – net	1,289,686	1,185,873
Non-utility property	33,963	23,395
Less accumulated depreciation and amortization	5,244	4,855
Non-utility property – net	28,719	18,540
Total plant and property	1,318,405	1,204,413
Other investments	60,618	73,845
Current assets:		
Cash and cash equivalents	5,248	4,706
Accounts receivable, less allowance for uncollectible accounts of \$2,434 in 2004 and \$1,763 in 2003	60,675	48,499
Accrued unbilled revenue	64,401	59,109
Inventories of gas, materials and supplies	66,477	50,859
Income tax receivable	15,970	8,986
Prepayments and other current assets	24,346	23,675
Total current assets	237,117	195,834
Regulatory assets:		
Income tax asset	64,734	63,449
Deferred gas costs receivable	9,551	–
Unamortized costs on debt redemptions	7,332	7,803
Other	3,321	6,020
Total regulatory assets	84,938	77,272
Other assets:		
Fair value of non-trading derivatives	16,399	23,885
Other	14,718	10,130
Total other assets	31,117	34,015
Total assets	\$ 1,732,195	\$ 1,585,379

See Notes to Consolidated Financial Statements.

Table of Contents**NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS**

Thousands (December 31)	2004	2003
Capitalization and liabilities:		
Capitalization		
Common stock	\$ 87,231	\$ 82,137
Premium on common stock	300,034	255,871
Earnings invested in the business	183,932	170,053
Unearned stock compensation	(862)	(729)
Accumulated other comprehensive income (loss)	(1,818)	(1,016)
Total common stock equity	568,517	506,316
Long-term debt	484,027	500,319
Total capitalization	1,052,544	1,006,635
Current liabilities:		
Notes payable	102,500	85,200
Accounts payable	102,478	86,029
Long-term debt due within one year	15,000	-
Taxes accrued	10,242	8,605
Interest accrued	2,897	2,998
Other current and accrued liabilities	34,168	31,589
Total current liabilities	267,285	214,421
Regulatory liabilities:		
Accrued asset removal costs	153,258	135,638
Customer advances	1,529	1,564
Deferred gas costs payable	-	5,627
Unrealized gain on non-trading derivatives	10,912	23,885
Total regulatory liabilities	165,699	166,714
Other liabilities:		
Deferred income taxes	210,715	171,797
Deferred investment tax credits	6,025	6,945
Fair value of non-trading derivatives	5,487	-
Other	24,440	18,867
Total other liabilities	246,667	197,609
Commitments and contingencies (see Note 12)	-	-
Total capitalization and liabilities	\$ 1,732,195	\$ 1,585,379

See Notes to Consolidated Financial Statements.

NORTHWEST NATURAL GAS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Principles of Consolidation

The consolidated financial statements include the accounts of the regulated parent company, Northwest Natural Gas Company (NW Natural), and its non-regulated wholly-owned subsidiaries:

- NNG Financial Corporation (Financial Corporation), and its wholly-owned subsidiaries
- Northwest Energy Corporation (Northwest Energy), and its wholly-owned subsidiary

Together these businesses are referred to herein as the "Company." In this report, the term "utility" is used to describe the regulated gas distribution business of the Company and the term "non-utility" is used to describe the interstate gas storage business and other non-regulated activities (see Note 2). Intercompany accounts and transactions have been eliminated.

Investments in corporate joint ventures and partnerships in which the Company's ownership interest is 50 percent or less and over which the Company does not exercise control are accounted for by the equity method or the cost method (see Note 9).

Certain amounts from prior years have been reclassified to conform, for comparison purposes, with the current financial statement presentation. These reclassifications had no impact on prior year consolidated results of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect reported amounts in the consolidated financial statements and accompanying notes. Actual amounts could differ from those estimates, and changes would be reported in future periods. Management believes that the estimates and assumptions used are reasonable.

Industry Regulation

The Company's principal business is the distribution of natural gas, which is regulated by the Public Utility Commission of Oregon (OPUC) and the Washington Utilities and Transportation Commission (WUTC). Accounting records and practices conform to the requirements and uniform system of accounts prescribed by these regulatory authorities in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." NW Natural's utility business segment is authorized by the OPUC and the WUTC to earn a reasonable return on invested capital.

In applying SFAS No. 71, NW Natural capitalizes certain costs and revenues as regulatory assets and liabilities pursuant to orders of the OPUC or WUTC in general rate or expense deferral proceedings, to provide for recovery of revenues or expenses from, or refunds to,

Table of Contents

utility customers in future periods, including a return or a carrying charge. At Dec. 31, 2004 and 2003, the amounts deferred as regulatory assets and liabilities were net liabilities of \$80.8 million and \$89.4 million, respectively. The net amounts recognized at Dec. 31, 2004 and 2003 include \$153.2 million and \$135.6 million, respectively, of accumulated removal costs, which have been included in regulatory liabilities, in accordance with SFAS No. 143, "Accounting for Asset Removal Obligations." See "New Accounting Standards—Adopted Standards," below.

NW Natural believes that continued application of SFAS No. 71 for its regulated activities is appropriate and consistent with the current regulatory environment, and that all of its regulated assets and liabilities at Dec. 31, 2004 and 2003 are recoverable or refundable through future utility rates. NW Natural also believes that it will continue to be able to earn a reasonable rate of return or a carrying charge on its regulated assets, net of regulatory liabilities. If NW Natural should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of SFAS No. 71, then it would be required to write off the net unrecoverable balances against earnings.

New Accounting Standards

Adopted Standards

Asset Retirement Obligations. Effective Jan. 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the recognition of an Asset Retirement Obligation (ARO) for legal obligations associated with the retirement of tangible long-lived assets, including the recording of fair value of the liability, if reasonably estimable, for an ARO in the period in which it is incurred. The ARO liability is recorded and the cost is capitalized as part of the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. The Company did not have any material legal obligations associated with the retirement of its tangible long-lived assets, except for certain assets with indefinite system lives for which the Company cannot estimate the ARO because the settlement date is indeterminable. The Company's adoption of SFAS No. 143 resulted in a balance sheet reclassification of asset removal cost obligations from accumulated depreciation and amortization to regulatory liabilities. The adoption of SFAS No. 143 and the reclassification of asset removal cost obligations had no material impact on the Company's financial condition, results of operations or cash flows (see "Plant and Property," below, for a discussion of the Company's policy on asset removal costs).

Financial Instruments with Equity and Debt Characteristics. Effective July 1, 2003, the Company adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures in its financial statements certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires an issuer to classify a financial instrument as a liability if that financial instrument embodies an obligation of the issuer. The adoption of SFAS No. 150 resulted in the Company's reclassifying dividends of \$0.2 million after July 1, 2003 on its redeemable preferred stock as interest expense. The Company redeemed its remaining shares of preferred stock outstanding during the fourth quarter of 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's financial condition, results of operations or cash flows.

Table of Contents

Variable Interest Entities. In December 2003, the Financial Accounting Standards Board (FASB) revised FASB Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities" (FIN 46R), to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46R provides additional guidance for the identification and consolidation of variable interest entities (VIEs), and for financial reporting by enterprises involved with VIEs. The Company adopted the original provisions of FIN 46 during 2003, and adopted the additional guidance of FIN 46R in 2004. The Company has certain equity investments that are variable interests and some of these entities are potentially VIEs. However, because the Company is not the primary beneficiary, it is not required to consolidate the VIEs. The Company's variable interests primarily consist of limited liability interests with investments in alternative energy projects, low income housing and other real estate. These investments were entered into between the years 1988 and 2000 and have been accounted for under the equity method or cost method. The Company's maximum exposure to loss for these investments is \$6.2 million at December 31, 2004, an amount that represents the Company's current investment balance minus its minimum net realizable value. The Company's investment risk is thus limited because all such investments are non-recourse to the Company. The adoption of FIN 46R had no material impact on the Company's financial condition, results of operations or cash flows.

Medicare Prescription Drug, Improvement and Modernization Act. In May 2004, the FASB issued Staff Position (FSP) No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," (the Act). FSP No. FAS 106-2 provides specific guidance on accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. FSP No. FAS 106-2 also requires certain disclosures regarding the effects of a federal subsidy provided by the Act.

Effective July 1, 2004, the Company adopted FSP No. 106-2 with no material impact on the Company's cash flows, accumulated postretirement benefit obligations or net periodic postretirement benefit costs. Based on current guidance and existing plan design, the Company, with input from its actuary, determined that the prescription drug benefit provided by the Company's postretirement benefit plan did not qualify it for a federal subsidy. While the Company provides certain prescription drug benefits to retirees, it was determined that the Company's contributions would be less than 40 percent of the plan's expected claims cost, and therefore is not eligible for the subsidy in 2006, the first year the subsidy is available. The Company will continue to reevaluate its plan contributions and claims experience to determine whether the plan qualifies for the federal subsidy in future years.

Other Than Temporary Impairments. In March 2004, the Emerging Issues Task Force (EITF) ratified EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF No. 03-1). EITF No. 03-1 provides guidance for evaluating whether an investment is impaired, whether the impairment is other than temporary, and the measurement of such impairment. The guidance also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures in annual financial statements about unrealized losses that have not been recognized as other-than-temporary impairments. The adoption of EITF 03-1, which was effective for reporting periods beginning after June 15, 2004, had no material impact on the Company's financial condition, results of operations or cash flows.

Table of Contents

Income Taxes. In December 2004, the FASB issued staff position (FSP) FSP SFAS No. 109-1, to provide guidance on the application of SFAS No. 109, "Accounting for Income Taxes," to the provisions within the American Jobs Creation Act of 2004 (the Jobs Act) that provides a tax deduction on qualified production activities. The Jobs Act became effective on Oct. 23, 2004 and provides for a tax deduction of up to nine percent (when fully phased-in) of the lesser of (a) "qualified production activities income," as defined in the Jobs Act, or (b) taxable income (after the deduction for the utilization of any net operating loss carryforwards). The Company has determined that application of the provisions within the Jobs Act will not have a material impact on the Company's financial condition, results of operations or cash flows.

Recent Accounting Pronouncements

Inventory Costs. In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance on inventory pricing to require that abnormal amounts of idle facility expense, freight, handling costs and wasted material be charged to current period expense rather than capitalized as inventory costs. SFAS No. 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is evaluating the impact this new standard may have on its financial statements, but it is expected that its implementation will not have a material impact upon the Company's financial condition, results of operations or cash flows.

Share Based Payments. In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment" (SFAS No. 123R), that requires companies to expense the fair value of employee stock options and similar awards. Under SFAS No. 123R, share based payment awards will be measured at fair value on the date of grant based on the estimated number of awards expected to vest. The estimated fair value will be recognized as compensation expense over the period an employee is required to provide service in exchange for the award, usually referred to as the vesting period. The expense would be adjusted for actual forfeitures that occur before vesting, but would not be adjusted for awards that expire or terminate after vesting. The Company is evaluating different option-pricing models to determine the most appropriate measure of fair value for its share based payment awards under the new standard. Disclosures of estimated fair value and compensation expense using the Black-Scholes option pricing model, and its corresponding impact on the financial statements, is provided in Note 4. The Company also is evaluating the effect of the adoption and implementation of SFAS No. 123R, which is not expected to have a material impact on the Company's financial condition, results of operations or cash flows. SFAS No. 123R is effective for interim or annual reporting periods beginning after June 15, 2005. The Company expects to adopt the provisions of SFAS No. 123R in the first quarter of 2005.

Non-monetary Transactions. Also in December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of Accounting Principles Board (APB) Opinion No. 29, Accounting for Nonmonetary Transactions." SFAS No. 153 redefines the types of nonmonetary exchanges that require fair value measurement. SFAS No. 153 is effective for nonmonetary transactions entered into on or after July 1, 2005. The Company is evaluating the impact of this statement, but adoption of this new accounting standard in 2005 is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

Table of Contents

Plant and Property

Plant and property is stated at cost, including labor, materials and overhead (see Note 9). The cost of utility plant and interstate storage includes an allowance for funds used during construction in construction overhead to represent the net cost of borrowed funds used for construction purposes (see "Allowance for Funds Used During Construction," below).

NW Natural's provision for depreciation of utility property is computed under the straight-line, age-life method in accordance with independent engineering studies and as approved by regulatory authorities. The weighted average depreciation rate was approximately 3.4 percent for the year ended Dec. 31, 2004 and 3.5 percent for each of the years 2003 and 2002. The depreciation rate reflects the approximate economic life of the utility property.

Effective Jan. 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." Among other things, SFAS No. 143 requires that future asset retirement costs (removal costs) that meet the requirements of SFAS No. 71, as amended and supplemented, be classified as a regulatory liability. In accordance with long-standing industry practice, the Company accrues for future removal costs on many long-lived assets through a charge to depreciation expense allowed in rates. Prior to the adoption of SFAS No. 143, the resulting regulatory liabilities were recognized as accruals to accumulated depreciation. At the time when removal costs were incurred, accumulated depreciation was charged with the costs of removal and the book cost of the asset being retired. At Dec. 31, 2004 and 2003, the Company recognized accrued asset removal costs of \$153.2 million and \$135.6 million, respectively, through depreciation expense from accumulated depreciation and amortization. The Company's estimate of accumulated removal costs was based on rates using its most recent depreciation study. The Company will continue to accrue future asset removal costs through depreciation expense, with a corresponding credit to regulatory liabilities – accrued asset removal costs. When the Company retires depreciable utility plant and equipment, it charges the associated original costs to accumulated depreciation and amortization, and any related removal costs incurred are charged to regulatory liabilities – accrued asset removal costs. No gain or loss is recognized upon normal retirement. In the rate setting process, the accrued asset removal costs are treated as a reduction to the net rate base.

Allowance for Funds Used During Construction

Certain additions to utility plant include an allowance for funds used during construction (AFUDC). AFUDC represents the cost of funds borrowed during construction and is calculated using actual commercial paper interest rates. If commercial paper borrowings are less than the total costs of construction work in progress, then a composite rate of interest on all debt, shown as a reduction to interest charges, and a return on equity funds, shown as other income, is used to compute AFUDC. While cash is not realized currently from AFUDC, it is realized in future years through increased revenues from rate recovery resulting from higher rate base and higher depreciation expense. NW Natural's composite AFUDC rates were 3.0 percent in 2004, 4.5 percent in 2003 and 2.8 percent in 2002.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and highly liquid temporary investments with original maturity dates of three months or less.

Table of Contents

Revenue Recognition

Utility revenues, derived primarily from the sale and transportation of natural gas, are recognized when the gas is delivered to and received by the customer. Revenues include accruals for gas delivered but not yet billed to customers based on estimates of gas deliveries from meter reading dates to month end (unbilled revenues). Unbilled revenues are dependent upon a number of factors that require management judgment, including total gas receipts and deliveries, customer use and weather. Unbilled revenues are reversed the following month when actual billings occur. The Company's accrued unbilled revenues at Dec. 31, 2004 and 2003 were \$64.4 million and \$59.1 million, respectively.

Non-utility revenues, derived primarily from gas storage services, are recognized upon delivery of the service to customers. Revenues from optimization of excess storage and transportation capacity are recognized over the life of the contract for guaranteed amounts under the contract, or are recognized as they are earned for amounts above the guaranteed value based on estimates provided by the independent energy marketing company (see Note 2).

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consist primarily of amounts due to NW Natural for gas sales and transportation services to residential, commercial and industrial customers, plus amounts due for interstate gas storage services and other miscellaneous receivables. With respect to these trade receivables, the Company establishes an allowance for uncollectible accounts (allowance) based on the aging of receivables, its collection experience of past due accounts on payment plans, and historical trends of write-offs as a percent of revenues. With respect to large individual customer receivables, a specific allowance is established and added to the general allowance when amounts are identified as unlikely to be recovered. Inactive accounts are written-off against the allowance after 120 days past due or when deemed to be uncollectible. Differences between the Company's estimated allowance and actual write-offs will occur based on changes in general economic conditions, customer credit issues and the level of natural gas prices, but these differences are not currently expected to have a material impact on the Company's financial condition or results of operation.

Inventories

Inventories, consisting primarily of natural gas in storage, are stated at the moving average cost. Regulatory treatment of gas inventories provides full recovery in rates for the value of gas inventory at the moving average cost. All other inventories are stated at the lower of average cost or net realizable value.

Derivatives Policy

NW Natural's Derivatives Policy sets forth the guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. The Derivatives Policy allows for the use of derivatives to manage natural gas commodity prices related to natural gas purchases, foreign currency prices related to gas purchase commitments from Canada, oil or propane commodity prices related to gas sales and transportation services under rate schedules pegged to other commodities, and interest rates related to long-term debt maturing in less than five years or expected to be issued in future periods. NW Natural's objective for using derivatives is to decrease the volatility of earnings and cash flows associated with changes in commodity prices, foreign currency prices and interest rates. The use of

Table of Contents

derivatives is permitted only after the commodity price, exchange rate, and interest rate exposures have been identified, are determined to exceed acceptable tolerance levels and are considered to be unavoidable because they are necessary to support normal business activities (see Note 11). The Derivatives Policy is intended to prevent speculative risk. NW Natural does not enter into derivative instruments for trading purposes and believes that any increase in market risk created by holding derivatives should be offset by the exposures they modify.

In accounting for derivative activities, the Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," (collectively referred to as SFAS No. 133). SFAS No. 133 requires that the Company recognize derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. SFAS No. 133 also requires that changes in the fair value of a derivative be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133 provides an exception for contracts intended for normal purchase and normal sale, other than a financial instrument or derivative instrument for which physical delivery is probable. Many of the Company's gas supply and transportation contracts are derivative instruments as defined under SFAS No. 133, but qualify for the normal purchase and normal sale exception.

NW Natural designates its derivatives as fair value or cash flow hedges based upon the criteria established by SFAS No. 133. For fair value hedges, the gain or loss is recognized in earnings in the period of change. For cash flow hedges, the effective portion of the gain or loss is initially reported in accumulated other comprehensive income (OCI), unless the derivative is subject to deferral under NW Natural's regulated tariffs with the OPUC or the WUTC. The ineffective portion of the gain or loss in a cash flow hedge is recognized in current earnings, but only to the extent that the amount is not covered under NW Natural's regulatory deferral mechanisms. Effectiveness is measured by comparing changes in cash flows of the hedged item to gains or losses on derivative instruments.

NW Natural's primary hedging activities, consisting of natural gas commodity price and foreign currency exchange rate hedges, are principally accounted for as cash flow hedges under SFAS No. 133 and are subject to regulatory deferral under SFAS No. 71. Unrealized gains and losses from mark-to-market valuations of these contracts are not recognized in current income but are reported as derivative assets or liabilities and offset by a corresponding deferred account balance included under "regulatory liabilities" or "regulatory assets." Due to their regulatory deferral treatment, effective portions of changes in the fair value of these derivatives are not recorded in OCI but are recognized as a regulatory asset or liability.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, the Company recognizes deferred income taxes for all temporary differences between the financial statement and tax basis of assets and liabilities at current income tax rates. Deferred tax liabilities and assets reflect the expected future tax consequences, based on enacted tax law, of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts (see Note 8).

SFAS No. 109 also requires recognition of the additional deferred income tax assets and liabilities for temporary differences where regulators prohibit deferred income tax treatment for

Table of Contents

ratemaking purposes. Consistent with rate and accounting orders of regulatory authorities, deferred income taxes are not currently collected for those temporary income tax differences where the prescribed regulatory accounting methods do not provide for current recovery in rates. NW Natural has recorded a regulatory tax asset for amounts pending recovery from customers in future rates, equivalent to \$64.7 million and \$63.4 million at Dec. 31, 2004 and 2003, respectively. These amounts are primarily based on differences between the book and tax bases of net utility plant in service.

Investment tax credits on utility plant additions and leveraged leases, which reduce income taxes payable, are deferred for financial statement purposes and are amortized over the life of the related plant or lease. Investment and energy tax credits generated by non-regulated subsidiaries are amortized over a period of one to five years.

Other Income (Expense)

Other income (expense) consists of interest income, gain on sale of assets, investment income of Financial Corporation, the costs incurred in connection with the Company's effort to acquire Portland General Electric Company (PGE) from Enron Corp. and other miscellaneous income from merchandise sales, rents, leases and other items.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding each year. Diluted earnings per share reflect the potential effects of the conversion of convertible debentures and the exercise of stock options. Diluted earnings per share are calculated as follows:

Thousands, except per share amounts	2004	2003	2002
Net income	\$ 50,572	\$ 45,983	\$ 43,792
Redeemable preferred and preference stock dividend requirements	—	294	2,280
Earnings applicable to common stock – basic	50,572	45,689	41,512
Debt interest less taxes	200	257	285
Earnings applicable to common stock – diluted	\$ 50,772	\$ 45,946	\$ 41,797
Average common shares outstanding – basic	27,016	25,741	25,431
Stock options	40	28	59
Convertible debentures	227	292	324
Average common shares outstanding – diluted	27,283	26,061	25,814
Earnings per share of common stock – basic	\$ 1.87	\$ 1.77	\$ 1.63
Earnings per share of common stock – diluted	\$ 1.86	\$ 1.76	\$ 1.62

For the years ended Dec. 31, 2004, 2003 and 2002, 201,800 shares, 77,500 shares and 84,000 shares, respectively, representing the number of stock options the exercise prices for which were greater than the average market prices for the Company's common stock for such years, were excluded from the calculation of diluted earnings per share because the effect was antidilutive.

Table of Contents

Stock-Based Compensation

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its stock-based compensation plans. Accordingly, the Company does not recognize compensation expense for the fair value of its stock option grants. Instead, the Company has elected to continue using the intrinsic value method of accounting for stock options rather than adopting the fair value method of accounting. However, the Company does recognize compensation expense for the fair value of stock awards granted under its Long-Term Incentive Plan and the Non-Employee Directors Stock Compensation Plan in the period when the shares are earned (see "New Accounting Standards—Recent Accounting Pronouncements—Share Based Payments," above, and Note 4).

2. CONSOLIDATED SUBSIDIARY OPERATIONS AND SEGMENT INFORMATION:

At Dec. 31, 2004, the Company had two direct, wholly-owned subsidiaries, Financial Corporation and Northwest Energy. Northwest Energy was formed in 2001 to serve as the holding company for NW Natural and PGE if the acquisition of PGE had been completed. Since the acquisition of PGE was terminated, Northwest Energy has remained a non-active subsidiary of the Company.

The Company's core business segment, Local Gas Distribution (LDC), involves the distribution and sale of natural gas. The Local Gas Distribution segment is also referred to as the "utility". Another segment, Interstate Gas Storage, represents natural gas storage services provided to interstate customers, including asset optimization services under a contract with an independent energy marketing company. The remaining business segment, Other, primarily consists of non-regulated investments in alternative energy projects in California (see "Financial Corporation," below), a Boeing 737-300 aircraft leased to Continental Airlines, low-income housing in Portland, Oregon and Northwest Energy's limited activities (see Note 9).

Interstate Gas Storage

Interstate gas storage services are provided to off-system interstate customers using Company-owned storage capacity that has been developed in advance of core utility customers' (residential, commercial and industrial firm) requirements. NW Natural retains 80 percent of the income before tax from gas storage services and credits the remaining 20 percent to a deferred regulatory account for sharing with its core utility customers. For each of the years ended Dec. 31, 2004, 2003 and 2002, this business segment derived a majority of its revenues from fewer than five customers. The largest of these customers is served under a long-term contract.

Results for the interstate gas storage segment also include revenues, net of amounts shared with core utility customers, from a contract with an independent energy marketing company that optimizes the use of NW Natural's assets by engaging in trading activities using temporarily unused portions of its upstream pipeline transportation capacity and gas storage capacity. In Oregon, NW Natural retains 80 percent of the pre-tax income from the optimization of storage and pipeline transportation capacity when the costs of such capacity have not been included in core utility rates, and 33 percent of the pre-tax income from such capacity when the costs have been included in core utility rates. The remaining 20 percent and 67 percent, respectively, are credited to a deferred regulatory account for distribution to NW Natural's core utility customers. NW Natural has a similar sharing mechanism in Washington for revenue derived from interstate storage services and third party optimization services.

Table of Contents
Financial Corporation

Financial Corporation has several financial investments, including investments as a limited partner in solar electric generating systems, windpower electric generating projects and low-income housing projects. Financial Corporation's total assets were \$7.6 million and \$8.0 million at Dec. 31, 2004 and 2003, respectively.

On Jan. 31, 2005 Financial Corporation sold its limited partnership interests in three solar electric generating systems for approximately \$3 million, which resulted in a \$0.5 million write-down of these systems in the fourth quarter of 2004. These systems are located in the Mojave Desert in California. NW Natural invested in the projects between 1986 and 1988. Financial Corporation's ownership interests ranged from 4.0 percent to 5.3 percent.

Segment Information Summary

The following table presents summary financial information about the reportable segments for 2004, 2003 and 2002. Inter-segment transactions are insignificant.

Thousands	Utility	Interstate Gas Storage	Other	Total
2004				
Net operating revenues	\$ 301,769	\$ 6,423	\$ 168	\$ 308,360
Depreciation and amortization	56,899	472	—	57,371
Other operating expenses	140,089	652	222	140,963
Income (loss) from operations	104,781	5,299	(54)	110,026
Income from financial investments	2,855	—	181	3,036
Net income	47,090	2,880	602	50,572
Total assets at Dec. 31, 2004	1,688,688	28,361	15,146	1,732,195
2003				
Net operating revenues	\$ 278,856	\$ 9,036	\$ 174	\$ 288,066
Depreciation and amortization	53,798	451	—	54,249
Other operating expenses	130,619	804	122	131,545
Income from operations	94,439	7,781	52	102,272
Income from financial investments	3,406	—	474	3,880
Net income	40,913	4,312	758	45,983
Total assets at Dec. 31, 2003	1,551,817	19,036	14,526	1,585,379
2002				
Net operating revenues	\$ 279,414	\$ 7,944	\$ 186	\$ 287,544
Depreciation and amortization	51,693	396	1	52,090
Other operating expenses	118,156	962	78	119,196
Income from operations	109,565	6,586	107	116,258
Income from financial investments	1,390	—	988	2,378
Loss provision for PGE transaction costs	—	—	(8,414)	(8,414)
Net income (loss)	47,280	3,646	(7,134)	43,792
Total assets at Dec. 31, 2002	1,432,777	16,403	18,097	1,467,277

Table of Contents

3. CAPITAL STOCK:

Common Stock

At Dec. 31, 2004, NW Natural had reserved 106,699 shares of common stock for issuance under the Employee Stock Purchase Plan, 288,155 shares for future conversions of its 7¹/₄% Convertible Debentures, 232,827 shares under its Dividend Reinvestment and Stock Purchase Plan, 1,659,470 shares under its Restated Stock Option Plan (see Note 4), and 3,000,000 shares under the Shareholder Rights Plan.

In April 2004, the Company issued and sold 1,290,000 shares of its common stock in an underwritten public offering and used the net proceeds of \$38.5 million from the offering primarily to reduce short-term indebtedness and to fund, in part, NW Natural's utility construction program.

Redeemable Preferred Stock

On Nov. 14, 2003, NW Natural redeemed all of the remaining shares of its \$7.125 Series of Redeemable Preferred Stock with an aggregate stated value of \$7.5 million, at a redemption price equivalent to 102.375 percent with proceeds from sales of commercial paper. The Company re-financed the commercial paper with the sale of new long-term debt in the fourth quarter of 2003. The early redemption premium was recognized as an unamortized cost pursuant to SFAS No. 71 and is being amortized to expense over the life of the new debt.

Redeemable Preference Stock

On Dec. 31, 2002, NW Natural redeemed all 250,000 shares of its \$6.95 Series of Redeemable Preference Stock with proceeds from the sale of commercial paper.

Stock Repurchase Program

NW Natural's Board of Directors approved a stock repurchase program in 2000 to purchase up to 2 million shares, or up to \$35 million in value, of NW Natural's common stock in the open market or through privately negotiated transactions. The repurchase program has been extended through May 2005. No shares were repurchased in 2003 or 2004. Since the program's inception, the Company has repurchased 355,400 shares of common stock at a total cost of \$8.2 million.

Restated Stock Option Plan

In May 2002, the shareholders approved an amendment to the Restated Stock Option Plan that increased the total number of shares authorized for option grants from 1,200,000 to 2,400,000 shares. At Dec. 31, 2004, options on 1,228,000 shares were available for grant and options on 431,470 shares were outstanding.

Table of Contents

The following table shows the changes in the number of shares of NW Natural's capital stock and the premium on common stock for the years 2004, 2003 and 2002:

	Shares			Premium on common stock (thousands)
	Common stock	Redeemable preference stock	Redeemable preferred stock	
Balance, Dec. 31, 2001	25,228,074	250,000	90,000	\$ 240,697
Sales to employees	42,862	-	-	748
Sales to stockholders	157,288	-	-	3,854
Exercise of stock options - net	61,020	-	-	1,105
Conversion of convertible debentures to common	97,069	-	-	1,624
Sinking fund purchases	-	-	(7,500)	-
Redemption	-	(250,000)	-	-
Balance, Dec. 31, 2002	25,586,313	-	82,500	248,028
Sales to employees	14,175	-	-	425
Sales to stockholders	178,714	-	-	4,347
Exercise of stock options - net	127,357	-	-	2,545
Conversion of convertible debentures to common	31,443	-	-	526
Sinking fund purchases	-	-	(7,500)	-
Early redemption	-	-	(75,000)	-
Balance, Dec. 31, 2003	25,938,002	-	-	255,871
Sales to public	1,290,000	-	-	35,905
Sales to employees	27,541	-	-	605
Sales to stockholders	157,124	-	-	4,323
Exercise of stock options - net	73,649	-	-	2,285
Conversion of convertible debentures to common	64,904	-	-	1,086
Repurchase	(4,500)	-	-	(41)
Balance, Dec. 31, 2004	27,546,720	-	-	\$ 300,034

4. STOCK-BASED COMPENSATION:

NW Natural has the following stock-based compensation plans: the Long-Term Incentive Plan (LTIP); the Restated Stock Option Plan (Restated SOP); the Employee Stock Purchase Plan (ESPP); and the Non-Employee Directors Stock Compensation Plan (NEDSCP). These plans are designed to promote stock ownership in NW Natural by employees and officers and, in the case of the NEDSCP, by non-employee directors.

Long-Term Incentive Plan. The LTIP is intended to provide a flexible, competitive compensation program for eligible officers. An aggregate of 500,000 shares of common stock was authorized for grants under the LTIP as stock bonus, restricted stock or performance-based stock awards. Shares awarded under the LTIP are purchased on the open market.

At year-end 2004, a total of 436,000 shares of common stock were available for award under the LTIP, assuming that current performance based grants are awarded at the target level. The LTIP stock awards are compensatory awards for which compensation expense is recognized based on the market value of performance shares earned, or a pro rata amortization over the vesting period for the restricted stock awards.

Table of Contents

Performance-based Stock Awards. Since the Plan's inception in 2001, through December 31, 2004, five performance-based stock awards have been granted, one based on a two-year performance period (2001-02) and four based on three-year performance periods (2001-03, 2002-04, 2003-05 and 2004-06). At Dec. 31, 2004, all performance-based stock awards other than those covering the 2003-05 and 2004-06 periods had lapsed because the performance-based measures were not achieved. If the performance-based measures are achieved, participants will also receive dividend equivalent cash payments equal to the number of shares of common stock received on the award payout multiplied by the aggregate cash dividends paid per share by the Company during the performance period.

At Dec. 31, 2004, the aggregate number of performance-based shares awarded and outstanding at the minimum, threshold, target and maximum levels were as follows:

Year Awarded	Performance Period	No. of Performance Shares Awarded			
		Minimum	Threshold	Target	Maximum
2003	2003-05	-	7,000	28,000	56,000
2004	2004-06	-	7,750	31,000	62,000

For the 2003-05 performance period, a series of performance targets were established based on the Company's average annual return on equity (ROE) for the performance period corresponding to award opportunities ranging from 0 percent to 200 percent of the target awards. No awards are payable unless the threshold annual average ROE level, tied to the Company's authorized ROE, is achieved during the award period. The maximum awards are payable only upon the achievement of an average annual ROE 200 basis points above the Company's authorized ROE. For the 2004-06 performance period, awards will be based on total shareholder return relative to a peer group of gas distribution companies over the three-year performance period and performance milestones relative to the Company's core and non-core strategies.

Restricted Stock Awards. Restricted stock awards also have been granted under the LTIP. A restricted stock award consisting of 4,500 shares granted in 2001 lapsed in 2004, and a restricted stock award was granted in 2004 consisting of 5,000 shares that is scheduled to vest ratably over five years beginning in 2005.

Restated Stock Option Plan. The Restated SOP authorizes an aggregate of 2,400,000 shares of common stock for issuance as incentive or non-statutory stock options. These options may be granted only to officers and key employees designated by a committee of NW Natural's Board of Directors. All options are granted at an option price not less than the market value at the date of grant and may be exercised for a period not exceeding 10 years from the date of grant. Option holders may exchange shares they have owned for at least six months, at the current market price, to purchase shares at the option price. Since inception in 1985, options on 1,303,721 shares of common stock have been granted at prices ranging from \$11.75 to \$32.02 per share, and options on 131,721 shares have expired.

Employee Stock Purchase Plan. The ESPP allows employees to purchase common stock at 85 percent of the closing price on the trading day immediately preceding the subscription date, which is set annually. Each eligible employee may purchase up to \$24,000 worth of stock through payroll deductions over a six- to 12-month period.

Table of Contents

In accordance with APB Opinion No. 25, no compensation expense was recognized for options granted under the Restated SOP or shares issued under the ESPP during 2004 or earlier years (see Note 1, "New Accounting Standards—Recent Accounting Pronouncements"). If compensation expense for awards under these two plans had been determined based on fair value at the grant dates using the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been reduced to the pro forma amounts shown below:

Thousands, except per share amounts	2004	2003	2002
Net income as reported	\$50,572	\$45,983	\$43,792
Pro forma stock-based compensation expense determined under the fair value based method – net of tax	(423)	(279)	(478)
Pro forma net income	50,149	45,704	43,314
Redeemable preferred and preference stock	–	(294)	(2,280)
Pro forma earnings applicable to common stock – basic	50,149	45,410	41,034
Debt interest less taxes	200	257	285
Pro forma earnings applicable to common stock – diluted	\$50,349	\$45,667	\$41,319
Basic earnings per share			
As reported	\$ 1.87	\$ 1.77	\$ 1.63
Pro forma	\$ 1.86	\$ 1.76	\$ 1.61
Diluted earnings per share			
As reported	\$ 1.86	\$ 1.76	\$ 1.62
Pro forma	\$ 1.85	\$ 1.75	\$ 1.60

The fair value of each stock option is estimated on the grant date (there were no stock option grants in 2003) using the Black–Scholes option pricing model with the following weighted average assumptions:

	2004	2002
Expected life in years	7.0	7.0
Risk-free interest rate	3.6%	3.6%
Expected volatility	25.2%	29.1%
Dividend yield	4.1%	4.8%
Present value of options granted	\$ 24.55	\$ 20.49

Table of Contents

Information regarding the Restated SOP's activity is summarized as follows:

	Option Shares	Range	Price per Share	Weighted-Average Exercise Price
Balance outstanding, Dec. 31, 2001	387,091	\$ 20.25 – 27.875	\$	22.79
Granted	163,750	26.07 – 27.850		26.35
Exercised	(68,827)	20.25 – 27.875		21.74
Expired	(18,200)	20.25 – 27.875		25.43
Balance outstanding, Dec. 31, 2002	463,814	20.25 – 27.875		24.10
Exercised	(140,470)	20.25 – 27.875		21.14
Expired	(1,300)	20.25		20.25
Balance outstanding, Dec. 31, 2003	322,044	20.25 – 27.875		25.35
Granted	202,800	31.34 – 32.020		31.40
Exercised	(92,074)	20.25 – 27.875		24.39
Expired	(1,300)	26.30 – 31.340		30.18
Balance outstanding, Dec. 31, 2004	431,470	\$ 20.25 – 32.020	\$	28.38
Shares available for grant Dec. 31, 2002	1,428,200			
Shares available for grant Dec. 31, 2003	1,429,500			
Shares available for grant Dec. 31, 2004	1,228,000			

The weighted average remaining life of outstanding stock options at December 31, 2004 was 7.3 years.

The characteristics of exercisable stock options at Dec. 31, 2004 were as follows:

Range of Exercise Prices	Exercisable Stock Options	Weighted- Average Exercise Price
\$20.25 – \$27.875	185,120	\$ 25.56

Non-Employee Directors Stock Compensation Plan. In February 2004, the NEDSCP was amended to permit non-employee directors to receive stock awards either in cash or in Company stock. As a result of modifications to the directors' compensation arrangements, the NEDSCP was further amended in September 2004 to eliminate any further awards, either in cash or stock, on and after Jan. 1, 2005.

Prior to the latter amendment to the NEDSCP, if non-employee directors elected to receive their awards in stock, approximately \$100,000 worth of the Company's common stock was awarded upon joining the Board. These stock awards were subject to vesting and to restrictions on sale and transferability. The shares vested in monthly installments over the five calendar years following the award. On January 1 of each year following the initial award, non-employee directors who elected to receive their awards in Company stock were awarded an additional \$20,000 worth of restricted Company stock, which vested in monthly installments in the fifth year following the award (after the previous award has fully vested). The Company

Table of Contents

holds the certificates for the restricted shares until the non–employee director ceases to be a director. Participants receive all dividends and have full voting rights on both vested and unvested shares. All awards vest immediately upon a change in control of the Company. Any unvested shares are considered to be unearned compensation, and thus are forfeited if the recipient ceases to be a director. The shares were purchased in the open market by the Company at the time of the award.

The following table presents the changes in unearned stock compensation for the years 2004 and 2003, which are reported as a reduction to total common equity in the consolidated balance sheets:

Thousands	2004	2003
Unearned stock compensation:		
Balance at beginning of year	\$ 729	\$ 711
Purchases of restricted stock	431	328
Restricted stock amortizations	(298)	(310)
	<u> </u>	<u> </u>
Balance at end of year	\$ 862	\$ 729

Under a separate plan, prior to Jan. 1, 2005, non–employee directors could elect to invest their cash fees and retainers for board service in shares of the Company’s common stock. Under a new deferral plan effective Jan. 1, 2005, such fees and retainers will be deferred to a cash account. Cash account balances may be transferred to and invested in a Company stock account, at the election of the director, up to four times per year.

5. LONG–TERM DEBT:

The issuance of first mortgage debt, including secured medium–term notes, under the Mortgage and Deed of Trust (Mortgage), is limited by property additions, adjusted net earnings and other provisions of the Mortgage. The Mortgage constitutes a first mortgage lien on substantially all of NW Natural’s utility property.

The 7 ¹/₄% Series of Convertible Debentures may be converted at any time into 50 ¹/₄ shares of common stock for each \$1,000 face value (\$19.90 per share).

The maturities on the long–term debt outstanding, for each of the 12–month periods through Dec. 31, 2009 amount to: \$15 million in 2005; \$8 million in 2006; \$29.5 million in 2007; \$5 million in 2008; and none in 2009. Holders of certain long–term debt have put options that, if exercised, would accelerate the maturities by \$10 million in 2005 and \$20 million in each of 2007, 2008 and 2009.

6. NOTES PAYABLE AND LINES OF CREDIT:

The Company’s primary source of short–term funds is commercial paper notes payable. NW Natural issues commercial paper under agency agreements with a commercial bank and such commercial paper is supported by its committed bank lines of credit (see below). At Dec. 31, 2004 and 2003, the amounts and average interest rates of commercial paper debt outstanding were \$102.5 million and 2.3 percent and \$85.2 million and 1.1 percent, respectively.

Table of Contents

NW Natural has lines of credit with four commercial banks totaling \$150 million. Half of the credit facility with each bank, totaling \$75 million, is committed and available through Sept. 30, 2005, and the other \$75 million is committed and available through Sept. 30, 2007. Three of these commercial banks have each committed \$20 million for each of their 2005 and 2007 lines of credit and the fourth commercial bank has committed \$15 million for each of its 2005 and 2007 lines of credit.

NW Natural's lines of credit require that credit ratings be maintained in effect at all times and that notice be given of any change in its senior unsecured debt ratings. A change in NW Natural's credit rating is not an event of default, nor is the maintenance of a specific minimum level of credit rating a condition to drawing upon the lines of credit. However, interest rates on any loans outstanding under NW Natural's bank lines are tied to credit ratings, which would increase or decrease the cost of bank debt, if any, when ratings are changed.

The lines of credit require the Company to maintain an indebtedness to total capitalization ratio of 65 percent or less and to maintain a consolidated net worth at least equal to 80 percent of its net worth at Sept. 30, 2004, plus 50 percent of the Company's net income for each subsequent fiscal quarter. Failure to comply with either of these covenants would entitle the banks to terminate their lending commitments and to accelerate the maturity of all amounts outstanding. The Company was in compliance with both of these covenants at Dec. 31, 2004, and with the equivalent covenants in the prior year's lines of credit at Dec. 31, 2003.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS:

NW Natural maintains two qualified non-contributory defined benefit pension plans covering all regular employees with more than one year of service, several non-qualified supplemental pension plans for eligible executive officers and certain key employees and other postretirement benefit plans for its employees. Only the two qualified defined benefit pension plans have plan assets which are held in a qualified trust to fund retirement benefits.

Table of Contents

The following table provides a reconciliation of the changes in benefit obligations and fair value of assets, as applicable, for the pension plans and other postretirement benefit plans over the three-year period ended Dec. 31, 2004, and a statement of the funded status and amounts recognized in the consolidated balance sheets, using measurement dates of Dec. 31, 2004, 2003 and 2002:

Thousands	Post-Retirement Benefits					
	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Change in benefit obligation:						
Benefit obligation at Jan. 1	\$ 205,352	\$ 185,124	\$ 166,751	\$ 23,379	\$ 18,457	\$ 16,987
Service cost	5,428	4,748	4,637	457	456	395
Interest cost	12,690	12,402	11,807	1,232	1,336	1,174
Special termination benefits	237	—	—	—	—	—
Expected benefits paid	(10,682)	(10,363)	(9,453)	(1,040)	(1,027)	(979)
Plan amendments	—	—	—	—	(111)	(300)
Net actuarial (gain) loss	9,923	13,441	11,382	(1,299)	4,268	1,180
Benefit obligation at Dec. 31	222,948	205,352	185,124	22,729	23,379	18,457
Change in plan assets:						
Fair value of plan assets at Jan. 1	168,324	143,164	168,964	—	—	—
Actual return on plan assets	19,835	34,520	(17,082)	—	—	—
Employer contributions	9,310	1,003	735	1,040	1,027	979
Benefits paid	(10,682)	(10,363)	(9,453)	(1,040)	(1,027)	(979)
Fair value of plan assets at Dec. 31	186,787	168,324	143,164	—	—	—
Funded status:						
Funded status at Dec. 31	(36,162)	(37,028)	(41,960)	(22,729)	(23,379)	(18,457)
Unrecognized transition obligation	—	—	—	3,292	3,703	4,226
Unrecognized prior service cost	5,146	6,240	7,371	—	—	—
Unrecognized net actuarial loss	33,897	32,156	42,060	6,717	8,304	4,437
Net amount recognized	\$ 2,881	\$ 1,368	\$ 7,471	\$ (12,720)	\$ (11,372)	\$ (9,794)
Amounts recognized in the consolidated balance sheets at Dec. 31:						
Prepaid benefit cost	\$ 12,745	\$ 11,113	\$ 17,339	\$ —	\$ —	\$ —
Accrued benefit liability	(12,919)	(11,319)	(18,741)	(12,720)	(11,372)	(9,794)
Intangible asset	—	—	4,438	—	—	—
Other comprehensive loss	3,055	1,574	4,435	—	—	—
Net amount recognized	\$ 2,881	\$ 1,368	\$ 7,471	\$ (12,720)	\$ (11,372)	\$ (9,794)

The Company's qualified defined benefit pension plans had an accumulated benefit obligation in excess of plan assets at Dec. 31, 2004. The plans' aggregate accumulated benefit obligation was \$209 million, \$192 million and \$172 million at Dec. 31, 2004, 2003 and 2002, respectively, and the fair value of plan assets was \$186.8 million, \$168.3 million and \$143.2 million, respectively. The fair value of plan assets increased from Dec. 31, 2003 to Dec. 31, 2004 due to \$22.5 million in investment gains and employer contributions of \$8.3 million, partially offset by \$11.2 million in withdrawals to pay benefits and \$1.1 million to pay eligible expenses of the plans. The combination of investment returns and cash contributions is expected to provide

Table of Contents

sufficient funds to cover all benefit obligations of the plans. The Company is not required to make a cash contribution to either of its qualified pension plans for the 2005 plan year.

The Company's investment policy and performance objectives for the qualified pension plan assets (plan assets) held in the Retirement Trust Fund was approved by the retirement committee which is composed of management employees. The policy sets forth the guidelines and objectives governing the investment of plan assets. Plan assets are invested for total return with appropriate consideration for liquidity and portfolio risk. All investments are expected to satisfy the requirements of the rule of prudent investments as set forth under the Employee Retirement Income Security Act of 1974 (ERISA). The approved asset classes are cash and short-term investments, fixed income, common stock and convertible securities, absolute and real return strategies, real estate and investments in securities of NW Natural, and may be invested in separately managed accounts or in commingled or mutual funds. Re-balancing will take place at least annually, or when significant cash flows occur, in order to maintain the allocation of assets within the stated target allocation ranges. The Retirement Trust Fund is not currently invested in any NW Natural securities.

The Company's pension plan asset allocation at Dec. 31, 2004 and 2003, and the target allocation and expected long-term rate of return by asset category for 2005 are as follows:

Asset Category	Percent of Plan Assets Dec. 31,		Target Allocation	Expected Long-term Rate of Return
	2004	2003	2005	2005
US Large Cap Equity	36.3%	40.2%	35%	9.00%
US Small/Mid Cap Equity	9.2%	7.3%	8%	9.50%
Non-US Equity	19.2%	16.0%	15%	9.00%
Fixed Income	19.8%	24.8%	25%	5.75%
Real Estate	3.6%	3.9%	4%	8.00%
Absolute Return	7.3%	7.8%	8%	9.00%
Real Return	4.6%	-	5%	8.25%
Weighted Average				8.25%

The Company's non-qualified supplemental pension plans' accumulated benefit obligations were \$13.6 million, \$13.0 million and \$12.8 million at Dec. 31, 2004, 2003 and 2002, respectively. Although the plans are unfunded plans with no plan assets due to their nature as non-qualified plans, the Company indirectly funds its obligations with trust-owned life insurance.

The Company's plans for providing postretirement benefits other than pensions also are unfunded plans. The aggregate benefit obligation for those plans was \$22.7 million, \$23.4 million and \$18.5 million at Dec. 31, 2004, 2003 and 2002, respectively.

Table of Contents

The following tables provide the components of net periodic benefit cost for the qualified and non-qualified pension and other postretirement benefit plans for the years ended Dec. 31, 2004, 2003 and 2002, and the assumptions used in measuring these costs and benefit obligations:

Thousands	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Service cost	\$ 5,428	\$ 4,748	\$ 4,637	\$ 457	\$ 456	\$ 395
Interest cost	12,689	12,402	11,807	1,232	1,336	1,174
Expected return on plan assets	(13,284)	(12,232)	(16,335)	—	—	—
Amortization of transition obligation	—	—	351	411	411	436
Amortization of prior service cost	1,094	1,132	1,204	—	—	6
Recognized actuarial (gain) loss	1,631	1,058	(216)	288	401	147
Net periodic cost	\$ 7,558	\$ 7,108	\$ 1,448	\$ 2,388	\$ 2,604	\$ 2,158
Assumptions:						
Discount rate for net periodic benefit cost (NPBC)	6.25%	6.75%	7.25%	6.25%	6.75%	7.25%
Rate of increase in compensation for NPBC	4.00–5.00%	4.25–5.00%	4.25–5.00%	n/a	n/a	n/a
Expected long-term rate of return for NPBC	8.25%	8.00%	9.00%	n/a	n/a	n/a
Discount rate for determination of funded status	6.00%	6.25%	6.75%	6.00%	6.25%	6.75%
Rate of increase in compensation for funded status	4.00–5.00%	4.00–5.00%	4.25–5.00%	n/a	n/a	n/a
Expected long-term rate of return for funded status	8.25%	8.25%	8.00%	n/a	n/a	n/a

The assumed annual increase in trend rates used in measuring postretirement benefits as of Dec. 31, 2004 were 10 percent for medical and 13 percent for prescription drugs. Medical costs were assumed to decrease gradually each year to a rate of 4.5 percent for 2012, while prescription drug costs were assumed to decrease gradually each year to a rate of 4.5 percent for 2013.

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

Thousands	1% Increase	1% Decrease
Effect on the total service and interest cost components of net periodic postretirement health care benefit cost	\$ 48	\$ (47)
Effect on the health care cost component of the accumulated postretirement benefit obligation	\$ 901	\$ (815)

Table of Contents

The following table provides information regarding employer contributions and benefit payments for the two qualified pension plans, the non-qualified pension plans and the other postretirement benefit plans for the years ended Dec. 31, 2004 and 2003, and estimated future payments:

Thousands

<u>Employer Contributions by Plan Year</u>	<u>Pension Benefits</u>	<u>Other Benefits</u>
2003	\$ 3,922	\$ 1,027
2004	6,390	1,040
2005 (estimated)	1,620	1,452
<u>Benefit Payments</u>		
2002	\$ 9,453	\$ 979
2003	10,363	1,027
2004	10,682	1,040
<u>Estimated Future Payments</u>		
2005	\$ 12,404	\$ 1,452
2006	12,817	1,561
2007	13,106	1,641
2008	13,892	1,738
2009	14,325	1,794
2010-2014	82,578	9,667

NW Natural's Retirement K Savings Plan (RKSP) is a qualified defined contribution plan under Internal Revenue Code Section 401(k). NW Natural also has non-qualified deferred compensation plans for eligible officers and senior managers. These plans are designed to enhance the retirement program of employees and to assist them in strengthening their financial security by providing an incentive to save and invest regularly. NW Natural's matching contributions to these plans totaled \$1.7 million in 2004, \$1.6 million in 2003 and \$1.4 million in 2002. Effective Jan. 1, 2002, the RKSP was amended to establish an Employee Stock Ownership Plan (ESOP) within the RKSP by converting the existing RKSP Company Stock Fund into an ESOP.

Effective Jan. 1, 2005, the Company will make a contribution of 25 cents per compensable hour on behalf of each union employee to the Western States Office and Professional Employees Pension Fund, which contributions will increase 3 percent each year, up to 30 cents per compensable hour.

Table of Contents

8. INCOME TAXES:

A reconciliation between income taxes calculated at the statutory federal tax rate and the tax provision reflected in the financial statements is as follows:

Thousands	2004	2003	2002
Computed income taxes based on statutory federal income tax rate of 35%	\$ 26,986	\$ 24,263	\$ 23,533
Increase (reduction) in taxes resulting from:			
Difference between book and tax depreciation	222	222	222
Current state income tax, net of federal tax benefit	2,554	2,310	2,299
Federal income tax credits	(210)	(357)	(362)
Amortization of investment tax credits	(920)	(879)	(858)
Gains on Company and trust-owned life insurance	(955)	(1,192)	(487)
Removal costs	(813)	(925)	(573)
Reversal of amounts provided in prior years	(392)	(226)	(240)
Other – net	59	124	(90)
Total provision for income taxes	\$ 26,531	\$ 23,340	\$ 23,444
Total income taxes paid	\$ 2,500	\$ 13,940	\$ 33,474

The provision for income taxes consists of the following:

Thousands, except percentages	2004	2003	2002
Income taxes currently payable (receivable):			
Federal	\$ (9,607)	\$ 10,011	\$ 9,377
State	(1,111)	1,175	1,239
Total	(10,718)	11,186	10,616
Deferred taxes – net:			
Federal	33,602	10,747	11,476
State	4,567	2,286	2,210
Total	38,169	13,033	13,686
Investment and energy tax credits restored:			
From utility operations	(800)	(801)	(800)
From subsidiary operations	(120)	(78)	(58)
Total	(920)	(879)	(858)
Total provision for income taxes	\$ 26,531	\$ 23,340	\$ 23,444
Percentage of pretax income	34.4%	33.7%	34.9%

Table of Contents

Deferred tax assets and liabilities are comprised of the following:

Thousands	2004	2003
Deferred tax liabilities:		
Plant and property	\$ 146,657	\$ 113,781
Regulatory income tax assets	64,734	63,449
Regulatory liabilities	5,730	—
Other deferred liabilities	5,534	6,109
Total	222,655	183,339
Deferred tax assets:		
Regulatory assets	—	970
Minimum pension liability	1,068	557
Other deferred assets	7,330	10,015
Alternative minimum tax credit carryforward	1,631	—
Loss and credit carryforwards	1,911	—
Total	11,940	11,542
Net accumulated deferred income tax liability	\$ 210,715	\$ 171,797

The amount of income taxes paid in 2004 and 2003 decreased significantly as compared to the total provision for income taxes, primarily due to the effects of accelerated depreciation provisions provided by the Job Creation and Worker Assistance Act of 2002 (the Assistance Act) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the Reconciliation Act). The Assistance Act provided for an additional depreciation deduction equal to 30 percent of an asset's adjusted basis. The Reconciliation Act increased this first-year additional depreciation deduction to 50 percent of an asset's adjusted basis. The additional first-year depreciation deduction is an acceleration of depreciation deductions that otherwise would have been taken in the later years of an asset's recovery period. The accelerated depreciation provisions provided by both the Assistance Act and the Reconciliation Act expired at Dec. 31, 2004. The Company realized enhanced cash flow from reduced income taxes totaling an estimated \$55 million during the effective period, based on plant investments made between Sept. 11, 2001 and Dec. 31, 2004.

For the year ended Dec. 31, 2004, the Company had an estimated federal net operating loss (NOL) of \$15.4 million and an Oregon NOL of \$18.6 million, primarily due to the effects of accelerated tax depreciation provided by the Assistance Act and the Reconciliation Act. The federal NOL will be carried back to 2002 for a refund of taxes paid in prior years, and the Oregon NOL will be used to reduce future Oregon taxable income. The Oregon NOL will expire in 2019.

At Dec. 31, 2004 the Company had \$1.6 million of alternative minimum tax credit carryforwards to offset regular federal income tax payable in future years. In addition, the Company had certain tax credits of approximately \$0.7 million which are available to reduce certain federal and state income tax liabilities through 2011. The Company anticipates that it will be able to utilize all loss and credit carryforwards in future years.

Table of Contents

9. PROPERTY AND INVESTMENTS:

The following table sets forth the major classifications of NW Natural's utility plant and accumulated depreciation at Dec. 31:

Thousands, except percentages	2004		2003	
	Amount	Weighted Average Depreciation Rate	Amount	Weighted Average Depreciation Rate
Transmission and distribution	\$1,509,475	3.2%	\$1,347,402	3.3%
Utility storage	109,613	2.6%	107,547	2.7%
General	91,229	3.4%	84,381	6.0%
Intangible and other	61,573	8.5%	56,429	5.1%
Utility plant in service	1,771,890	3.4%	1,595,759	3.5%
Gas stored long-term	13,434		12,778	
Held for future use	1,833		1,226	
Construction work in progress	7,815		47,826	
Total utility plant	1,794,972		1,657,589	
Accumulated depreciation	(658,544)		(607,354)	
Regulatory liability – accrued asset removal costs	153,258		135,638	
Utility plant–net	\$1,289,686		\$1,185,873	

Accumulated depreciation does not include \$153.3 million and \$135.6 million at Dec. 31, 2004 and 2003, respectively, which represent accrued asset removal costs and are reflected on the balance sheets as a regulatory liability (see Note 1).

The following table summarizes the Company's investments in non-utility plant at Dec. 31:

Thousands, except percentages	2004		2003	
	Amount	Weighted Average Depreciation Rate	Amount	Weighted Average Depreciation Rate
Non-utility storage	\$24,900		\$18,507	
Dock, land, oil station and other	4,728		3,846	
Non-utility plant in service	29,628	2.3%	22,353	2.3%
Construction work in progress	4,335		1,042	
Total non-utility plant	33,963		23,395	
Less accumulated depreciation	5,244		4,855	
Non-utility plant – net	\$28,719		\$18,540	

Table of Contents

The following table summarizes the Company's other long-term investments, including financial investments in life insurance policies accounted for at fair value based on cash surrender values, equity investments in certain partnerships and joint ventures accounted for under the equity or cost methods, and a leveraged lease investment in an aircraft, at Dec. 31:

(Thousands)	2004	2003
Life insurance	\$ 45,011	\$ 59,710
Aircraft leveraged lease	6,621	6,438
Real estate partnership	1,500	1,500
Note receivable	1,240	—
Gas pipeline and other	3,263	2,880
Electric generation	2,983	3,317
Total other investments	\$ 60,618	\$ 73,845

In 1987, the Company invested in a Boeing 737-300 aircraft, which is leased to Continental Airlines for 20 years under a leveraged lease agreement.

A Financial Corporation subsidiary, KB Pipeline Company (KB Pipeline), owns a 10 percent interest in an 18-mile interstate natural gas pipeline. KB Pipeline operated the pipeline for twelve years until Dec. 1, 2004, when a third party gas distribution company became the operator. KB Pipeline resigned as pipeline operator due, in part, to increased obligations resulting from final Federal Energy Regulatory Commission regulations implementing Standards of Conduct for Transmission Providers. Those regulations govern the relationship between interstate natural gas pipelines and their energy affiliates or marketing functions and impose obligations previously inapplicable to KB Pipeline with regard to separation of duties and related matters. FERC granted KB Pipeline an exemption from most of the requirements of the Standards of Conduct; however, the remainder of the regulations continue to be applicable to KB Pipeline as a co-owner of the pipeline.

At Dec. 31, 2004, Financial Corporation held ownership interests ranging from 4.0 to 5.3 percent in three solar electric generation plants located near Barstow, California. Power generated by these plants is sold to Southern California Edison Company under long-term contracts. Financial Corporation also has ownership interests ranging from 25 to 41 percent in wind power electric generation projects located near Livermore and Palm Springs, California. The wind-generated power is sold to Pacific Gas and Electric Company and Southern California Edison Company under long-term contracts. Financial Corporation sold its interests in the solar electric generation plants on Jan. 31, 2005 (see Note 2).

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," provides guidance for determining whether consolidation is required for entities over which control is achieved through means other than voting rights, known as "variable interest entities." The Company does not have any significant interests in variable interest entities for which it is a primary beneficiary.

Table of Contents**10. FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The estimated fair value of NW Natural's financial instruments has been determined using available market information and appropriate valuation methodologies. The following are financial instruments whose carrying values are sensitive to market conditions:

(Thousands)	Dec. 31, 2004		Dec. 31, 2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Long-term debt including amount due within one year</u>	<u>\$ 499,027</u>	<u>\$ 567,926</u>	<u>\$ 500,319</u>	<u>\$ 562,688</u>

Fair value of the long-term debt was estimated using market prices on the valuation date for debt with similar credit ratings, maturities, interest rates and other terms.

11. USE OF FINANCIAL DERIVATIVES:

NW Natural enters into short-term, medium-term and long-term natural gas purchase contracts with suppliers, including contracts tied to market-based index prices, and thus is exposed to changes in commodity prices. Natural gas prices are subject to fluctuations due to unpredictable factors including weather, inventory levels, pipeline transportation availability, and the economy, each of which affects short-term supply and demand. As part of its overall strategy to maintain an acceptable level of exposure to gas price fluctuations, NW Natural uses a targeted mix of fixed-rate and cap-protected derivative instruments to hedge the exposure under floating price gas supply contracts. Swap contracts are used to convert certain long-term gas purchase contracts from floating prices to fixed prices. Call option contracts are used to limit the maximum adverse impact from floating price contracts while retaining the potential favorable impact from declining gas prices. The prices embedded in these commodity hedge contracts are incorporated in annual rate changes under the PGA rate mechanisms, thereby limiting customers' exposure to frequent changes in purchased gas costs. The estimated fair value of gains and losses from commodity hedge contracts are recorded as a derivative asset or liability, and are offset by a corresponding amount recorded to a deferred regulatory asset or liability account for the effective portion of each hedge contract. The actual gains and losses realized at settlement of the hedge contracts are used to offset the actual gas purchase cost from NW Natural's physical supply contracts.

Certain natural gas purchases from Canadian suppliers are invoiced in Canadian dollars, including both commodity and demand charges, thereby exposing NW Natural to adverse changes in foreign currency rates. Foreign currency forward contracts are used to minimize the impact of fluctuations in currency rates. Foreign currency contracts for commodity costs are purchased on a month-to-month basis because the Canadian cost is priced at the average noonday exchange rate for each month. Foreign currency contracts for demand costs have terms ranging up to 24 months. The gains and losses on the shorter-term currency contracts for commodity costs are recognized immediately in cost of gas. The gains and losses on the longer-term currency contracts for demand charges are subject to a regulatory deferral tariff and, as such, are recorded as a derivative asset or liability which is offset by recording a corresponding amount to a deferred asset or liability account.

NW Natural did not use any derivative instruments to hedge oil or propane prices or interest rates during 2004, 2003 or 2002.

Table of Contents

At Dec. 31, 2004, NW Natural had the following derivatives outstanding: a series of 24 fixed-price natural gas commodity price financial swap contracts; four fixed-price natural gas financial call option contracts; and 62 foreign currency forward purchase contracts. All of these contracts were designated as cash flow hedges covering exposures to commodity purchase and sale contracts. Unrealized gains and losses from mark-to-market valuations of these contracts are not recognized in current income but are reported as derivative assets or liabilities and offset by a corresponding deferred account balance under regulatory liabilities or regulatory assets because regulatory mechanisms include the realized gains or losses at settlement in utility gas costs subject to regulatory deferral treatment. NW Natural also had outstanding at Dec. 31, 2004 two natural gas physical supply contracts with embedded options which did not qualify as a normal purchase or normal sale. The physical supply contracts were entered into using excess gas storage and pipeline transportation capacity under the Company's optimization program. The estimated fair values (unrealized gains and losses) and the notional amounts of derivative instruments outstanding were as follows:

(Thousands)	Dec. 31, 2004		Dec. 31, 2003	
	Fair Value Gain (Loss)	Notional Amount	Fair Value Gain (Loss)	Notional Amount
Fixed-price natural gas financial swap contracts	\$ 11,983	\$ 375,975	\$ 23,285	\$ 284,317
Fixed-price natural gas financial call option contracts	(2,195)	28,357	366	19,761
Natural gas physical supply contracts with embedded options	24	4,250	-	-
Fixed-price natural gas financial swap contracts - gas storage	658	4,406	-	-
Foreign currency forward purchase contracts	442	14,460	234	6,417
Total	\$ 10,912	\$ 427,448	\$ 23,885	\$ 310,495

In 2004 and 2003, NW Natural realized net gains of \$42.4 million and \$32.4 million, respectively, from the settlement of natural gas commodity swap and call option contracts, which were recorded as decreases to the cost of gas, compared to net losses of \$75.5 million during 2002, which were recorded as increases to the cost of gas. The currency exchange rate in all foreign currency forward purchase contracts is included in NW Natural's cost of gas at settlement; therefore, no gain or loss was recorded from the settlement of those contracts. Any change in value of cash flow hedge contracts that is not included in regulatory recovery is included in OCI.

The fair value of derivative instruments at Dec. 31, 2004 and 2003 (see table above) was determined using estimated or quoted market prices for the periods covered by the contracts. Market prices for the natural gas commodity-price swap and call option contracts were obtained from external sources. NW Natural reviews these third-party valuations for reasonableness using fair value calculations for other contracts with similar terms and conditions. The market prices for the foreign currency forward contracts were based on currency exchange rates quoted by The Bank of Canada.

As of Dec. 31, 2004, five of the natural gas commodity price swap contracts extended beyond Dec. 31, 2005, and two extended beyond Oct. 31, 2006. None of the natural gas commodity call option contracts extends beyond March 31, 2005.

Table of Contents

12. COMMITMENTS AND CONTINGENCIES:

Lease Commitments

The Company leases land, buildings and equipment under agreements that expire in various years through 2018. Rental expense under operating leases was \$4.5 million, \$4.9 million and \$4.8 million for the years ended Dec. 31, 2004, 2003 and 2002, respectively. The table below reflects the future minimum lease payments due under non-cancelable leases at Dec. 31, 2004. Such payments total \$60.8 million for operating leases. The net present value of payments on capital leases less imputed interest was \$0.5 million. These commitments principally relate to the lease of the Company's office headquarters, underground gas storage facilities, vehicles and computer equipment.

Millions	2005	2006	2007	2008	2009	Later years
Operating leases	\$ 4.5	\$ 4.2	\$ 4.1	\$ 4.0	\$ 3.9	\$39.6
Capital leases	0.2	0.2	0.1	—	—	—
Minimum lease payments	\$ 4.7	\$ 4.4	\$ 4.2	\$ 4.0	\$ 3.9	\$39.6

Pipeline Capacity Purchase and Release Commitments

NW Natural has signed agreements providing for the reservation of firm pipeline capacity under which it must make fixed monthly payments for contracted capacity. The pricing component of the monthly payment is established, subject to change, by U.S. or Canadian regulatory bodies. In addition, NW Natural has entered into long-term sale agreements to release firm pipeline capacity. The aggregate amounts of these agreements were as follows at Dec. 31, 2004:

Thousands	Pipeline Capacity Purchase Agreements	Pipeline Capacity Release Agreements
2005	\$ 66,703	\$ 3,715
2006	61,514	3,715
2007	62,696	3,715
2008	60,949	3,715
2009	54,417	3,715
2010 through 2024	274,891	3,095
Total	581,170	21,670
Less: Amount representing interest	113,024	2,369
Total at present value	\$ 468,146	\$ 19,301

NW Natural's total payments of fixed charges under capacity purchase agreements in 2004, 2003 and 2002 were \$89.3 million, \$86.7 million and \$86.2 million, respectively. Included in the amounts for 2004, 2003 and 2002 were reductions for capacity release sales of \$3.7 million, \$3.7 million and \$4.2 million, respectively. In addition, per-unit charges are required to be paid based on the actual quantities shipped under the agreements. In certain take-or-pay purchase commitments, annual deficiencies may be offset by prepayments subject to recovery over a longer term if future purchases exceed the minimum annual requirements.

Table of Contents
Environmental Matters

NW Natural owns or previously owned properties currently being investigated that may require environmental response. NW Natural has accrued all material loss contingencies relating to environmental matters that it believes to be probable of assertion and reasonably estimable. The Company continues to study the extent of its environmental liabilities, but due to the preliminary nature of the environmental investigations being conducted, the range of loss contingencies beyond the amounts currently accrued, and the probabilities thereof, cannot be reasonably estimated.

Gasco site. NW Natural owns property in Multnomah County, Oregon that is the site of a former gas manufacturing plant that was closed in 1956 (the Gasco site). The Gasco site has been under investigation by NW Natural for environmental contamination under the Oregon Department of Environmental Quality's (ODEQ) Voluntary Clean-Up Program. In June 2003, the Company filed a Feasibility Scoping Plan and an Ecological and Human Health Risk Assessment with the ODEQ, which outlined a range of remedial alternatives for the most contaminated portion of the Gasco site. NW Natural continues to work with the ODEQ to determine the appropriate remedial action from among the alternatives. Based upon the proposed actions in the draft plan, the Company estimates its range of remaining liability, including the cost of investigation, from among feasible alternatives, at between \$1.3 million and \$7 million.

Wacker site. NW Natural previously owned property adjacent to the Gasco site that now is the location of a manufacturing plant owned by Siltronic Corporation, formerly Wacker Siltronic Corporation (the Wacker site). In 2000, the ODEQ issued an order requiring Wacker and NW Natural to determine the nature and extent of releases of hazardous substances to Willamette River sediments from the Wacker site. In 2004, consultant studies indicated that some benzene is present in the soil at the Wacker site. The ODEQ requested that NW Natural conduct further tests of groundwater and indoor air quality. The work plan for the implementation of the benzene indoor air-sampling program was approved by the ODEQ in November 2004. NW Natural recorded expenses in 2004 totaling \$0.1 million for its estimated costs of investigation and initial remediation at the Wacker site.

Portland Harbor. In 1998, the ODEQ and the U.S. Environmental Protection Agency (EPA) completed a study of sediments in a 5.5-mile segment of the Willamette River (the Portland Harbor) that includes the area adjacent to the Gasco site and the Wacker site. In 2000, the EPA listed the Portland Harbor as a Superfund site and notified the Company that it is a potentially responsible party. Subsequently, the EPA approved the Programmatic Work Plan, Field Sampling Plan and Quality Assurance Project Plan for the Portland Harbor Remedial Investigation/Feasibility Study. NW Natural's share of the estimated budget to complete the first phase of the work is \$1.0 million, which is expected to be completed in 2007. The EPA has indicated that further study in a second phase will be required; however, the scope of the work to be completed in a second phase has yet to be determined.

In April 2004 the Company entered into an Administrative Order on Consent (AOC) providing for early action removal of a body of tar in the river sediments adjacent to the Gasco site. In July 2004, the EPA approved an initial work plan for the early action removal. The Company continues to negotiate with the EPA regarding the method and timing of the removal of the

Table of Contents

body of tar. The Company currently estimates the removal cost to be in the range of \$3.0 million to \$5.0 million. In addition, the Company has agreed with the ODEQ to do additional work, if necessary, on the Gasco site in conjunction with the EPA early action remediation work.

During 2004, NW Natural accrued additional loss contingencies totaling \$4.3 million for the above-described study work and the revised estimate of tar body remediation costs. NW Natural's liability is based on its best estimate of probable costs, and if a specific amount is no more or less likely than another amount in the range of probable liability, then the Company recognizes its liability at the lower end of the range of probable liability. Currently available information is insufficient to determine either the total amount of liability, or the higher end of a range for NW Natural's estimated share of potential future remediation related to the Portland Harbor site. The Company expects to receive additional information when the Remedial Investigation/Feasibility Study report is completed. A preliminary report is expected to be available during 2005.

Portland Gas site. The City of Portland notified NW Natural that it was planning a sewer improvement project that would include excavation within the former site of a gas manufacturing plant (the Portland Gas site) that was owned and operated by a predecessor of the Company between 1860 and 1913. The preliminary assessment of this site performed by a consultant for the EPA in 1987 indicated that it could be assumed that by-product tars may have been disposed of on site. The report concluded, however, that it is likely that waste residues from the plant, if present on the site, were covered by deep fill during construction of the nearby seawall bordering the Willamette River and probably have stabilized due to physical and chemical processes. Neither the City of Portland nor the ODEQ has notified NW Natural whether a further investigation or potential remediation might be required on the site in connection with the sewer project, which has commenced. Available information is insufficient to determine either the total amount of NW Natural's liability or a probable range, if any, of potential liability.

Oregon Steel Mills site. On Dec. 20, 2004, the Company was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, *Oregon Steel Mills, Inc. v. The Port of Portland*. The Port alleges that in the 1940's and 1950's petroleum wastes generated by the Company's predecessor, Portland Gas & Coke Company, and nine other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The Port's complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. NW Natural does not believe there are facts sufficient to constitute a claim against the Company.

Corps of Engineers Notice of Noncompliance. On July 2, 2004, the U.S. Army Corps of Engineers (Corps) issued to the Company a Notice of Noncompliance (Notice) for discharges of drilling mud into three streams during drilling operations on the Company's South Mist Pipeline Extension (SMPE) project. The Corps' Notice claimed that the discharges violated the scope of work in permits for the drilling. The Company cooperated with the Corps in its investigation and worked closely with the Corps and other state and federal agencies to minimize impacts from the unintended discharges. The final disposition of this matter resulted in the payment of a nominal fine.

Table of Contents

Regulatory and Insurance Recovery for Environmental Matters. In May 2003, the OPUC approved NW Natural's request for deferral of environmental costs associated with specific sites, including the Gasco, Wacker, Portland Harbor and Portland Gas sites. The authorization, which has been extended through April 2005, allows NW Natural to defer and seek recovery of unreimbursed environmental costs in a future general rate case. On a cumulative basis through Dec. 31, 2004, the Company paid out a total of \$3.3 million relating to the named sites since the effective date of the deferral authorization. NW Natural will first seek to recover the costs of investigation and remediation for which it may be responsible with respect to the Gasco, Wacker, Portland Harbor and Portland Gas sites, if any, from insurance. If these costs are not recovered from insurance, then NW Natural will seek OPUC approval to recover them through future rates. At Dec. 31, 2004, NW Natural had a receivable of \$8.5 million representing an estimate of the environmental costs it expects to recover from insurance, consisting of \$2.8 million for costs relating to the Gasco site, \$5.5 million for costs relating to the Portland Harbor site and \$0.2 million relating to the Oregon Steel Mills site.

On Jan. 27, 2005, NW Natural filed a request with the OPUC for authorization to defer costs associated with the Oregon Steel Mills site and to extend the deferral authority for the other named environmental sites through Jan. 26, 2006.

The following table summarizes the insurance receivables and the accrued liabilities relating to environmental matters at Dec. 31, 2004 and 2003.

(Millions)	Insurance Receivable		Accrued Liability	
	12/31/04	12/31/03	12/31/04	12/31/03
Gasco site	\$ 2.8	\$ 2.5	\$ 1.3	\$ 1.5
Wacker site	-	-	0.1	-
Portland Harbor site	5.5	1.2	3.4	0.6
Portland Gas site	-	-	-	-
Oregon Steel Mills site	0.2	-	0.2	-
Total	\$ 8.5	\$ 3.7	\$ 5.0	\$ 2.1

Table of Contents

Regulatory and Insurance Recovery for Environmental Matters. In May 2003, the OPUC approved NW Natural's request for deferral of environmental costs associated with specific sites, including the Gasco, Wacker, Portland Harbor and Portland Gas sites. The authorization, which has been extended through April 2005, allows NW Natural to defer and seek recovery of unreimbursed environmental costs in a future general rate case. On a cumulative basis through Dec. 31, 2004, the Company paid out a total of \$3.3 million relating to the named sites since the effective date of the deferral authorization. NW Natural will first seek to recover the costs of investigation and remediation for which it may be responsible with respect to the Gasco, Wacker, Portland Harbor and Portland Gas sites, if any, from insurance. If these costs are not recovered from insurance, then NW Natural will seek OPUC approval to recover them through future rates. At Dec. 31, 2004, NW Natural had a receivable of \$8.5 million representing an estimate of the environmental costs it expects to recover from insurance, consisting of \$2.8 million for costs relating to the Gasco site, \$5.5 million for costs relating to the Portland Harbor site and \$0.2 million relating to the Oregon Steel Mills site.

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The following table summarizes the insurance receivables and the accrued liabilities relating to environmental matters at Dec. 31, 2004 and 2003.

(Millions)	Insurance Receivable		Accrued Liability	
	12/31/04	12/31/03	12/31/04	12/31/03
Gasco site	\$ 2.8	\$ 2.5	\$ 1.3	\$ 1.5
Wacker site	-	-	0.1	-
Portland Harbor site	5.5	1.2	3.4	0.6
Portland Gas site	-	-	-	-
Oregon Steel Mills site	0.2	-	0.2	-
Total	\$ 8.5	\$ 3.7	\$ 5.0	\$ 2.1

Legal Proceedings

Litigation

On October 16, 2003, Longview Fibre Company (Longview) filed suit in Federal Court (*Longview Fibre Company v. Enerfin Resources Northwest Limited Partnership and Northwest Natural Gas Company* (US District Court - Oregon District)) seeking a declaratory judgment regarding the continuing existence of a certain oil and gas lease in the Mist gas field between Longview and Enerfin Resources Northwest Limited Partnership (Enerfin). NW Natural holds a gas storage lease from Longview (the Cascade Lease), which covers the same land as the Enerfin lease, and which grants the right to produce native oil and gas. Enerfin originally filed crossclaims against NW Natural alleging that NW Natural wrongly interfered with Enerfin's attempts to continue its oil and gas lease with Longview; however, Enerfin agreed to dismiss those claims in a previous settlement with NW Natural. In that settlement, NW Natural subleased portions of the Cascade Lease to Enerfin for the purpose of producing native gas. In September 2004, NW Natural and Enerfin filed claims and counterclaims against Longview, and Longview filed claims and counterclaims against NW Natural and Enerfin. The claims that Longview made against NW Natural involved allegations of unpaid royalties under the Cascade Lease.

Table of Contents

All parties to the Longview litigation entered into a Settlement Agreement, effective Jan. 11, 2005. As part of the settlement, Longview granted NW Natural an easement for use in producing oil and gas from the lands covered by the Cascade Lease. Other than payments made in respect of the easement, and royalty payments under the relevant leases and subleases, which were not material, no payments were made in connection with the Longview settlement. All claims were dismissed on Jan. 28, 2005 pursuant to the Settlement Agreement.

On May 28, 2004, a lawsuit was filed against the Company (*Kerry Law, Arnold Zuehlke and Kenneth Cooper, on behalf of themselves and all others similarly situated v. Northwest Natural Gas Company* (U.S. Dist. Ct. D. Or., Case No. CV-04-728-AS)) by three individuals alleging violation of the Fair Labor Standards Act for failure to pay overtime. The suit was subsequently amended to include state wage and hour claims. The plaintiffs are or have been independent backhoe operators who performed services for the Company under contract. In the lawsuit, the plaintiffs claim that they, and others similarly situated, should have been considered "employees" of the Company instead of independent contractors. The plaintiffs seek overtime and interest in amounts to be determined, liquidated damages equal to the overtime award, civil penalties and attorneys fees and costs. The plaintiffs sought to certify this case as a collective action under the Fair Labor Standards Act; however, on Oct. 5, 2004, plaintiffs' motion for collective action certification was denied. As a result of this ruling, the case is proceeding with the three current plaintiffs, and any others who wish to join must do so individually. Although no other claims have been filed in this lawsuit, plaintiffs' counsel has indicated to the court their intention to file additional claims seeking employee benefits allegedly due to plaintiffs. In addition, the claims in the lawsuit described below may be consolidated with this lawsuit. The Company intends to vigorously contest the claims. There is insufficient information at this point in the litigation to reasonably estimate the amount of liability, if any, from this claim.

On Feb. 18, 2005, a lawsuit was filed against the Company (*Kasey Cooper, Kevin Cooper, C.G. Nick Courtney, John V. Shooter, Ike Whittlesey and Roger Whittlesey v. Northwest Natural* (U.S. Dist. Ct. D. Or., Case No. CV-05-241-KI)) by six additional individual independent backhoe operators who have performed services for the Company under contract. Like the plaintiffs in the claim described above, these plaintiffs allege that they should have been considered "employees" of the Company. They seek overtime wages under the Fair Labor Standards Act and interest in amounts to be determined, liquidated damages equal to the overtime award, civil penalties and attorneys fees and costs. In addition, the plaintiffs allege that failure to classify them as employees constituted a breach of contract under certain of the Company's employee benefit programs, agreements and plans, which conferred employment-related compensation, rights and benefits. They seek an unspecified amount of damages for the value of what they would have received under these programs, agreements and plans if they had been classified as employees. The Company intends to vigorously contest the claims. There is insufficient information at this point in the litigation to reasonably estimate the amount of liability, if any, from this claim.

On Dec. 20, 2004, the Company was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, *Oregon Steel Mills, Inc. v. The Port of Portland*. The Port alleges that in the 1940's and 1950's petroleum wastes generated by the Company's predecessor, Portland Gas & Coke Company, and nine other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel

Table of Contents

Mills. The Port's complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. NW Natural does not believe there are facts sufficient to constitute a claim against the Company.

In connection with the construction of the SMPE, NW Natural continues to negotiate with some land owners regarding valuation of easements and rights-of-way obtained pursuant to condemnation proceedings. In some cases, compensation will be determined in individual court proceedings that have been scheduled through June 2005. The Company is unable to determine the likelihood of unfavorable outcomes of these matters, but believes that the aggregate amount of compensation ultimately paid will not be material to the Company's financial condition, results of operations or cash flows.

The Company is subject to other claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings cannot be predicted with certainty, the Company does not expect that the ultimate disposition of these matters will have a materially adverse effect on the Company's financial condition, results of operations or cash flows.

Table of ContentsNORTHWEST NATURAL GAS COMPANY
QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Dollars (Thousands, except per share amounts)	Quarter ended				Total
	March 31	June 30	Sept. 30	Dec. 31	
2004					
Operating revenues	\$254,450	\$109,659	\$81,441	\$262,054	\$707,604
Net operating revenues	112,034	52,629	39,483	104,214	308,360
Net income (loss)	32,612	(716)	(8,285)	26,961	50,572
Basic earnings (loss) per share	1.26	(0.03)	(0.30)	0.98	1.87*
Diluted earnings (loss) per share	1.24	(0.03)	(0.30)	0.97	1.86*
2003					
Operating revenues	\$206,539	\$117,489	\$69,481	\$217,747	\$611,256
Net operating revenues	98,588	58,549	39,465	91,464	288,066
Net income (loss)	26,404	4,462	(6,546)	21,663	45,983
Basic earnings (loss) per share	1.03	0.17	(0.25)	0.84	1.77*
Diluted earnings (loss) per share	1.01	0.17	(0.25)	0.83	1.76*

* Quarterly earnings (loss) per share are based upon the average number of common shares outstanding during each quarter. Because the average number of shares outstanding has changed in each quarter shown, the sum of quarterly earnings (loss) per share may not equal earnings per share for the year. Variations in earnings between quarterly periods are due primarily to the seasonal nature of the Company's business.

Table of Contents

NORTHWEST NATURAL GAS COMPANY
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions		Deductions	
	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Net write-offs	Balance at end of period
Thousands (year ended December 31)					
<u>2004</u>					
Reserves deducted in balance sheet from assets to which they apply:					
Allowance for uncollectible accounts	\$ 1,763	\$3,312	\$ 0	\$ 2,641	\$ 2,434
<u>2003</u>					
Reserves deducted in balance sheet from assets to which they apply:					
Allowance for uncollectible accounts	\$ 1,815	\$1,990	\$ 0	\$ 2,042	\$ 1,763
<u>2002</u>					
Reserves deducted in balance sheet from assets to which they apply:					
Allowance for uncollectible accounts	\$ 1,962	\$2,876	\$ 0	\$ 3,023	\$ 1,815

Table of Contents**NORTHWEST NATURAL GAS COMPANY
PART I. FINANCIAL INFORMATION
Consolidated Balance Sheets**

<u>Thousands</u>	<u>June 30, 2005 (Unaudited)</u>	<u>June 30, 2004 (Unaudited)</u>	<u>Dec. 31, 2004</u>
Assets:			
Plant and property:			
Utility plant	\$ 1,835,326	\$ 1,717,296	\$ 1,794,972
Less accumulated depreciation	523,518	491,340	505,286
Utility plant – net	<u>1,311,808</u>	<u>1,225,956</u>	<u>1,289,686</u>
Non-utility property	34,862	26,807	33,963
Less accumulated depreciation and amortization	5,581	5,083	5,244
Non-utility property – net	<u>29,281</u>	<u>21,724</u>	<u>28,719</u>
Total plant and property	<u>1,341,089</u>	<u>1,247,680</u>	<u>1,318,405</u>
Other investments	<u>57,978</u>	<u>75,083</u>	<u>60,618</u>
Current assets:			
Cash and cash equivalents	40,343	7,528	5,248
Accounts receivable	35,740	38,701	63,109
Allowance for uncollectible accounts	(2,521)	(1,886)	(2,434)
Accrued unbilled revenue	17,244	11,970	64,401
Inventories of gas, materials and supplies	45,842	48,960	66,477
Income tax receivable	—	5,015	15,970
Prepayments and other current assets	16,048	12,194	24,346
Total current assets	<u>152,696</u>	<u>122,482</u>	<u>237,117</u>
Regulatory assets:			
Income tax asset	65,622	64,475	64,734
Deferred gas costs receivable	7,958	9,513	9,551
Unamortized costs on debt redemptions	7,097	7,568	7,332
Other	7,092	5,377	3,321
Total regulatory assets	<u>87,769</u>	<u>86,933</u>	<u>84,938</u>
Other assets:			
Fair value of non-trading derivatives	64,089	29,428	16,399
Other	20,818	13,338	14,718
Total other assets	<u>84,907</u>	<u>42,766</u>	<u>31,117</u>
Total assets	<u>\$ 1,724,439</u>	<u>\$ 1,574,944</u>	<u>\$ 1,732,195</u>

See Notes to Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL GAS COMPANY
PART I. FINANCIAL INFORMATION
Consolidated Balance Sheets

<u>Thousands</u>	<u>June 30, 2005 (Unaudited)</u>	<u>June 30, 2004 (Unaudited)</u>	<u>Dec. 31, 2004</u>
Capitalization and liabilities:			
Capitalization:			
Common stock	\$ 87,285	\$ 86,563	\$ 87,231
Premium on common stock	300,074	295,159	300,034
Earnings invested in the business	207,050	183,190	183,932
Unearned stock compensation	(756)	(892)	(862)
Accumulated other comprehensive income (loss)	(1,818)	(1,016)	(1,818)
Total common stock equity	591,835	563,004	568,517
Long-term debt	521,500	500,073	484,027
Total capitalization	1,113,335	1,063,077	1,052,544
Current liabilities:			
Notes payable	—	4,901	102,500
Accounts payable	66,472	78,679	102,478
Long-term debt due within one year	27,241	—	15,000
Taxes accrued	8,543	5,837	10,242
Interest accrued	2,953	2,929	2,897
Other current and accrued liabilities	35,312	30,708	34,168
Total current liabilities	140,521	123,054	267,285
Regulatory liabilities:			
Accrued asset removal costs	162,350	140,847	153,258
Customer advances	1,662	1,584	1,529
Unrealized gain on non-trading derivatives, net	54,666	28,285	10,912
Total regulatory liabilities	218,678	170,716	165,699
Other liabilities:			
Deferred income taxes	206,666	189,514	211,080
Deferred investment tax credits	5,200	6,341	5,660
Fair value of non-trading derivatives	9,423	1,143	5,487
Other	30,616	21,099	24,440
Total other liabilities	251,905	218,097	246,667
Commitments and contingencies (see Note 7)	—	—	—
Total capitalization and liabilities	\$ 1,724,439	\$ 1,574,944	\$ 1,732,195

See Notes to Consolidated Financial Statements

Table of Contents

NORTHWEST NATURAL GAS COMPANY
PART I. FINANCIAL INFORMATION
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Financial Statements

The consolidated financial statements include the accounts of Northwest Natural Gas Company (NW Natural), a regulated utility, and its non-regulated wholly-owned subsidiary businesses, NNG Financial Corporation (Financial Corporation) and Northwest Energy Corporation. Together these businesses are referred to as the "Company."

The information presented in the consolidated financial statements is unaudited, but includes all material adjustments, including normal recurring accruals, that the management of the Company considers necessary for a fair presentation of the results for each period reported. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's 2004 Annual Report on Form 10-K (2004 Form 10-K). A significant part of the business of the Company is of a seasonal nature; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year.

Certain amounts from prior periods have been reclassified to conform, for comparison purposes, to the current financial statement presentation. These reclassifications had no impact on prior period consolidated net income.

2. New Accounting Standards

Medicare Prescription Drug, Improvement and Modernization Act. In May 2004, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the Act). FSP No. FAS 106-2 provides specific guidance on accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits and requires certain disclosures regarding the effects of a federal subsidy provided by the Act.

Based on current guidance, clarification of the Act and existing plan design, the Company has now determined, with input from the plan's actuary, that the prescription drug benefit provided by its postretirement benefit plan will qualify for a small federal subsidy. The Company's adoption of FSP No. FAS 106-2, effective July 1, 2004, had no material impact on cash flows, accumulated postretirement benefit obligations or net periodic postretirement benefit costs.

Inventory Costs. In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 amends the guidance on inventory pricing to require that abnormal amounts of idle facility expense, freight, handling costs and wasted material be charged to current period expense rather than capitalized as inventory costs. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is evaluating the effect of the adoption and implementation of SFAS No. 151, which is not expected to have a material impact upon the Company's financial condition, results of operations or cash flows.

Share Based Payments. In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment" (SFAS No. 123R), that requires companies to expense the fair value of employee stock options and similar awards. Under SFAS No. 123R, share based payment awards will be measured at fair value on the date of grant based on the estimated number of awards expected to vest. The estimated fair value will be recognized as compensation expense over the period an employee is required to provide service in exchange for the award, usually referred to as the vesting period. The expense would be adjusted for actual forfeitures that occur before vesting, but would not be adjusted for awards that expire or terminate after vesting. The Company is evaluating different option-pricing models to determine the most appropriate measure of fair value under the new standard. Estimated fair value and compensation expense are currently calculated using the Black-Scholes option pricing model, and its corresponding impact on the financial statements is provided in Note 3 below and in the Company's 2004 Form 10-K, Part II, Item 8., Note 4. The Company is required to adopt SFAS No. 123R in the first quarter of 2006. The Company is evaluating the effect of the adoption and implementation of SFAS No. 123R, which is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

Non-monetary Transactions. In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions," which redefines the types of non-monetary exchanges that require fair value measurement. The Company is required to adopt SFAS No. 153 for non-monetary transactions entered into after June 30, 2005. Adoption of this new standard is not expected to have a material impact on the Company's financial condition or results of operations.

Table of Contents

Conditional Asset Retirement Obligations. In March 2005, the FASB issued FASB Interpretation No. (FIN) 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143." FIN 47 clarifies that an entity is required to recognize a liability for a legal obligation to perform an asset retirement activity if the fair value can be reasonably estimated even though the timing and (or) method of settlement are conditional on a future event. FIN 47 is required to be adopted for annual reporting periods ending after Dec. 15, 2005. The Company is evaluating the effect of the adoption and implementation of FIN 47, which is not expected to have a material impact on its financial condition, results of operations or cash flows.

Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3," which provides guidance on the accounting for and reporting of accounting changes and error corrections. The statement requires retrospective application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. The guidance provided in Accounting Principles Board (APB) Opinion No. 20 for reporting the correction of an error in previously issued financial statements remains unchanged and requires the restatement of previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

3. Stock-Based Compensation

NW Natural's stock-based compensation plans consist of the Long-Term Incentive Plan (LTIP), the Restated Stock Option Plan (Restated SOP), the Employee Stock Purchase Plan (ESPP) and the Non-Employee Directors Stock Compensation Plan (NEDSCP). These plans are designed to promote stock ownership in NW Natural by employees and officers, and, in the case of the NEDSCP, non-employee directors. See Part II, Item 8., Note 4, in the 2004 Form 10-K for a discussion of the Company's stock-based compensation plans.

Long-Term Incentive Plan. At June 30, 2005, the aggregate number of performance-based shares awarded and outstanding under the Company's LTIP at the threshold, target and maximum levels were as follows:

Year Awarded	Performance Period	No. of Performance Shares Awarded		
		Threshold	Target	Maximum
2003	2003-05	6,250	25,000	50,000
2004	2004-06	6,750	27,000	54,000
2005	2005-07	8,750	35,000	70,000
	Total	21,750	87,000	174,000

For the 2003-05 performance period, a series of performance targets were established based on the Company's average annual return on equity (ROE) for the performance period corresponding to award opportunities ranging from 0 percent to 200 percent of the target awards. No awards are payable unless the threshold annual average ROE level, tied to the Company's authorized ROE, is achieved during the award period. The maximum awards are payable only upon the achievement of an average annual ROE that is 200 basis points above the Company's regulatory authorized ROE. For the 2004-06 and 2005-07 performance periods, awards will be based on total shareholder return relative to a peer group of gas distribution companies over the three-year performance period and on performance milestones relative to the Company's core and non-core strategies. During the performance period, the Company will recognize compensation expense and liability for the LTIP awards based on performance levels achieved, and expected to be achieved, and the estimated market value of the common stock as of the distribution date. For the quarter and six months ended June 30, 2005, \$0.4 million and \$1.0 million were accrued and expensed as compensation under the LTIP grants, respectively, for the 2004-06 and 2005-07 performance periods.

Restated Stock Option Plan. Under the Restated SOP, options on 1,238,800 shares were available for grant and options to purchase 321,349 shares were outstanding at June 30, 2005. Options generally have 10-year terms and vest ratably over a three-year period following the date of grant. No new options were granted in the first six months of 2005.

The Company has adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123." However, it continues to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with APB Opinion No. 25, no compensation expense is recognized for options granted under the Restated SOP. For a further discussion of expense recognition for stock-based compensation, see Note 2 above.

Table of Contents

If compensation expense for awards under the Restated SOP and for shares issued under the ESPP had been recognized during 2004 and 2005 based on fair value on the date of grant, net income and earnings per share would have resulted in the pro forma amounts shown below:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
Pro Forma Effect of Stock-Based Options and ESPP:	2005	2004	2005	2004
Thousands, except per share amounts				
Net income (loss) as reported	\$1,140	\$ (716)	\$41,027	\$31,896
Pro forma stock-based compensation expense determined under the fair value based method – net of tax	(92)	(106)	(183)	(206)
Pro forma net income (loss) – basic	1,048	(822)	40,844	31,690
Debt interest less taxes	47	61	94	123
Pro-forma net income (loss) – diluted	\$1,095	\$ (761)	\$40,938	\$31,813
Basic earnings (loss) per share				
As reported	\$ 0.04	\$ (0.03)	\$ 1.49	\$ 1.20
Pro forma	\$ 0.04	\$ (0.03)	\$ 1.48	\$ 1.19
Diluted earnings (loss) per share				
As reported	\$ 0.04	\$ (0.03)	\$ 1.48	\$ 1.19
Pro forma	\$ 0.04	\$ (0.03)	\$ 1.47	\$ 1.18

The Company will be required to adopt SFAS No. 123R for expensing employee stock options and other share based compensation beginning in 2006 (see Note 2). For purposes of the pro forma disclosures above, the estimated fair value of stock options is amortized to expense over the vesting period.

4. Use of Derivative Instruments

NW Natural enters into forward contracts and other related financial transactions for the purchase of natural gas that qualify as derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 and SFAS No. 149 (collectively referred to as SFAS No. 133). NW Natural utilizes derivative financial instruments to manage commodity prices related to natural gas supply requirements. Use of derivatives is permitted only after the commodity price and exchange rate have been identified, are determined to exceed acceptable tolerance levels and are considered to be unavoidable because they are necessary to support normal business activities. NW Natural does not enter into derivative instruments for trading or speculative purposes and intends any increase in market risk created by holding derivatives to be offset by the exposures they modify. See Part II, Item 8., Notes 1 and 11, in the 2004 Form 10-K.

In the normal course of business, NW Natural enters into forward natural gas commodity purchase (gas supply) contracts to meet the requirements of core utility customers. NW Natural recently entered into a series of exchange transactions with an unaffiliated energy marketing company which resulted in a change in the Company's accounting treatment for its forward gas supply contracts under SFAS No. 133. SFAS No. 133 requires that derivative instruments be recorded on the balance sheet at fair value. Prior to March 31, 2005, the Company's forward gas supply contracts were excluded from the fair value measurement requirement of SFAS No. 133 because these contracts were eligible for the normal purchases and normal sales exception. These contracts are now accounted for as derivative instruments and marked-to-market based on fair value pursuant to SFAS No. 133. The mark-to-market adjustment for the forward gas supply contracts outstanding at June 30, 2005 is an unrealized loss of \$7.8 million, which is recorded as a liability with an offsetting entry to a regulatory asset account based on regulatory deferral accounting treatment under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (see Part II, Item 8., Note 1, "Industry Regulation," in the 2004 Form 10-K).

Due to the forward gas supply contracts being classified as derivatives for accounting purposes, the fixed-price financial swap contracts previously designated as cash flow hedge instruments for the forward gas supply contracts no longer qualify for hedge accounting under SFAS No. 133 even though these contracts continue to hedge the financial risk exposure of the forward gas supply contracts. However, due to the regulatory deferral mechanism under SFAS No. 71, the accounting changes had no impact on the Company's financial condition, results of operations or cash flows.

Foreign currency forward contracts are used to hedge the fluctuation in foreign currency exchange rates for NW Natural's commodity and demand charges paid in Canadian dollars. These forward contracts qualify for cash flow hedge accounting treatment under SFAS No. 133. The mark-to-market adjustment at June 30, 2005 is a negligible

Table of Contents

unrealized gain. These unrealized gains and losses are subject to regulatory deferral and, as such, are recorded as a derivative asset or liability which is offset by recording a corresponding amount to a deferred asset or liability account.

At June 30, 2005 and 2004 and Dec. 31, 2004, no unrealized gains or losses from mark-to-market valuations of the Company's derivative instruments were recognized in current income, but are reported as derivative assets or liabilities and offset by a corresponding deferred account balance under regulatory liabilities or regulatory assets, because regulatory mechanisms provide for the realized gains or losses at settlement to be included in utility gas costs subject to regulatory deferral treatment. The estimated fair values (unrealized gains and losses) of derivative instruments outstanding were as follows:

Thousands	June 30,		Dec. 31,
	2005	2004	2004
Natural gas commodity-based derivative instruments:			
Fixed-price financial swaps	\$62,464	\$28,629	\$12,641
Fixed-price financial call options	—	(369)	(2,195)
Indexed-price physical supply	(7,844)	—	—
Fixed-price physical supply	—	—	24
Foreign currency forward purchases	46	25	442
Total	\$54,666	\$28,285	\$10,912

5. Segment Information

The Company principally operates in a segment of business, "Utility," consisting of the distribution and sale of natural gas. Another segment, "Interstate Gas Storage," represents natural gas storage services provided to interstate customers and asset optimization services under a contract with an unaffiliated energy marketing company using temporarily unused portions of NW Natural's upstream pipeline transportation capacity and gas storage capacity (see Part II, Item 8., Note 2, in the 2004 Form 10-K). The remaining segment, "Other," primarily consists of non-utility operating activities and non-regulated investments.

The following table presents information about the reportable segments for the three- and six-month periods ended June 30, 2005 and 2004. Inter-segment transactions are insignificant.

Thousands	Three Months Ended June 30,				Six Months Ended June 30,			
	Utility	Interstate Gas Storage	Other	Total	Utility	Interstate Gas Storage	Other	Total
2005								
Net operating revenues	\$ 59,269	\$ 1,952	\$ 21	\$ 61,242	\$ 185,388	\$ 3,981	\$ 42	\$ 189,411
Depreciation and amortization	15,149	163	—	15,312	30,180	327	—	30,507
Other operating expenses	35,561	202	21	35,784	76,481	374	77	76,932
Income (loss) from operations	8,559	1,587	—	10,146	78,727	3,280	(35)	81,972
Income from financial investments	506	—	208	714	974	—	71	1,045
Net income	12	844	284	1,140	38,856	1,742	429	41,027
Total assets at June 30, 2005	1,682,429	29,424	12,586	1,724,439	1,682,429	29,424	12,586	1,724,439
2004								
Net operating revenues	\$ 50,995	\$ 1,591	\$ 43	\$ 52,629	\$ 161,193	\$ 3,387	\$ 83	\$ 164,663
Depreciation and amortization	13,799	114	—	13,913	27,591	228	—	27,819
Other operating expenses	31,602	163	73	31,838	69,348	368	85	69,801
Income (loss) from operations	5,594	1,314	(30)	6,878	64,254	2,791	(2)	67,043
Income (loss) from financial investments	607	—	332	939	1,425	—	(49)	1,376
Net income (loss)	(1,761)	705	340	(716)	30,119	1,495	282	31,896
Total assets at June 30, 2004	1,536,332	21,996	16,616	1,574,944	1,536,332	21,996	16,616	1,574,944

Table of Contents

6. Pension and Other Postretirement Benefits

Net Periodic Benefit Cost

The following table provides the components of net periodic benefit cost for the qualified and non-qualified pension plans and other postretirement benefit plans for the three- and six-month periods ended June 30, 2005 and 2004. See Part II, Item 8., Note 7, in the 2004 Form 10-K for a discussion of the assumptions used in measuring these costs and benefit obligations.

Thousands	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,			
	2005	2004	2005	2004
Service cost	\$ 1,589	\$ 1,409	\$ 114	\$ 132
Interest cost	3,263	3,199	308	364
Special termination benefits	63	—	—	—
Expected return on plan assets	(3,530)	(3,309)	—	—
Amortization of transition obligation	—	—	103	103
Amortization of prior service cost	223	274	—	—
Recognized actuarial loss	481	436	72	118
Net periodic benefit cost	\$ 2,089	\$ 2,009	\$ 597	\$ 717

Thousands	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,			
	2005	2004	2005	2004
Service cost	\$ 3,177	\$ 2,819	\$ 228	\$ 264
Interest cost	6,526	6,399	616	729
Special termination benefits	126	—	—	—
Expected return on plan assets	(7,061)	(6,619)	—	—
Amortization of transition obligation	—	—	206	206
Amortization of prior service cost	446	547	—	—
Recognized actuarial loss	963	872	144	237
Net periodic benefit cost	\$ 4,177	\$ 4,018	\$ 1,194	\$ 1,436

Employer Contributions

The Company makes contributions to its qualified non-contributory defined benefit pension (DBP) plans based on actuarial assumptions and estimates, tax regulations and funding requirements under federal law. In 2004, the Company contributed \$5.3 million to one of its DBP plans for the 2004 plan year, of which \$1.0 million represented the minimum required funding. The Company is not required to make additional cash contributions to its qualified DBP plans in 2005 based on minimum funding requirements. However, the Company is considering and may elect to make an additional contribution up to \$35 million on or before Sept. 15, 2005 for the 2004 plan year. The Company will continue to evaluate its qualified DBP plans' funding status based on expected returns on plan assets and anticipated changes in actuarial assumptions to determine if an additional contribution will be made prior to Sept. 15, 2005. In addition, the Company will continue to make cash contributions during 2005 in the form of ongoing benefit payments as required for its unfunded non-qualified supplemental pension plans and other postretirement benefit plans. See Part II, Item 8., Note 7, in the 2004 Form 10-K.

7. Commitments and Contingencies

Environmental Matters

NW Natural owns or previously owned properties currently being investigated that may require environmental response. NW Natural accrues all material loss contingencies relating to these properties that it believes to be probable of assertion and reasonably estimable. The Company continues to study the extent of its potential environmental liabilities, but due to the preliminary nature of the environmental investigations being conducted, the range of loss

Table of Contents

contingencies beyond the amounts currently accrued, and the probabilities thereof, cannot be reasonably estimated. See Part II, Item 8., Note 12, in the 2004 Form 10-K for a description of these properties and further discussion.

Gasco site. NW Natural owns property in Multnomah County, Oregon that is the site of a former gas manufacturing plant that was closed in 1956 (the Gasco site). The Gasco site has been under investigation by NW Natural for environmental contamination under the Oregon Department of Environmental Quality's (ODEQ) Voluntary Clean-Up Program. In June 2003, the Company filed a Feasibility Scoping Plan and an Ecological and Human Health Risk Assessment with the ODEQ, which outlined a range of remedial alternatives for the most contaminated portion of the Gasco site. The Company estimates its range of remaining potential liability for this site, including the cost of investigation, from among feasible alternatives, at between \$1.5 million and \$7 million.

Siltronic (formerly Wacker) site. NW Natural previously owned property adjacent to the Gasco site that now is the location of a manufacturing plant owned by Siltronic Corporation, formerly Wacker Siltronic Corporation (the Siltronic site). During the first quarter of 2005, the estimated liability for this site increased due to additional storm-water pollution work and indoor air quality studies required at the Siltronic site, resulting in an additional expense in the first quarter of 2005 of less than \$0.1 million. The amount of this additional expense was deferred to a regulatory asset account pursuant to an order of the Oregon Public Utility Commission (OPUC) (see below).

Portland Harbor site. In 1998, the ODEQ and the U.S. Environmental Protection Agency (EPA) completed a study of sediments in a 5.5-mile segment of the Willamette River (the Portland Harbor) that includes the area adjacent to the Gasco site and the Siltronic site. The Portland Harbor was listed by the EPA as a Superfund site in 2000 and the Company was notified that it is a potentially responsible party. Subsequently, the EPA approved the Programmatic Work Plan, Field Sampling Plan and Quality Assurance Project Plan for the Portland Harbor Remedial Investigation/Feasibility Study (RI/FS). NW Natural's share of the estimated cost for the RI/FS, which is expected to be completed in 2007, is \$1.6 million. The EPA has indicated that further study will be required; however, the scope of any additional work, and the related range of liability, cannot reasonably be determined at this time.

In April 2004 the Company entered into an Administrative Order on Consent (AOC) providing for early action removal of a deposit of tar in the river sediments adjacent to the Gasco site. In July 2004, the EPA approved an initial work plan for the early action removal. NW Natural will begin removal of the tar deposit in the Portland Harbor this summer with an expected completion by the end of 2005. The EPA chose the removal option in which the tar deposit will be dredged from the river and a protective cap of sand placed over the entire site after completion of the removal. The range of costs for the removal, including technical work, oversight, consultants and legal fees is between \$8.0 and \$10.0 million. As a result of the EPA's decision on the removal option, an additional accrual of \$5.3 million was recorded in June 2005. The Company's estimate of probable liability for the removal of the tar deposit is \$8.2 million.

Oregon Steel Mills site. In 2004, the Company was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, *Oregon Steel Mills, Inc. v. The Port of Portland*. The Port alleges that in the 1940s and 1950s petroleum wastes generated by the Company's predecessor, Portland Gas & Coke Company, and nine other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The Port's complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. NW Natural does not believe there are facts sufficient to constitute a claim against the Company.

Regulatory and Insurance Recovery for Environmental Matters. In May 2003, the OPUC approved NW Natural's request for deferral of environmental costs associated with specific sites, including the Gasco, Siltronic, Portland Harbor and Portland Gas sites. The authorization, which has been extended through January 2006 and extended to cover the Oregon Steel Mills site, allows NW Natural to defer and seek recovery of unreimbursed environmental costs in a future general rate case. On a cumulative basis through June 30, 2005, the Company has paid a total of \$3.9 million relating to the named sites since the effective date of the deferral authorization.

NW Natural will first seek to recover from insurance the costs of investigation and remediation for which it may be responsible with respect to the Gasco, Siltronic, Portland Harbor, Portland Gas and Oregon Steel Mills sites. To the extent these costs are not recovered from insurance, then NW Natural will seek recovery through future rates subject to a prudence review and approval by the OPUC. At June 30, 2005, NW Natural had a \$14.8 million receivable representing an estimate of the environmental costs accrued to date and expected to be recovered from insurance, consisting of \$3.2 million for costs relating to the Gasco site, \$11.4 million for costs relating to the Portland Harbor site and \$0.2 million for costs relating to the Oregon Steel Mills site.

Legal Proceedings

The Company is subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings, including the matters described below, cannot be predicted with certainty, the

Table of Contents

Company does not expect that the ultimate disposition of these matters will have a materially adverse effect on the Company's financial condition, results of operations or cash flows.

Independent Backhoe Operator Action. The Company previously reported the lawsuits filed against it in Kerry Law, Arnold Zuehlke and Kenneth Cooper, on behalf of themselves and all others similarly situated v. Northwest Natural Gas Company (U.S. Dist. Ct. D. Or., Case No. CV-04-728-AS) (the Kerry Law case), Kasey Cooper, Kevin Cooper, C.G. Nick Courtney, John V. Shooter, Ike Whittlesey and Roger Whittlesey v. Northwest Natural (U.S. Dist. Ct. D. Or., Case No. CV-05-241-KI) (the Kasey Cooper case) and Phillip Courtney v. Northwest Natural (U.S. Dist. Ct. D. Or., Case No. CV-05-507-BR) (the Phillip Courtney case). In October 2004, plaintiffs' motion in the Kerry Law case for collective action certification was denied. On May 20, 2005 a fourth lawsuit was filed against the Company, Ken Holtmann et al v. Northwest Natural (U.S. Dist. Ct. D. Or., Case No. 05-CV-00724-BR) (the Holtmann case). The Kerry Law case, the Kasey Cooper case and the Holtmann case have been consolidated into a single matter (consolidated case). The Philip Courtney case was dismissed and Mr. Courtney was joined in the consolidated case. Kenneth Cooper, Casey Cooper and Kevin Cooper dismissed themselves from the lawsuit. Ten plaintiffs remain in the consolidated case, which is pending in the United States District Court for the District of Oregon (U.S. Dist. Ct. D. Or., Case No. CV-04-728-KI). The claims are more fully described in Part II, Item 8., Note 12, "Legal Proceedings," in the 2004 Form 10-K.

In May 2005, NW Natural filed a motion to stay or in the alternative to dismiss plaintiffs' "contract" claims on the basis that such claims are preempted by the Employee Retirement Income Security Act of 1974, as amended, and therefore plaintiffs' should be required to exhaust the administrative review process with regard to each of the plans under which they allege they would have been eligible to receive benefits. Plaintiffs subsequently requested leave to amend their complaint to plead additionally and in the alternative a tort claim. Plaintiffs allege that the Company breached an implied covenant of good faith and fair dealing by allegedly misclassifying plaintiffs as independent contractors thus depriving them of the "benefits and compensation" they would have otherwise received under various employee benefit plans if they had been classified as employees. There is insufficient information at this time to reasonably estimate the range of liability, if any, from this claim. The matter is pending.

South Mist Pipeline Extension (SMPE). In connection with the construction of the SMPE, NW Natural negotiated with some land owners regarding valuation of easements and rights-of-way obtained pursuant to condemnation proceedings. In other cases, compensation was determined in individual court proceedings. All such proceedings for easements and rights-of-way were completed by July 2005. The aggregate amount of compensation paid was not material to the Company's financial condition, results of operations or cash flows.

8. Comprehensive Income

For the six months ended June 30, 2005 and 2004, reported net income was equivalent to total comprehensive income. Items that are excluded from net income and charged directly to common stock equity are accumulated in other comprehensive income (loss), net of tax. The amount of accumulated other comprehensive loss is \$1.8 million at June 30, 2005, which is included in common stock equity (see the accompanying Consolidated Statements of Capitalization, above).

9. Long-Term Debt

In June 2005, the Company issued and sold, pursuant to its Medium-Term Note (MTN) program, \$50 million in principal amount of secured MTNs, consisting of \$40 million of the 4.70% Series B due 2015 and \$10 million of the 5.25% Series B due 2035. Proceeds from these debt sales were used, in part, to redeem \$15 million of maturing MTNs in July 2005 (see below), and the balance was applied to the Company's ongoing utility construction program and the repayment of short-term debt.

In July 2005, the Company redeemed three series of its maturing MTNs aggregating \$15 million in principal amount. The series redeemed were the 6.34% Series B, the 6.38% Series B and the 6.45% Series B, each due in July 2005. The MTNs were redeemed with proceeds from the sales of \$50 million in principal amount of MTNs in June 2005 (see above).

The Company has called all of its outstanding Convertible Debentures, 7-1/4% Series due 2012 (the Debentures), for redemption on Aug. 31, 2005, at 100% of their principal amount plus accrued unpaid interest to the date of redemption. At any time prior to the close of business on Aug. 31, 2005, the Debentures may be converted into shares of the Company's Common Stock at the rate of 50.25 shares for each \$1,000 principal amount of Debentures surrendered, equivalent to a conversion price of \$19.90 per share.

Table of Contents

Including the optional redemption of the Debentures discussed above, the maturities for each of the 12-month periods ended June 30 for the next five years on the long-term debt outstanding amount to:

	12-Month Periods Ended June 30,				
	2006	2007	2008	2009	2010
(Thousands)					
Long-term debt maturities	\$27,241	\$29,500	\$ —	\$ 5,000	\$ —
Optional put maturities, if exercised	10,000	20,000	—	20,000	20,000
Totals	\$37,241	\$49,500	\$ —	\$25,000	\$20,000

Holders of certain long-term debt issues have put options that, if exercised, would accelerate maturities. These optional put maturities, which are shown in the above table, have interest rates that range from 6.52 to 7.05 percent.

EXHIBIT F

A list of all known contingent liabilities, other than minor items such as damages, claims and similar items involving relatively small amounts.

Northwest Natural Gas Company (the "Company") is subject to claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings, including the matters described below, cannot be predicted with certainty, the Company does not expect that the ultimate disposition of these matters will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Backhoe Litigation

On May 28, 2004, a lawsuit was filed against Northwest Natural Gas Company ("Company") in Kerry Law, Arnold Zuehlke and Kenneth Cooper, on behalf of themselves and all others similarly situated v. Northwest Natural Gas Company (U.S. Dist. Ct. D. Or., Case No. CV-04-728-AS) (the Kerry Law case). In October 2004, plaintiffs' motion in the Kerry Law case for collective action certification was denied. On February 18, 2005, a second lawsuit was filed against the Company in Kasey Cooper, Kevin Cooper, C.G. Nick Courtney, John V. Shooter, Ike Whittlesey and Roger Whittlesey v. Northwest Natural (U.S. Dist. Ct. D. Or., Case No. CV-05-241-KI) (the Kasey Cooper case). On April 12, 2005, a third lawsuit was filed against the Company in Phillip Courtney v. Northwest Natural (U.S. Dist. Ct. D. Or., Case No. CV-05-507-BR) (the Phillip Courtney case). On May 20, 2005 a fourth lawsuit was filed against the Company in Ken Holtmann et al v. Northwest Natural (U.S. Dist. Ct. D. Or., Case No. 05-CV-00724-BR) (the Holtmann case). The Kerry Law case, the Kasey Cooper case and the Holtmann case have been consolidated into a single matter (consolidated case). The Philip Courtney case was dismissed and Mr. Courtney was joined in the consolidated case. Kenneth Cooper, Casey Cooper and Kevin Cooper dismissed themselves from the lawsuit. Ten plaintiffs remain in the consolidated case, which is pending in the United States District Court for the District of Oregon (U.S. Dist. Ct. D. Or., Case No. CV-04-728-KI).

Plaintiffs in the consolidated case are or have been independent backhoe operators who performed services for the Company under contract who allege violation of the Fair Labor Standards Act (FLSA) for failure to pay overtime and also assert state wage and hour claims. Plaintiffs allege that they should have been considered "employees" of the Company. The plaintiffs in these cases seek overtime and interest to be proven, liquidated damages equal to the overtime award, civil penalties and attorneys fees and costs. Additionally, plaintiffs allege that the failure to classify them as employees constituted a breach of contract under certain unspecified Company employee benefit plans and seek an unspecified amount of damages for the value of what they would have received under these programs, agreements and plans if they had been classified as employees.

In May 2005, the Company filed a motion to stay or in the alternative to dismiss plaintiffs' contract claims on the basis that such claims are preempted by the Employee Retirement Income Security Act of 1974, as amended, and therefore plaintiffs should be required to exhaust the administrative review process with

regard to each of the plans under which they allege they would have been eligible to receive benefits. Plaintiffs subsequently requested leave to amend their complaint to plead additionally and in the alternative a tort claim. Plaintiffs allege in this subsequent briefing that the Company breached an implied covenant of good faith and fair dealing by allegedly misclassifying plaintiffs as independent contractors thus depriving them of the “benefits and compensation” they would have otherwise received under various unspecified employee benefit plans if they had been classified as employees. There is insufficient information at this time to reasonably estimate the range of liability, if any, from this claim. The matter is pending.

Port of Portland

On Dec. 20, 2004, the Company was served with a third-party complaint by the Port of Portland (Port) in a Multnomah County Circuit Court case, Oregon Steel Mills, Inc. v. The Port of Portland. The Port alleges that in the 1940’s and 1950’s petroleum wastes generated by the Company’s predecessor, Portland Gas & Coke Company, and nine other third-party defendants were disposed of in a waste oil disposal facility operated by the United States or Shaver Transportation Company on property then owned by the Port and now owned by Oregon Steel Mills. The Port’s complaint seeks contribution for unspecified past remedial action costs incurred by the Port regarding the former waste oil disposal facility as well as a declaratory judgment allocating liability for future remedial action costs. This matter is pending.

The Company is subject to other claims and litigation arising in the ordinary course of business. Although the final outcome of any of these legal proceedings cannot be predicted with certainty, the Company does not expect that the ultimate disposition of these matters will have a materially adverse effect on the Company’s financial condition, results of operations or cash flows.

EXHIBIT G

Comparative Income Statements for the six months ended June 30, 2005, and the 12 months ended Dec. 31, 2004, as filed in the Company's reports to the SEC on Forms 10-Q and 10-K, respectively. The credit amounts in the Five-Year Facility do not have an effect on the Income Statements except to the extent that the Company records interest expense on loans that may be outstanding from time to time under the Five-Year Facility (See Exhibit E for Notes to Financial Statements)

Table of Contents**NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF INCOME**

Thousands, except per share amounts (year ended December 31)	2004	2003	2002
Operating revenues:			
Gross operating revenues	\$ 707,604	\$ 611,256	\$ 641,376
Cost of sales	399,244	323,190	353,832
Net operating revenues	308,360	288,066	287,544
Operating expenses:			
Operations and maintenance	102,155	96,420	85,120
Taxes other than income taxes	38,808	35,125	34,076
Depreciation and amortization	57,371	54,249	52,090
Total operating expenses	198,334	185,794	171,286
Income from operations	110,026	102,272	116,258
Other income (expense)	2,828	2,150	(14,890)
Interest charges – net of amounts capitalized	35,751	35,099	34,132
Income before income taxes	77,103	69,323	67,236
Income tax expense	26,531	23,340	23,444
Net income	50,572	45,983	43,792
Redeemable preferred and preference stock dividend requirements	-	294	2,280
Earnings applicable to common stock	\$ 50,572	\$ 45,689	\$ 41,512
Average common shares outstanding:			
Basic	27,016	25,741	25,431
Diluted	27,283	26,061	25,814
Earnings per share of common stock:			
Basic	\$ 1.87	\$ 1.77	\$ 1.63
Diluted	\$ 1.86	\$ 1.76	\$ 1.62

See Notes to Consolidated Financial Statements.

Table of Contents

NORTHWEST NATURAL GAS COMPANY
PART I. FINANCIAL INFORMATION
Consolidated Statements of Income
(Unaudited)

Thousands, except per share amounts	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Operating revenues:				
Gross operating revenues	\$ 153,667	\$ 109,659	\$ 462,444	\$ 364,109
Cost of sales	92,425	57,030	273,033	199,446
Net operating revenues	61,242	52,629	189,411	164,663
Operating expenses:				
Operations and maintenance	26,981	24,307	54,176	49,817
Taxes other than income taxes	8,803	7,531	22,756	19,984
Depreciation and amortization	15,312	13,913	30,507	27,819
Total operating expenses	51,096	45,751	107,439	97,620
Income from operations	10,146	6,878	81,972	67,043
Other income and expense – net	405	442	470	465
Interest charges – net of amounts capitalized	8,906	8,764	18,034	17,708
Income (loss) before income taxes	1,645	(1,444)	64,408	49,800
Income tax expense (benefit)	505	(728)	23,381	17,904
Net income (loss)	\$ 1,140	\$ (716)	\$ 41,027	\$ 31,896
Average common shares outstanding:				
Basic	27,555	27,257	27,568	26,615
Diluted	27,834	27,582	27,841	26,947
Earnings (loss) per share of common stock:				
Basic	\$ 0.04	\$ (0.03)	\$ 1.49	\$ 1.20
Diluted	\$ 0.04	\$ (0.03)	\$ 1.48	\$ 1.19

See Notes to Consolidated Financial Statements

EXHIBIT H

Consolidated Statements of Shareholders' Equity and Comprehensive as pf Dec. 31, 2004 showing an analysis of surplus for that period. A similar statement prepared for the quarter ending June 30, 2005. (See Exhibit E for financial notes)

Table of Contents

**NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND
COMPREHENSIVE INCOME**

Thousands	Common Stock and Premium	Earnings Invested in the Business	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income
Balance at Dec. 31, 2001	\$ 320,586	\$ 147,950	\$ (372)	\$ (375)	\$ 467,789	
Net Income	-	43,792	-	-	43,792	\$ 43,792
Minimum pension liability adjustment – net of tax	-	-	-	(2,936)	(2,936)	(2,936)
Change in unrealized loss from price risk management activities – net of tax	-	-	-	227	227	227
Purchases of restricted stock	-	-	(891)	-	(891)	
Restricted stock amortizations	-	-	552	-	552	
Cash dividends paid:	-	-	-	-	-	
Redeemable preferred and preference stock	-	(2,579)	-	-	(2,579)	
Common stock	-	(32,024)	-	-	(32,024)	
Issuance of common stock	6,533	-	-	-	6,533	
Conversion of debentures	1,932	-	-	-	1,932	
Common stock expense	-	(3)	-	-	(3)	
Balance at Dec. 31, 2002	329,051	157,136	(711)	(3,084)	482,392	\$ 41,083
Net Income	-	45,983	-	-	45,983	\$ 45,983
Minimum pension liability adjustment – net of tax	-	-	-	2,068	2,068	2,068
Purchases of restricted stock	-	-	(328)	-	(328)	
Restricted stock amortizations	-	-	310	-	310	
Cash dividends paid:	-	-	-	-	-	
Redeemable preferred stock	-	(392)	-	-	(392)	
Common stock	-	(32,655)	-	-	(32,655)	
Tax benefits from employee stock option plan	401	-	-	-	401	
Issuance of common stock	7,930	-	-	-	7,930	
Conversion of debentures	626	-	-	-	626	
Common stock expense	-	(19)	-	-	(19)	
Balance at Dec. 31, 2003	338,008	170,053	(729)	(1,016)	506,316	\$ 48,051
Net Income	-	50,572	-	-	50,572	\$ 50,572
Minimum pension liability adjustment – net of tax	-	-	-	(802)	(802)	(802)
Purchases of restricted stock	(55)	(51)	(431)	-	(537)	
Restricted stock amortizations	-	-	298	-	298	
Cash dividends paid:	-	-	-	-	-	
Common stock	-	(35,105)	-	-	(35,105)	
Tax benefits from employee stock option plan	872	-	-	-	872	
Issuance of common stock	47,148	-	-	-	47,148	
Conversion of debentures	1,292	-	-	-	1,292	
Common stock expense	-	(1,537)	-	-	(1,537)	
Balance at Dec. 31, 2004	\$ 387,265	\$ 183,932	\$ (862)	\$ (1,818)	\$ 568,517	\$ 49,770

See Notes to Consolidated Financial Statements.

NORTHWEST NATURAL GAS COMPANY
PART I. FINANCIAL INFORMATION
Consolidated Statements of Earnings Invested in the Business and Comprehensive Income
(Unaudited)

Thousands	Six Months Ended June 30,			
	2005		2004	
Earnings invested in the business:				
Balance at beginning of period	\$ 183,932		\$ 170,053	
Net income	41,027	\$ 41,027	31,896	\$ 31,896
Cash dividends paid:				
Common stock	(17,909)		(17,306)	
Common stock expense	-		(1,453)	
Balance at end of period	<u>\$ 207,050</u>		<u>\$ 183,190</u>	
Accumulated other comprehensive income (loss):				
Balance at beginning of period	<u>\$ (1,818)</u>		<u>\$ (1,016)</u>	
Comprehensive income		<u>\$ 41,027</u>		<u>\$ 31,896</u>
Balance at end of period	<u>\$ (1,818)</u>		<u>\$ (1,016)</u>	

EXHIBIT I

A copy of registration statement and financial exhibits filed with the Securities and Exchange Commission.

No Registration Statement for the Five-Year Notes is required to be filed with the Securities and Exchange Commission.

EXHIBIT J

See Exhibit D for copies of the Schedules I to the Credit Agreements.

EXHIBIT K

See Exhibit D for copies of the form of Credit Agreement for the Five-Year Facility along with documents ancillary thereto.

EXHIBIT AA

Map of the Company's Service Territories.

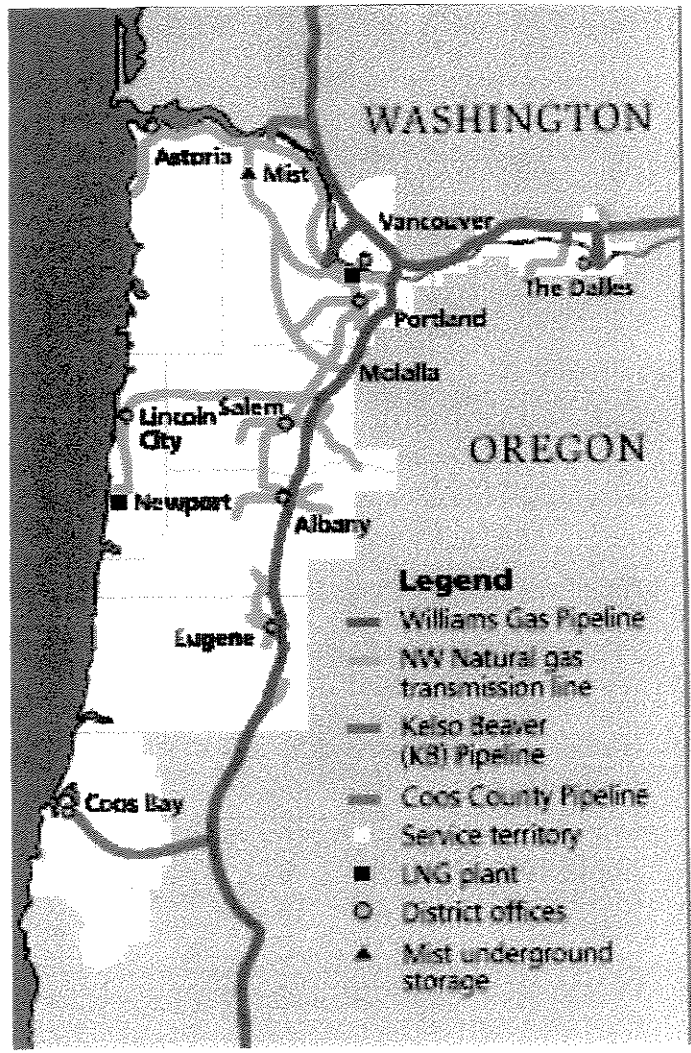


EXHIBIT BB

JPMorgan table of recent comparable "A" rated transactions.

Recent comparable rated transactions

'A' rated transactions

Borrower	Sr. unsec. ratings	In market date	Industry	Deal size (mm)	Facility type	Facility amount (mm)	Tenor	Undrawn (bps)	First drawn (bps)	Fully drawn (bps)	Fees to market (bps)
Alltel Corp.	A2/A	Jun-2005	Telecom	\$700.0	RC	\$700.0	364-day	7.0	30.0	35.0	0.0
Baker Hughes	A2/A-	Jun-2005	Oil & Gas	\$500.0	RC	\$500.0	5-yr	6.0	25.0	25.0	3.0
Alabama Power	A2/A	May-2005	Utilities	\$225.0	RC	\$225.0	5-yr	9.0	25.0	35.0	10.0
Franklin Resources	A2/A	May-2005	Financial Services	\$420.0	RC	\$420.0	5-yr	7.5	30.0	35.0	3.0
Georgia Power	A2/A	May-2005	Utilities	\$350.0	RC	\$350.0	5-yr	9.0	25.0	35.0	10.0
Hormel Foods Corp.	A2/A	May-2005	Consumer	\$200.0	RC	\$200.0	5-yr	6.5	25.0	30.0	2.5
XL Capital	A2/A	May-2005	Insurance	\$2,350.0	RC	\$2,350.0	5-yr	7.0	30.0	40.0	5.0
Countrywide Home Loans	A3/A	Apr-2005	Financial Services	\$2,340.0	RC	\$2,230.0	364-day	7.0	35.0	50.0	0.0
Rockwell Collins	A2/A	Apr-2005	Defense/Aerospace	\$850.0	RC	\$850.0	5-yr	7.0	25.0	30.0	6.0
Bellsouth	A2/A	Mar-2005	Telecom	\$3,000.0	RC	\$3,000.0	3-yr	6.0	25.0	30.0	0.0
CIT Group	A2/A	Mar-2005	Financial Services	\$2,850.0	RC	\$750.0	5-yr	8.0	30.0	30.0	7.5
Genworth Financial	A2/A	Mar-2005	Financial Services	\$1,000.0	RC	\$2,100.0	5-yr	8.0	30.0	40.0	3.0
Emerson Electric	A2/A	Feb-2005	Consumer	\$1,000.0	RC	\$1,000.0	5-yr	7.0	30.0	40.0	3.0
McCormick & Co.	A2/A	Jan-2005	Consumer	\$400.0	RC	\$1,000.0	5-yr	7.5	35.0	35.0	5.0
McDonald's Corp.	A2/A	Jan-2005	Consumer	\$1,250.0	RC	\$400.0	5-yr	8.0	25.0	30.0	NA
						\$1,250.0	5-yr	8.0	30.0	35.0	0.0