

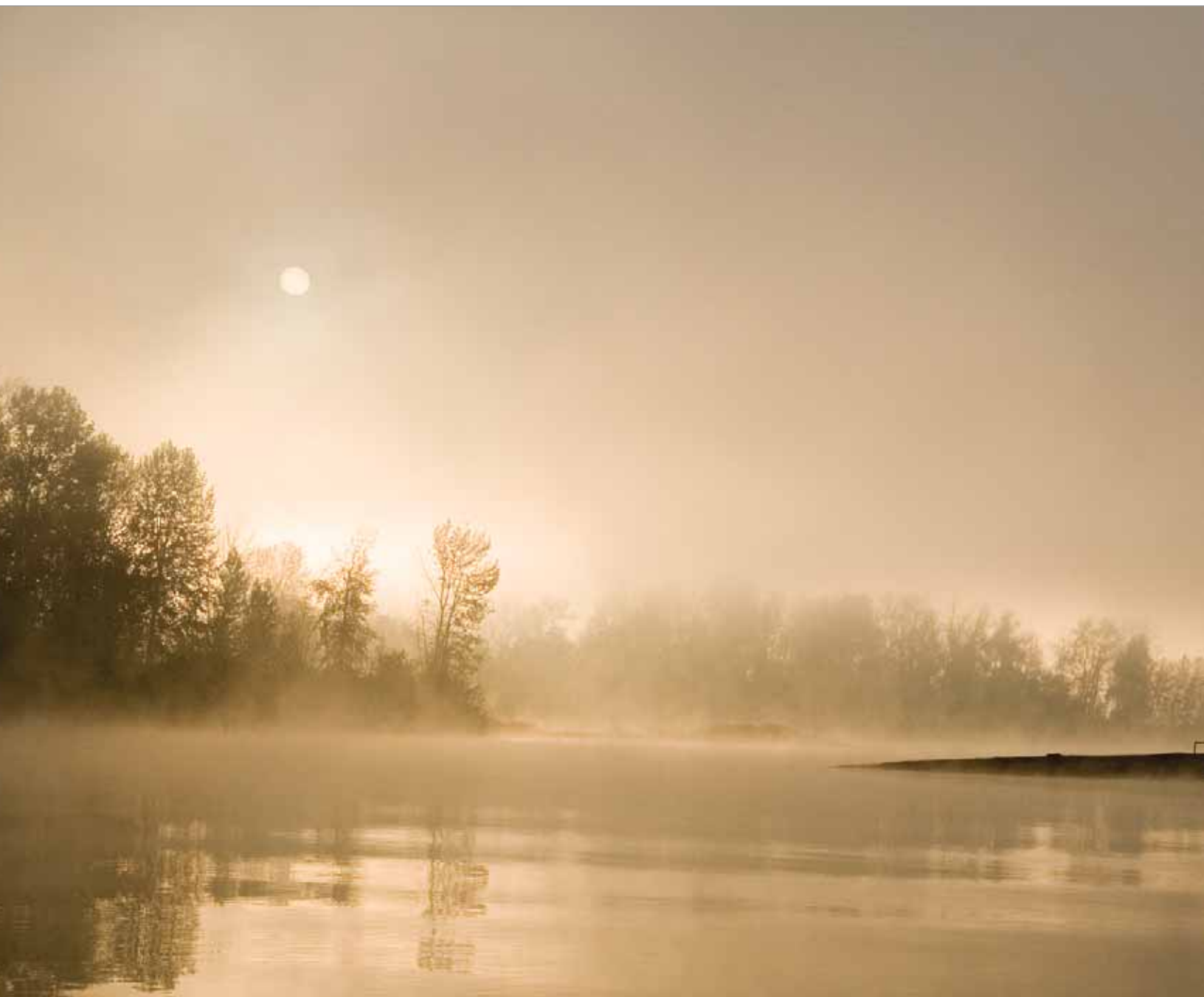


NW Natural[®]

2005 ANNUAL REPORT

Creating value





“We are ready for the challenges and opportunities
that lie ahead. After 147 years, we remain
delivering value for all those who have placed their

- Mark S. Dodson, President and Chief Executive Officer



dedicated to
confidence in us."

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Mark Dodson, President and CEO, visits gas control in Portland. Gas controllers such as John Pigott monitor the Company's 13,000 miles of pipeline. The Gas Supply Department creates value by maximizing storage and transportation opportunities.

Letter to shareholders

Dedicated to delivering value

To Our Shareholders:

NW Natural's most fundamental responsibility is to create value — for our shareholders, our customers, our employees and our communities. In 2005, the Company lived up to that responsibility, delivering a strong performance that paid healthy dividends, both literally and figuratively.

In a challenging period for the natural gas industry, we benefited by positioning the Company for higher profitability and fewer business risks. But it was not a year to rest. Building a strong platform for growth means always looking ahead of the next curve — anticipating challenges, looking for opportunities and creating strategies to capitalize on both.

NW Natural is proud of its financial results for 2005, but we are also more determined than ever to pursue initiatives that continue to foster the stability and growth that investors value.

Highlights of the Year

In 2005, NW Natural:

- Earned \$2.11 a diluted share compared to \$1.86 in 2004, up more than 13 percent;
- Marked 50 consecutive years of increasing dividends paid to shareholders;
- Secured regulatory renewal of our Conservation Tariff for another four years;
- Ranked fifth nationally and second in the West in J.D. Power's survey for customer satisfaction among the nation's 56 gas utilities;
- Continued expansion of our Mist gas storage facility to serve the interstate market;
- Refinanced a \$200 million credit line at attractive rates;
- Managed our 19th consecutive year of customer growth of more than 3 percent;
- Grew to more than 617,000 customers; and
- Updated our Strategic Plan to refine and sharpen our strategic direction and focus on cost controls and operational excellence.

Strategies and Execution Deliver Value

Our performance last year demonstrated the value that can be produced by years of careful planning and disciplined execution. You can see it in our bottom line and in the many other achievements of 2005.

In addition to a 13 percent increase in earnings per share, last year the Company added its 600,000th customer, with the landmark customer coming in our newest service territory, Oregon's south coast. Customer growth exceeded 3 percent for the 19th consecutive year, remaining well above the national average of approximately 1.5 percent for natural gas distribution companies.

As our stock price increased in 2005, the Company's market capitalization hit \$1 billion for the first time — putting NW Natural in the mid-cap stock range.

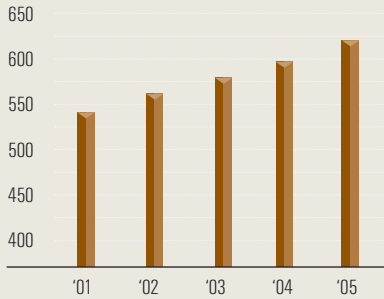
We also continued to expand our Mist underground gas storage capacity to take advantage of favorable conditions in the interstate storage market. The company's interstate storage business added 17 cents per share, an increase of 55 percent over 2004.

And in 2005 we marked 50 years of increasing dividends paid, an accomplishment shared by only three other companies in the U.S. In October, we celebrated this rare milestone by ringing the opening bell on the New York Stock Exchange.

As all of this suggests, 2005 was an exceptionally strong year for NW Natural, one that delivered greater value to its shareholders. And we believe customers benefited as well. The Company fought hard in the midst of soaring wholesale natural gas prices to provide its customers the greatest value possible. Compared to how gas customers fared in other parts of the country, we succeeded in a big way.

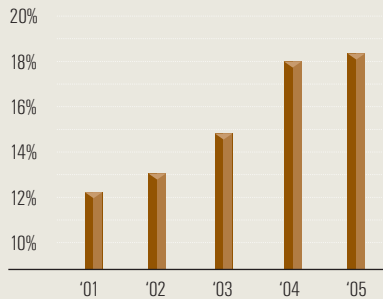
The Company's gas purchasing strategy, built around storage assets and disciplined hedging practices, helped our customers avoid most of the fallout following hurricanes Katrina and Rita. Even before the hurricanes hit, our regulators recognized NW Natural for keeping gas costs the lowest in the region. Many gas utilities across the nation passed on increases of 50 percent or more. We kept ours to approximately 15 percent in Oregon and 12 percent in Washington.

Total Customers
IN THOUSANDS



The Company added 20,528 new customers in 2005, expanding our customer base by 3.4 percent. In the past five years, the Company has added almost 100,000 new customers.

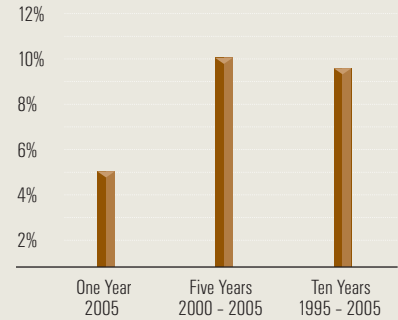
Profitability of New Residential Customer Acquisitions*
IN PERCENT RETURN ON EQUITY



NW Natural continues to improve its returns from new residential customers by targeting the most profitable customers and managing main extension costs.

* Average margin per customer less incremental costs.

Total Shareholder Return
ANNUALIZED AS A PERCENT



The Company's annualized total return — dividends plus stock appreciation — was 5.1 percent in 2005, 10 percent over the past five years, and 9.6 percent over 10 years.

We were pleased with what we accomplished, but we also knew that a 15 percent increase would still be tough on many of our customers. So we stepped up our efforts to help customers better manage higher prices. Among other things, we launched a redesigned Web site with new tools to help customers analyze and cut energy costs. We also ran television ads to draw attention to these tools and to our equal payment plan.

Providing greater value to customers and shareholders was the principle behind our Conservation Tariff, which decouples the company's earnings and cash flow from the volume of gas it sends through the pipes. In August of 2005, the Public Utility Commission of Oregon, with the support of customer and environmental advocates, renewed the tariff for four more years and increased the coverage from 90 percent to 100 percent. The tariff applies to the Company's more than 550,000 Oregon customers. All parties agreed that the tariff benefits both customers and shareholders.

Our weather-normalization mechanism, called WARM, also added significant value to customers and shareholders in 2005. Customers saw less volatility in their wintertime bills and shareholders were protected from warmer-than-average weather. Together, WARM and the Conservation Tariff allow NW Natural to overcome two of the greatest challenges facing gas utilities today: earnings and cash flow uncertainty from fluctuating weather and declining per capita gas consumption. In 2005, the two mechanisms combined to add \$1.6 million to margin.

NW Natural's efforts on behalf of its customers have made a difference. Last year the Company climbed to fifth place for overall customer satisfaction among gas utilities in a national J.D. Power's survey. In the western region, we ranked second.

Understanding the Challenge

In 2005, we benefited both from sound business strategies and a solid economic recovery. Population in Oregon grew by more than 46,000 in 2005, with two-thirds of that growth from residents moving here from other states. Unemployment is at its lowest level in almost five years. Housing starts remain strong and natural gas continues to be the fuel of choice for new construction. But as we recognize the elements that created a strong performance in 2005, we must also understand and plan for a future that includes the challenge of high natural gas prices.

High, more volatile gas prices will likely continue over the next several years as the nation works to tap new natural gas supplies. Passage of the 2005 Energy Policy Act is an important step in the right direction. Its provisions encourage greater exploration and production in the U.S. and attempt to improve the siting process for new Liquefied Natural Gas (LNG) import facilities. The ability to site new LNG terminals is a key issue in our service territory, where there are currently five project proposals being considered.

In addition to its focus on new supplies of natural gas and increased energy efficiency, the 2005 Energy Policy Act calls for a greater diversification of the sources of energy used to generate electricity. The heavy consumption of natural gas to run electric turbines contributes to rising gas prices and inefficient use of the fuel's energy content. With new supplies becoming available, greater energy efficiency and the more direct, efficient use of natural gas, analysts predict that prices will stabilize and even fall in the coming years.

However, in the meantime, we face the reality of high prices for the commodity we buy for our customers. NW Natural's goal is to make sure

high prices don't impede our growth. Accomplishing that means continuing to deliver more value to our customers and doing it more efficiently. As costs increase, so do customer expectations. Meeting those expectations while continuing to grow shareholder value has become a central focus of our business planning, one driving us to thoroughly re-examine how we structure our operations.

Looking Ahead, Making Changes Now

Last year, we launched an intensive effort to refresh the Company's Strategic Plan. We knew 2005 would be a good year, but recognized it was no time to rest on our laurels — it was an opportunity to look ahead and begin to address the challenges.

As part of our Strategic Plan update, teams of employees explored new ways to operate. They searched for efficiencies that would drive operating and capital costs down while delivering customers better overall value. The Company's senior management team met with every workgroup to describe the challenges ahead and gather ideas for change. The results of this work shaped our 2006 budget and fueled further examination.

We began 2006 looking hard at our peers in the gas industry, searching for best practices. We have committed ourselves to drive those best practices into our operations. We are looking at every opportunity, from outsourcing to investing in new technology. And we are making immediate changes.

For example, we are launching an Automated Meter Reading (AMR) project that will be phased in over the next few years. Initially, AMR will be introduced in our outlying areas. That's where the greatest cost savings are today. We are already planning for the reduction in meter-reading positions by using normal attrition and filling open positions with temporary employees.

Another initiative is the Service Solutions program we will launch this spring in the Portland-Vancouver area. This program is designed to strengthen relationships with residential customers and equipment dealers. Service Solutions connects customers who need furnace, water heater or fireplace repairs with a NW Natural-certified dealer. Dealers who participate are required to call the customer within two hours of receiving a request from NW Natural. This allows our technicians to work more efficiently and cut costs. The program will expand to our entire service territory this fall.

As these examples demonstrate, we are using 2006 to re-examine NW Natural's core operations and make changes to position the Company for the future. To continue to create value we must continually evaluate and

improve our operational model. In some areas this means working very differently from the past. Our employees are committed to, and involved in, this process. They understand the challenges and recognize we have an obligation to our customers, shareholders and the communities we serve to adopt the best practices in our industry.

NW Natural and its employees understand that without strong and healthy communities our Company could not succeed. Certainly our efforts to deliver natural gas safely, reliably and cost effectively strengthen our communities. But we are also committed to contributing in other ways that make a difference. This last year the Company gave major contributions to such important causes as Oregon Food Bank, Habitat for Humanity, LifeWorks Northwest and SMART (Start Making A Reader Today). We also supported dozens of local programs in which our employees are leaders or volunteers. And employees themselves stepped up and answered the call by helping to raise nearly \$100,000 for hurricane victims as part of the Company's Annual Charitable Giving Campaign, setting a new record for overall employee giving of \$208,000. In many ways, we reached out to the communities we serve this past year, adding value that improved people's lives.

Committed to Creating Value

Shareholders, customers, employees and communities have all profited from a year of accomplishment. We can also say with continued confidence that by planning ahead, working hard and executing with precision, we will continue to create value.

Last year I wrote: *We know who we are. We know where we're going. We know what you expect from us, and we know how to deliver.*

I believe that more strongly than ever. We're ready for the opportunities that lie ahead. We'll adapt to the changing business environment and position the Company for strong results in the future. And we'll never stop looking ahead of the next curve to anticipate and meet challenges.

Most of all, after 147 years, we know one thing never changes: our commitment to delivering value for all of those who have placed their confidence in us. Thank you for your trust in NW Natural, and we look forward to continuing to work on your behalf.

Sincerely,



Mark S. Dodson
President and Chief Executive Officer
March 1, 2006



David Anderson, Senior Vice President and Chief Financial Officer, keeps Wall Street and investors apprised of NW Natural's current and future strategies.

Interview with the Chief Financial Officer

Q: How would you assess NW Natural's overall financial condition?

A: NW Natural is in excellent shape with a sound business strategy and a solid foundation for future growth. Our balance sheet, cash flows and our liquidity position remain strong. We continue to focus on strengthening our financial position and on profitable growth in our regulated gas distribution business and our interstate gas storage activities. We did well in 2005. We continued to improve our financial controls and our Sarbanes-Oxley compliance process. In addition, we are upgrading how we communicate with investors and interested parties. We also increased our dividends paid for the 50th consecutive year, something only a few companies can claim.

Q: What about NW Natural's long-term earnings growth?

A: Our 2005 results were the combination of a lot of hard work and excellent planning. As for the future, revenue mechanisms are in place to help offset declining usage and warm weather. Customer growth remains strong and our system is in excellent shape. Continued customer growth and interstate gas storage expansion are the main earnings drivers for 2006 and 2007, along with appropriate controls on capital and operating expenses. We continue to look for additional growth opportunities; for example, expanding to parts of our service territory we don't currently serve or adding additional storage capacity at our Mist fields. Our main financial goals are still to consistently produce returns greater than our cost of capital, to provide long-term earnings per share growth of 5 percent or more and to pay out 60 percent to 70 percent of earnings in the form of common dividends.

Q: How is NW Natural creating value?

A: For a number of years, we have had a sharp focus on improving the profitability of every customer we add. We've developed new technology to identify the most profitable customers and created cost-effective marketing programs to attract them. Clearly, strong organic growth opportunities exist in our system and we are working hard to maximize them. In addition to our core activities, we are continuing to

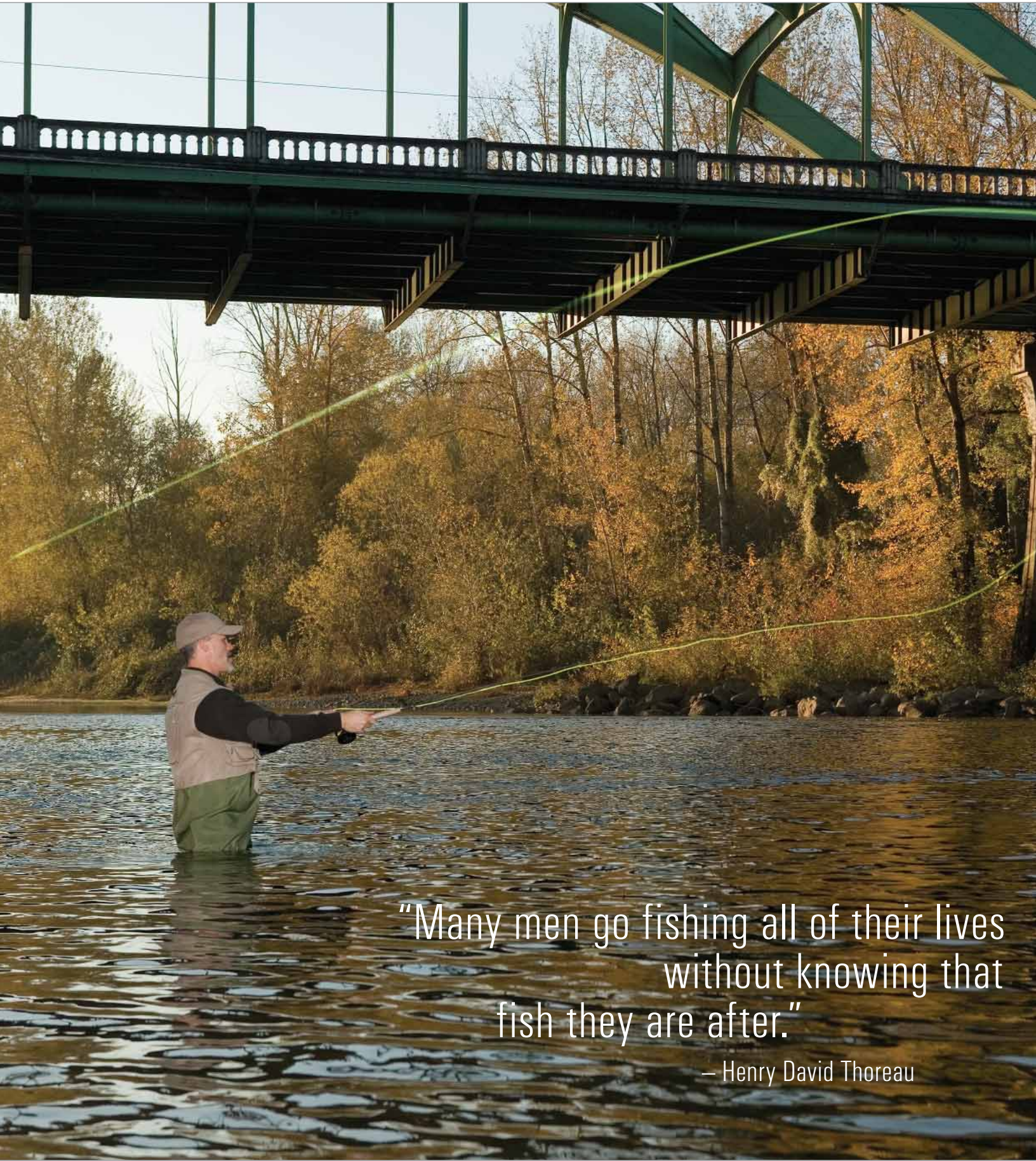
create value through our interstate gas storage business. But we also believe that value comes from finding ways to make our operations more efficient and more effective. A great example is our Automated Meter Reading project. It will reduce operating costs immediately and will improve the accuracy of our billing systems. There is an initial capital investment, but the return is substantial, particularly in our smaller districts.

Q: Can you talk more about your operational model, how that might change, and what it might mean to the bottom line?

A: With the high price of natural gas and the effect that has on our customers, it is very important that our operational model be the best it can be. Specifically, our operations need to be designed to ensure that we safely, reliably and efficiently distribute natural gas to our customers. Our current operational model is good, but I also believe we can do better. We are thoroughly reviewing all aspects of our operations. I believe that review will produce cost savings and identify ways we can better serve the customer. We are working at this every day, gaining insight from our employees as well as our peers, and we expect these efforts to make a substantial difference in 2006 and beyond.

Q: What will the NW Natural of 2010 look like?

A: Since joining the Company in late 2004, my focus has been to see that our planning and budgeting processes were firmly in place to ensure we could look into the future with the clearest vision possible to see both opportunities and threats. Some days the vision is clearer than others, but the focus remains the same: look and plan for the future every day. Since 1990, we have doubled our customers while maintaining the same number of employees. In the next five years, we are looking to continue to grow our customer base. Assuming current growth rates that would take us to nearly three-quarters of a million customers by 2010. We plan to do that profitably by further improving our financial performance, continuing to become more efficient and making wise choices in a competitive market.



“Many men go fishing all of their lives
without knowing that
fish they are after.”

— Henry David Thoreau



Creating value

At NW Natural, we know what we are after.

Value.

Value for our shareholders. Value for our customers. Value for our employees and our communities.

How we go about creating value is a mixture of art and science, like the graceful presentment of the right fly on the right riffle at the right time.

When our lead natural gas buyer looks at the market, he uses all the technological tools in his basket. But the tools can only take him so far and at some point he has to make a judgment. The way he wields his expertise creates value.

Managers scan operations with an eye for improving efficiency, striking the most effective balance between quality and cost. The right decisions create value by making new customers more profitable more quickly and by fostering a devoted work force.

Executives look up and downstream for opportunities and hazards. Where are the snags? Where are the best places to cast? Are there bigger fish somewhere else? Wisely navigating these issues creates value for shareholders, customers, employees and communities.

In 2005, we knew what we were after – and achieved it.



Creating value for shareholders

As a kid growing up in the Portland suburbs during the late 1970s, **Chris Bernard** always had an eye for value. He picked up returnable cans for the deposit. During the summer, he worked picking berries in the fields that once surrounded the metropolitan area.

"I made a little money at 13 or so, and my mom asked me what I was going to do with it," says Bernard, now a 40-year-old Portland firefighter. "My uncle recommended utility stocks as safe and dividend paying."

So he took his crumpled bills and jar of coins to NW Natural's headquarters to buy some stock. "I had maybe \$100 and I remember it was \$9 a share," he says. From then on, he was hooked, reading the paper every day to check the progress on "his stock."

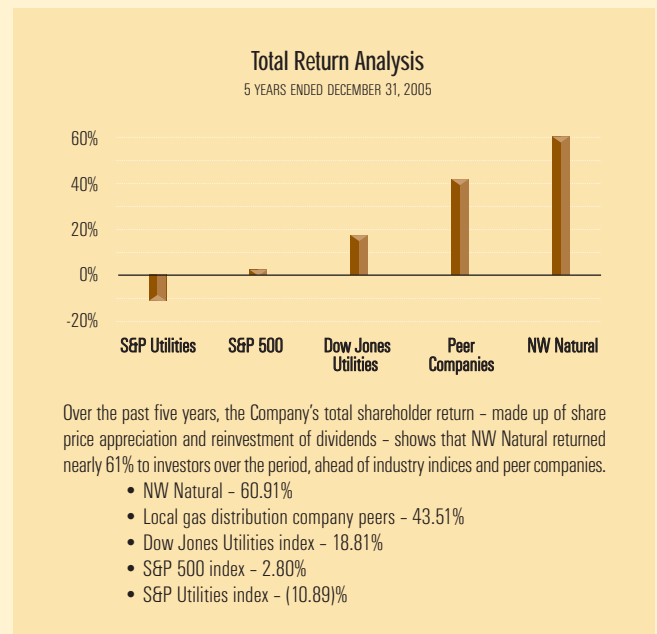
In 1987, he sold the stock to help pay for college. "That was hard to do personally, but I knew that's what it was for, so I did it."

He continued investing over the years, but always had a soft spot for NW Natural. When his son Benjamin turned 2, he took him downtown to buy some company shares. "The same lady was there as when I brought in my money as a kid and she remembered me. That was neat," he says. Last year, when his daughter Amelia turned one year old, they re-enacted the ritual. "It's great as we drive around I can point out a service truck and tell my kids that's their company," Bernard says.

NW Natural is dedicated to creating shareholder value for individuals and generations of families such as the Bernards.

In 2005, the Company achieved 50 years of increasing dividends paid, a distinction shared by only three other companies in the U.S.

That's a story shareholders never tire of hearing.





Creating value for customers

For decades, Portland's south waterfront area lay barren and unsightly. A former riverfront industrial site just south of the city's vibrant downtown, the area is now the nation's largest urban renewal project. And NW Natural's innovative partnership with the developer is a critical part of the revitalization effort.

The River Blocks at South Waterfront will eventually host 10,000 jobs and 4,000 households – all in gas-supplied buildings spread over 128 acres. In the first phase, the development boasts four residential high rises and a 400,000 square-foot, 16-story medical research center for Oregon Health & Science University. The high-rise condos – between 21 and 31 stories – are under construction with over 90 percent already sold. With some creative design, NW Natural managed to serve each building with just one service line. Working with project architects, we were able to make dozens of cumbersome meter sets mesh seamlessly with the design of this high-profile project.

The result was less cost for the developer and the eventual residents. We added more customers in an efficient high-rise environment featuring gas appliances for heating water, water source heat pumps,

cooking, fireplaces and barbeques – all with great views of Portland and the Willamette River. In the late 1990s, NW Natural made a strategic decision to pursue the multifamily market. As a result of the new programs that have been developed, the Company has been successful in growing our multifamily market share. This is particularly true for the owner-occupied, higher-end multifamily construction that has been a strong market in the Portland area for the last several years.

With projects like the River Blocks, NW Natural is creating value for customers and the entire metropolitan area.

With some creative design, NW Natural managed to serve each building with just one service line. Working with project architects, we were able to make dozens of cumbersome meter sets mesh seamlessly with the design of this high-profile project.

Creating value for employees

Last year, NW Natural signed up its 600,000th customer, double the number that we served in 1989; yet the Company actually reached that milestone with fewer employees than it had 16 years ago.

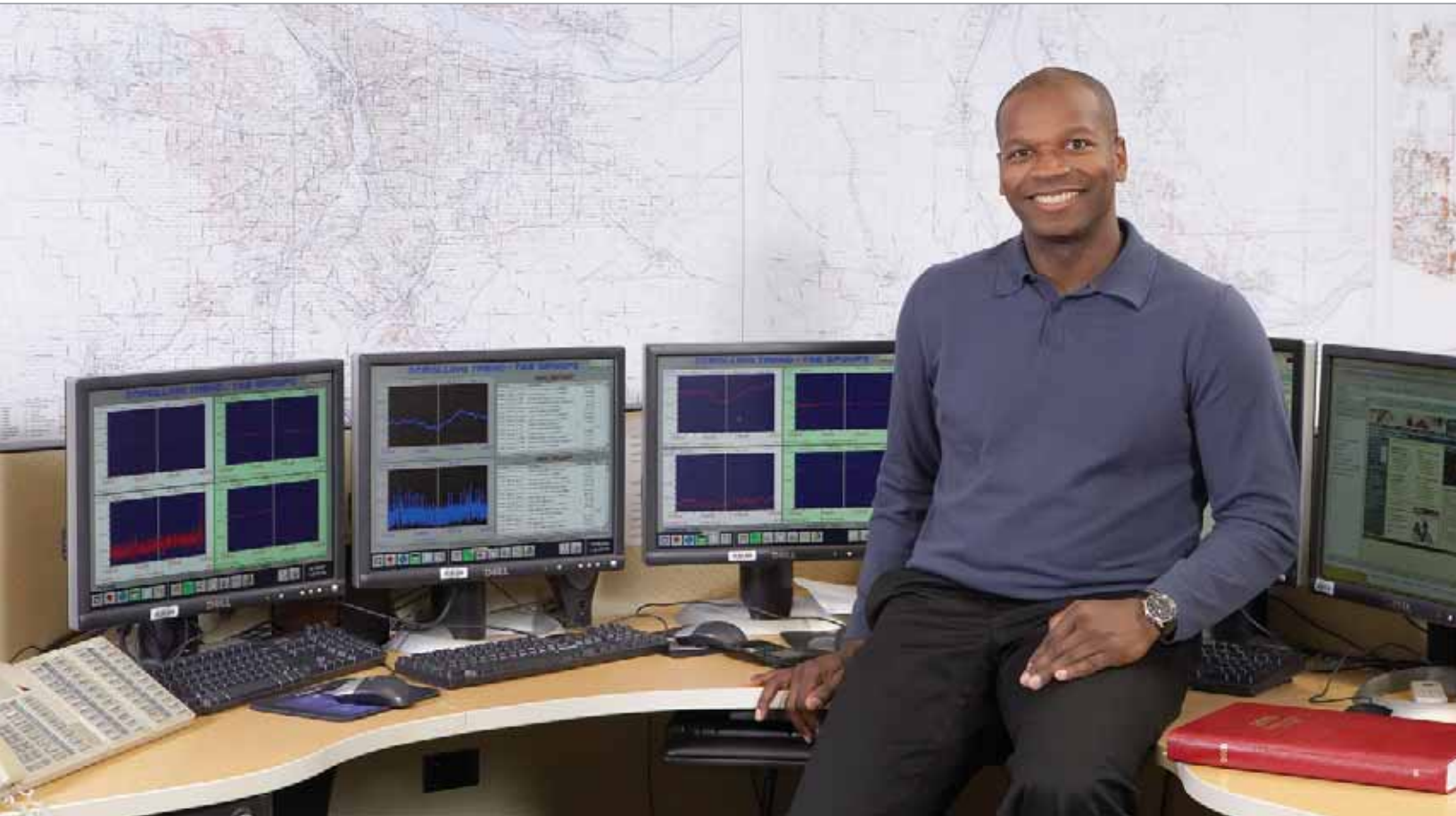
NW Natural employees are adding more value than ever, and in today's constantly changing environment, intensified competition demands their adaptability, creativity and constant vigilance for better, more efficient ways to do the work.

As employees add value to the Company, NW Natural in turn invests

in its employees. Providing competitive wages and benefits and a sound retirement plan are a few of the tangible ways. Others are investing in employee development and providing opportunities for career growth and personal achievement. NW Natural is a place where employees can aim for these goals and, with hard work, realize them.

Eugene Clark started with NW Natural in 1991 as a distribution helper, working on a field crew. "I asked a lot of questions, so eventually they put me in the answer department," he says now. After advancing to pipe joiner, he moved indoors as a gas controller in





1996. He serves as a traffic controller for company gas supplies as they move through the territory.

“At heart, I’m an analyst. I like solving problems and here I get to work on a team that manages change on a daily basis,” Clark says.

Keeping ahead of technology has been **Lori Russell’s** mantra at NW Natural since she joined the Company as a clerk in 1980. In those days before voicemail or e-mail, she answered the phone and took messages for 45 people. Managers kept budgets using pencils on huge spreadsheets.

Over the years, she grew with the Company, working as a supervisor in Customer Equipment Services, a claims agent in Land & Risk and then into Construction Management. Russell now serves as General Manager of Gas Operations with responsibility for more than 70 employees who build and maintain our distribution system. With her broad experience throughout the Company, Russell specializes in heading cross-functional teams dedicated to operational efficiency.

“Every place I’ve gone in the Company, I’ve taken my desire to automate with me,” she says.

Above, Eugene Clark joined NW Natural as a helper on field crews and now is a gas controller. “I asked a lot of questions, so eventually they put me in the answer department,” he says.

Left, Lori Russell, general manager of gas operations, confers on how to make a project more cost effective with (left to right) Richard Brown, construction estimator; Yogi Rattay, construction field supervisor; Tim Callahan, field operations coordinator; and Jerry Hulett, field engineering technician.



Creating value for communities

A business can't succeed for long if it doesn't exist in a healthy and vital community. NW Natural understands this relationship – and has from the very start. We have a 147-year legacy of involvement in the communities we serve. The Company and its employees actively participate and support local causes with contributions of time and dollars, adding value in many ways.

In 2005, 304 organizations or projects received funding through NW Natural's philanthropy programs. The Company gave more than \$60,000 to Oregon Food Bank, our signature program, and our employees contributed an additional \$7,226 to the food drive. Employees also extended a helping hand to the victims of hurricanes Katrina and Rita, helping to raise nearly \$100,000 on their way to setting a new record for the annual employee charitable giving campaign.

We also reached out to smaller charitable groups. Last year, we awarded \$15,500 to more than 43 employees who had applied for small grants to support their community efforts. The projects ranged from homework clubs at inner city schools to rehabilitating area streams to supporting the families of soldiers serving overseas. In itself, each grant may have been small, but together the resources help to improve the communities we serve.

The Company also supports the community-building efforts of our

employees and management. We look for opportunities to support the creative, dedicated instincts of our people that come naturally when individuals become involved in communities where they live and work.

We encourage employees to donate their time to useful efforts such as repackaging food at their local food banks. Others packaged and delivered backpacks filled with school supplies from the Tools for Schools program to children in disadvantaged neighborhoods of Portland. In a new initiative, NW Natural employees apply for a special sabbatical to take a few months to use their skills to help kick start an important nonprofit program of their choice.

In all, we contributed \$822,320 to charitable organizations that make a difference in the lives of people in our service territory.

For NW Natural, contributing to our communities isn't just good business – it's a core value.

A business can't succeed for long if it doesn't exist in a healthy and vital community. NW Natural understands this relationship – and has from the very start.

Company Overview

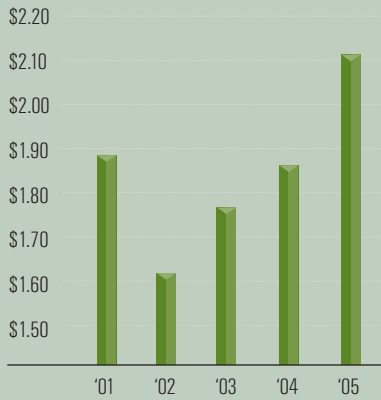
Corporate Profile

NW Natural is a 147-year-old natural gas local distribution company headquartered in Portland, Oregon. The Company has added customers at a rate of 3 percent or more per year for 19 consecutive years. NW Natural serves more than 617,000 customers in Oregon and southwest Washington, including the Portland-Vancouver metropolitan area, the Willamette Valley, the Oregon coast and the Columbia River Gorge. More than 200,000 customers have been added to NW Natural's distribution system in the past 10 years. In keeping with its steady growth, the Company has increased annual dividends paid to shareholders every year for 50 consecutive years. NW Natural purchases natural gas for its core market from a variety of suppliers in the western United States and Canada. The Company also operates an underground gas storage facility and contracts for additional gas storage outside its service area. NW Natural operates two liquefied natural gas plants in its service area. The Company also provides interstate gas storage services to other energy companies in the Northwest interstate market, using capacity that has been developed in advance of its core customers' needs.

Financial and Operating Highlights

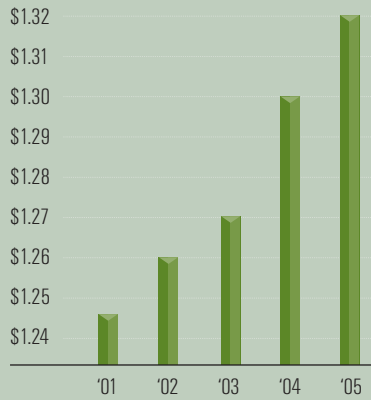
	2005	2004	Percent increase (decrease)
Earnings			
Financial facts (\$000):			
Net operating revenues	324,993	291,495	11
Net income	58,149	50,572	15
Financial ratios (%):			
Return on average common equity	10.1	9.4	7
Capital structure at year-end:			
Long-term debt	47.0	46.0	2
Common stock equity	53.0	54.0	(2)
Common stock			
Shareholder data:			
Common shareholders	9,136	9,359	(2)
Average shares outstanding (000)	27,564	27,016	2
Per share data (\$):			
Basic earnings	2.11	1.87	13
Diluted earnings	2.11	1.86	13
Dividends paid on common stock	1.32	1.30	2
Book value at year-end	21.28	20.64	3
Market value at year-end	34.18	33.74	1
Operating highlights			
Gas sales and transportation deliveries (000 therms)	1,157,567	1,131,866	2
Degree days (25-year average, 4,265)	4,178	3,853	8
Customers at year-end	617,163	596,635	3
Number of utility employees	1,305	1,288	1
Dividends paid on common stock (per share)			
Payment date			
February 15	\$ 0.325	\$ 0.325	
May 15	\$ 0.325	\$ 0.325	
August 15	\$ 0.325	\$ 0.325	
November 15	\$ 0.345	\$ 0.325	
Total dividends paid	\$ 1.320	\$ 1.300	

Earnings Per Share IN DOLLARS



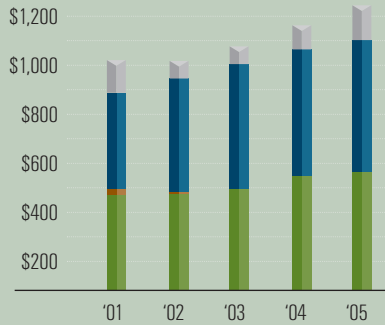
Diluted earnings were \$2.11 per share in 2005, up 13 percent over 2004. Diluted earnings per share in 2002 include a charge of \$0.33 per share related to a terminated acquisition.

Dividends Paid Per Share IN DOLLARS



Annual dividends paid per share in 2005 increased for the 50th consecutive year, a growth record matched by few companies. The indicated dividend rate at year-end 2005 was \$1.38 per share.

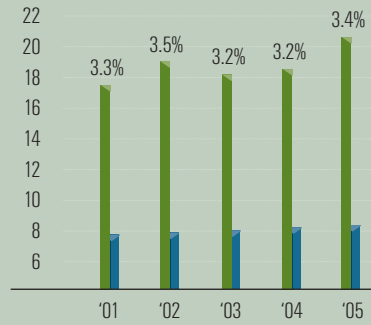
Capitalization IN MILLIONS OF DOLLARS



- COMMON EQUITY
- PREFERRED AND PREFERENCE STOCK
- LONG-TERM DEBT
- SHORT-TERM DEBT

In 2005, \$15 million in long-term debt was retired, and \$50 million in long-term debt was issued.

Customer Growth & Annual Growth Rate IN THOUSANDS



- NW NATURAL
- NATIONAL AVERAGE

NW Natural has consistently added new customers and grown at a rate of more than twice the national average for the past 19 years, including 2005 when the Company's annual growth rate was 3.4 percent, compared to the national gas distribution industry average of approximately 1.5 percent annually.

Service Territory



Legend

- Williams Gas Pipeline
- NW Natural gas transmission line
- Kelso Beaver (KB) Pipeline
- Coos County Pipeline
- LNG plant
- District offices
- ▲ Mist underground storage

Comparative Condensed Consolidated Income Statements

Thousands, except per share amounts (year ended December 31)	2005	2004	2003	2002**	2001
Operating revenues:					
Gross operating revenues	\$ 910,486	\$ 707,604	\$ 611,256	\$ 641,376	\$ 650,252
Cost of sales	563,860	399,244	323,190	353,832	374,241
Revenue taxes *	21,633	16,865	14,650	14,743	14,645
Net operating revenues	324,993	291,495	273,416	272,801	261,366
Operating expenses:					
Operations and maintenance	113,216	102,155	96,420	85,120	83,920
General taxes *	23,185	21,943	20,475	19,333	17,595
Depreciation and amortization	61,645	57,371	54,249	52,090	49,640
Total operating expenses	198,046	181,469	171,144	156,543	151,155
Income from operations	126,947	110,026	102,272	116,258	110,211
Other income and expense – net	1,205	2,828	2,150	(14,890)	1,334
Interest charges – net of amounts capitalized	37,283	35,751	35,099	34,132	33,805
Income before income taxes	90,869	77,103	69,323	67,236	77,740
Income tax expense	32,720	26,531	23,340	23,444	27,553
Net income	58,149	50,572	45,983	43,792	50,187
Redeemable preferred and preference stock dividend requirements	-	-	294	2,280	2,401
Earnings applicable to common stock	\$ 58,149	\$ 50,572	\$ 45,689	\$ 41,512	\$ 47,786
Average common shares outstanding:					
Basic	27,564	27,016	25,741	25,431	25,159
Diluted	27,621	27,283	26,061	25,814	25,612
Earnings per share of common stock:					
Basic	\$ 2.11	\$ 1.87	\$ 1.77	\$ 1.63	\$ 1.90
Diluted	\$ 2.11	\$ 1.86	\$ 1.76	\$ 1.62	\$ 1.88
Dividends paid per share of common stock	\$ 1.32	\$ 1.30	\$ 1.27	\$ 1.26	\$ 1.245

See Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K.

* Revenue taxes were reclassified from general taxes.

** Includes a loss of \$13.9 million in 2002 for charges related to a terminated acquisition.

Comparative Condensed Consolidated Balance Sheets

Thousands of dollars (December 31)	2005	2004	2003	2002	2001
Assets:					
Plant and property:					
Utility plant	\$ 1,875,444	\$ 1,794,972	\$ 1,657,589	\$ 1,539,965	\$ 1,465,079
Less accumulated depreciation	536,867	505,286	471,716	435,601	398,668
Utility plant - net	1,338,577	1,289,686	1,185,873	1,104,364	1,066,411
Non-utility property	40,836	33,963	23,395	20,832	18,203
Less accumulated depreciation and amortization	5,990	5,244	4,855	4,404	4,007
Non-utility property - net	34,846	28,719	18,540	16,428	14,196
Total plant and property	1,373,423	1,318,405	1,204,413	1,120,792	1,080,607
Other investments	58,451	60,618	73,845	67,619	76,266
Current assets:					
Cash and cash equivalents	7,143	5,248	4,706	7,328	10,440
Accounts receivable	84,418	60,634	48,369	48,751	66,684
Accrued unbilled revenue	81,512	64,401	59,109	44,069	57,749
Allowance for uncollectible accounts	(3,067)	(2,434)	(1,763)	(1,815)	(1,962)
Inventories of gas, materials and supplies	86,161	66,477	50,859	58,030	49,337
Prepayments and other current assets	67,543	42,791	34,554	36,934	28,086
Total current assets	323,710	237,117	195,834	193,297	210,334
Regulatory assets	98,578	91,263	77,272	61,523	172,382
Fair value of non-trading derivatives	178,653	16,399	23,885	12,426	-
Other assets	9,216	8,393	10,130	11,620	11,064
Total assets	\$ 2,042,031	\$ 1,732,195	\$ 1,585,379	\$ 1,467,277	\$ 1,550,653
Capitalization and liabilities:					
Capitalization:					
Common stock equity	\$ 586,931	\$ 568,517	\$ 506,316	\$ 482,392	\$ 468,161
Redeemable preference stock	-	-	-	-	25,000
Redeemable preferred stock	-	-	-	8,250	9,000
Total capital stock	586,931	568,517	506,316	490,642	502,161
First mortgage bonds	521,500	479,500	494,500	439,500	370,000
Unsecured debt	-	4,527	5,819	6,445	8,377
Total long-term debt	521,500	484,027	500,319	445,945	378,377
Total capitalization	1,108,431	1,052,544	1,006,635	936,587	880,538
Current liabilities:					
Notes payable	126,700	102,500	85,200	69,802	108,291
Accounts payable	135,287	102,478	86,029	74,436	70,698
Long-term debt due within one year	8,000	15,000	-	20,000	40,000
Taxes accrued	12,725	10,242	8,605	7,822	22,539
Interest accrued	2,918	2,897	2,998	2,902	3,658
Other current and accrued liabilities	40,935	34,168	31,589	30,045	28,396
Total current liabilities	326,565	267,285	214,421	205,007	273,582
Regulatory liabilities	344,212	165,699	166,714	150,049	127,705
Deferred investment tax credits	5,069	5,660	6,945	7,824	8,682
Deferred income taxes	222,331	211,080	171,797	141,732	130,424
Fair value of non-trading derivatives	6,876	5,487	-	-	111,868
Other liabilities	28,547	24,440	18,867	26,078	17,854
Total capitalization and liabilities	\$ 2,042,031	\$ 1,732,195	\$ 1,585,379	\$ 1,467,277	\$ 1,550,653

See Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K.

Certain amounts from prior years have been reclassified to conform with the current financial statement presentation.

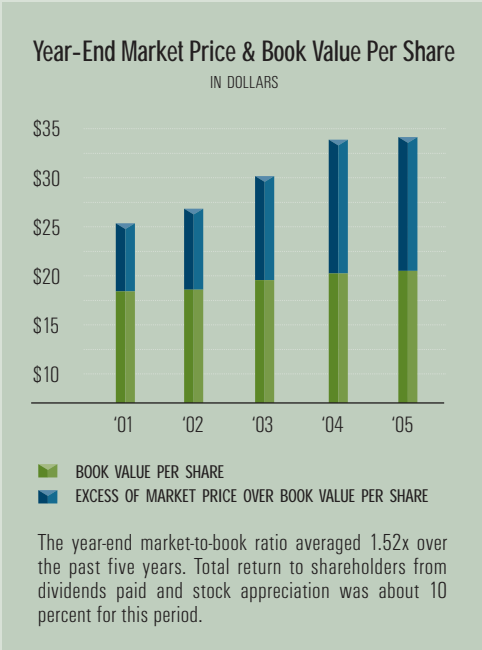
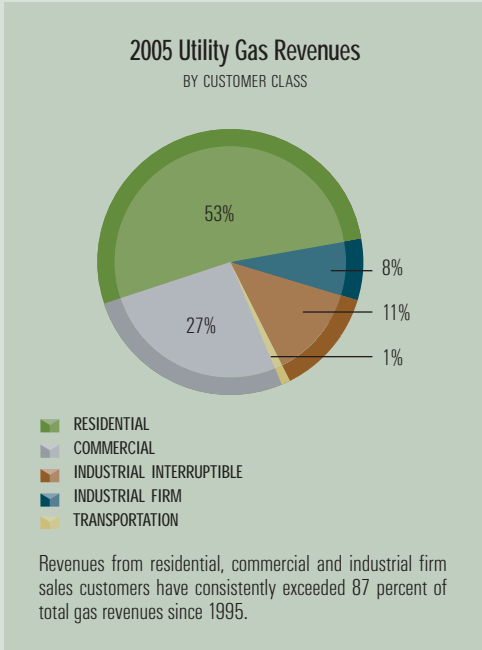
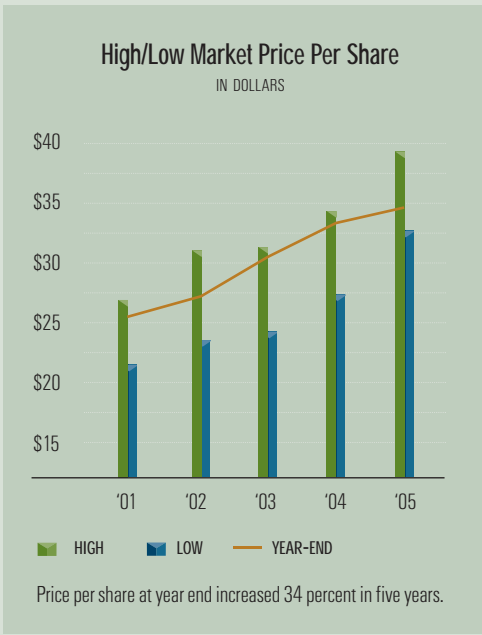
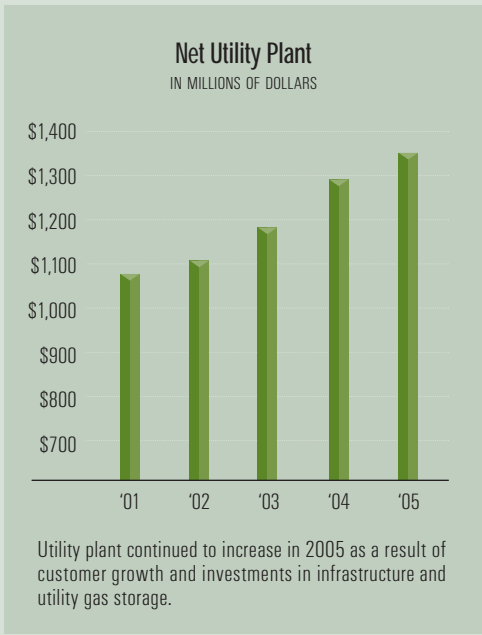
Comparative Financial Statistics

	2005	2004	2003	2002*	2001
Common stock					
Ratios at year-end:					
Price/earnings ratio	16.2	18.0	17.3	16.6	13.4
Dividend yield at year-end rate - %	4.0	3.9	4.1	4.7	4.9
Dividend payout - %	62.6	69.5	71.8	77.3	65.5
Return on average common equity - %	10.1	9.4	9.3	8.7	10.4
Per share data - (\$):					
Basic earnings	2.11	1.87	1.77	1.63	1.90
Diluted earnings	2.11	1.86	1.76	1.62	1.88
Dividends paid	1.32	1.30	1.27	1.26	1.245
Indicated dividend rate at year-end	1.38	1.30	1.30	1.26	1.26
Book value at year-end	21.28	20.64	19.52	18.85	18.56
Market price:					
High	39.63	34.13	31.30	30.70	26.69
Low	32.42	27.46	24.05	23.46	21.65
Year-end	34.18	33.74	30.75	27.06	25.50
Average	35.92	31.06	27.72	27.58	23.67
Number of shares of common stock outstanding (000):					
Year-end	27,579	27,547	25,938	25,586	25,228
Average	27,564	27,016	25,741	25,431	25,159
Coverage data - times earned					
Fixed charges - Securities and Exchange Commission	3.32	3.02	2.84	2.85	3.14
Utility plant					
Capital expenditures (000)	\$ 89,259	\$ 138,347	\$ 121,411	\$ 78,156	\$ 72,235
Depreciation - % of average depreciable utility plant	3.4	3.4	3.5	3.5	3.5
Accumulated depreciation - % of depreciable utility plant	38.4	37.2	38.0	37.3	35.8
Capital structure at year-end (%)					
(Exclusive of current portion of long-term debt)					
First mortgage bonds	47.0	45.6	49.0	46.9	42.0
Unsecured debt	-	0.4	0.7	0.7	1.0
Total long-term debt	47.0	46.0	49.7	47.6	43.0
Redeemable preferred stock	-	-	-	0.9	1.0
Redeemable preference stock	-	-	-	-	2.8
Common stock equity	53.0	54.0	50.3	51.5	53.2
Total capital stock	53.0	54.0	50.3	52.4	57.0
Total capital structure	100.0	100.0	100.0	100.0	100.0
Effective tax rate					
Effective tax rate - % of pretax income	36%	34%	34%	35%	35%

*Includes impact from a charge of \$0.33 per share in 2002 related to a terminated acquisition.

Comparative Operating Statistics

<i>Selected Utility Data</i>	2005	2004	2003	2002	2001
Customers at year-end					
Residential	556,667	537,152	519,427	503,402	485,207
Commercial	59,543	58,548	57,969	56,087	55,096
Industrial firm	667	658	478	306	383
Industrial interruptible	214	193	165	31	148
Total sales customers	617,091	596,551	578,039	559,826	540,834
Transportation customers	72	84	111	241	97
Total customers	617,163	596,635	578,150	560,067	540,931
Gas sales and transportation deliveries (000 therms)					
Residential	366,990	356,199	343,534	357,091	350,065
Commercial	231,896	226,490	226,257	240,155	242,293
Industrial firm	74,963	63,149	55,314	63,215	79,778
Industrial interruptible	149,106	104,278	47,994	26,241	63,597
Total gas sales	822,955	750,116	673,099	686,702	735,733
Transportation	328,056	389,514	414,554	445,999	385,783
Unbilled therms	6,556	(7,764)	12,099	(6,617)	1,771
Total volumes delivered	1,157,567	1,131,866	1,099,752	1,126,084	1,123,287
Operating revenues and cost of sales (000)					
Utility operating revenues:					
Residential	\$ 460,204	\$ 380,832	\$ 328,346	\$ 354,735	\$ 329,905
Commercial	244,824	199,444	176,336	201,475	190,236
Industrial firm	64,247	44,625	33,578	42,965	49,662
Industrial interruptible	100,740	55,380	23,661	15,937	34,283
Total gas sales revenues	870,015	680,281	561,921	615,112	604,086
Transportation	10,755	12,655	17,962	26,020	20,637
Unbilled revenues	17,021	3,849	14,474	(12,702)	13,774
Other	2,862	4,160	7,627	4,018	(2,325)
Total utility operating revenues	900,653	700,945	601,984	632,448	636,172
Cost of gas sold	563,772	399,176	323,128	353,034	364,699
Revenue taxes	21,633	16,865	14,650	14,743	14,645
Utility net operating revenues	\$ 315,248	\$ 284,904	\$ 264,206	\$ 264,671	\$ 256,828
Customer data					
Heat requirements:					
Actual degree days	4,178	3,853	3,952	4,232	4,325
Percent colder (warmer) than average	(2%)	(10%)	(7%)	(1%)	1%
Average use per customer in therms:					
Residential	673	677	673	725	738
Commercial	3,936	3,907	4,004	4,334	4,435
Average sales rate per therm (cents):					
Residential	125.2	107.1	95.6	99.3	94.2
Commercial	105.4	88.2	78.0	83.9	78.5
Industrial firm	85.7	70.7	60.7	68.0	62.2
Industrial interruptible	67.6	53.1	49.3	61.7	54.0
Total sales	105.6	90.8	83.5	89.6	82.1
Gas purchases (000 therms)	815,334	756,672	683,331	708,796	739,620
Gas purchased cost per therm – net (cents)	71.42	56.60	46.99	51.07	47.19
Average sendout cost of gas (cents)	67.96	53.77	47.16	51.91	49.45
Maximum day firm sendout (000 therms)	5,649	7,177	4,851	4,249	4,247
Maximum day total sendout (000 therms)	6,966	8,913	6,310	6,172	5,996
Utility employees	1,305	1,288	1,291	1,261	1,284
Number of customers served by each operating employee	738	721	724	714	671



Quarterly Financial Information (unaudited) Dollars (thousands except per share amounts)	Quarter ended				Total
	March 31	June 30	Sept. 30	Dec. 31	
2005					
Operating revenues	\$ 308,777	\$ 153,667	\$ 106,667	\$ 341,375	\$ 910,486
Net operating revenues**	120,986	57,649	41,940	104,418	324,993
Net income (loss)	39,887	1,140	(8,671)	25,793	58,149
Basic earnings (loss) per share	1.45	0.04	(0.31)	0.94	2.11*
Diluted earnings (loss) per share	1.43	0.04	(0.31)	0.93	2.11*
2004					
Operating revenues	\$ 254,450	\$ 109,659	\$ 81,441	\$ 262,054	\$ 707,604
Net operating revenues**	105,927	50,043	37,466	98,059	291,495
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*

* Quarterly earnings 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 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.

** As of December 31, 2005, revenue taxes are included in net operating revenues. Revenue taxes are expenses primarily related to utility franchise agreements and are based on gross operating revenues. Since revenue taxes are a direct cost of utility sales, these expenses were reclassified to net operating revenues. Prior periods' quarterly and annual amounts have been reclassified to conform with the current presentation, and these reclassifications did not have an impact on net income (loss).

Common Stock Prices

NW Natural's common stock is listed and trades on the New York Stock Exchange under the symbol "NWN." The quarterly high and low trades for NW Natural's common stock during the past two years were as follows:

2005 Quarter Ended	High	Low
March 31	\$ 37.24	\$ 32.42
June 30	38.67	34.36
September 30	39.63	35.60
December 31	37.77	33.25

2004 Quarter Ended	High	Low
March 31	\$ 33.00	\$ 29.95
June 30	31.65	27.46
September 30	32.37	28.84
December 31	34.13	30.77

The closing quotations for the common stock on December 30, 2005 and December 31, 2004 were \$34.18 and \$33.74, respectively.

Notice of Annual Meeting

The 2006 Annual Meeting will be held at 2 p.m., Thursday, May 25, in the Colonel Lindbergh Room of the Embassy Suites Hotel, 319 S.W. Pine Street, Portland, Oregon. A meeting notice and proxy statement will be sent to all shareholders in mid-April.

Dividend Reinvestment and Direct Stock Purchase Plan

Participants may make an initial investment in Company stock and common shareholders of record may reinvest all or part of their dividends in additional shares under the Company's plan. Cash purchases may also be made. Participants in the Plan bear the cost of brokerage fees and commissions for shares purchased on the open market to fulfill purchases under the Plan. A prospectus will be sent upon request.

Dividend Payment Dates

February 15, 2006
May 15, 2006
August 15, 2006
November 15, 2006

Certifications

The Chief Executive Officer certified to the NYSE on June 6, 2005 that, as of that date, he was not aware of any violation by the Company of NYSE's corporate governance listing standards,

and the Company has filed with the Securities and Exchange Commission, as exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2005, the certificates of the Chief Executive Officer and the Chief Financial Officer of the Company certifying the quality of the Company's public disclosure.

Contact the NW Natural Board

Concerns may be directed to the non-management directors as follows:

- Call 800-541-9967, or
- Write to NW Natural Board of Directors, c/o Corporate Secretary, or
- E-mail Directors@nwnatural.com

Forward-looking Statements

NW Natural's future operating results will be affected by various uncertainties and risk factors, many of which are beyond the Company's control, including governmental policy and regulatory action, the competitive environment, economic factors and weather conditions. Some statements in this annual report may be forward-looking, and actual results may differ materially as a result of these uncertainties. For a more complete description of these uncertainties and risk factors, please refer to the Company's filings with the Securities and Exchange Commission on Forms 10-K and 10-Q.

Shareholder Information



Robert S. Hess
Investor Relations
(503) 220-2388
(800) 422-4012
Ext. 2388
rsh@nwnatural.com



Carol M. Frary
Shareholder Services
(503) 220-2590
(800) 422-4012
Ext. 3412
cmf@nwnatural.com

Request for Publications

The following publications may be obtained without charge by contacting the Corporate Secretary:

Annual Report; Form 10-K; Form 10-Q; Corporate Governance Standards; Director Independence Standards; Code of Ethics; and Board Committee Charters.

These publications, as well as other filings made with the Securities and Exchange Commission, also are available on NW Natural's Web site at nwnatural.com.

Board of Directors



Standing (left to right) Kenneth Thrasher, Martha (Stormy) Byorum, John Carter, Russell Tromley, Scott Gibson, Randall Papé, Richard Woolworth
Seated (left to right) Timothy Boyle, Tod Hamachek, Richard Reiten, Mark Dodson

TIMOTHY BOYLE

Timothy P. Boyle, 56, is President and Chief Executive Officer of Columbia Sportswear Company located in Portland, Oregon. He was elected to the NW Natural Board of Directors in 2003, and serves on the Finance Committee, Strategic Planning Committee, and Organization and Executive Compensation Committee.

MARTHA (STORMY) BYORUM

Ms. Byorum, 57, is Senior Managing Director, Stephens Cori Capital Advisors, a private equity advisory and investment banking firm located in New York City. She was elected to the Board in 2004 and serves as a member of the Finance Committee and Audit Committee.

JOHN CARTER

A member of the NW Natural Board since 2002, John D. Carter, 60, chairs the Board's Audit Committee. He is also a member of the Governance and Finance Committees. Mr. Carter is President and Chief Executive Officer of Schnitzer Steel Industries, Inc., in Portland, Oregon.

MARK DODSON

NW Natural's President and Chief Executive Officer is Mark S. Dodson, 61. Previously he served as NW Natural's General Counsel and Senior Vice President, Public Affairs. He has served on the Board since 2003.

SCOTT GIBSON

C. Scott Gibson, 53, is President of Gibson Enterprises, a company that manages private investments in Portland, Oregon. Mr. Gibson joined the NW Natural Board in 2002. He is Chair of the Public Affairs and Environmental Policy Committee and a member of the Strategic Planning Committee and the Organization and Executive Compensation Committee.

TOD HAMACHEK

Chair of the Strategic Planning Committee, Tod R. Hamachek, 60, has served on the NW Natural Board since 1986. Mr. Hamachek is also a member of the Board's Audit and Governance Committees. Until February 2005, he served as Chairman and Chief Executive Officer of Penwest Pharmaceuticals Company, a firm that develops pharmaceutical drug delivery products and technologies in Danbury, Connecticut.

RANDALL PAPÉ

A member of the Board since 1996, Randall C. Papé, 55, chairs the Finance Committee. Mr. Papé is President and Chief Executive Officer of The Papé Group, Inc., headquartered in Eugene, Oregon, which specializes in the sales and service of capital equipment. He serves on the Board's Governance Committee and its Public Affairs and Environmental Policy Committee.

RICHARD REITEN

Retired Chairman of the Board, Richard G. Reiten, 66, has been a member of the Board since 1996. Mr. Reiten retired as President and Chief Executive Officer of NW Natural in 2002. He also served as President and Chief Operating Officer of Portland General Electric from 1992-1995. Mr. Reiten serves on the Finance Committee, the Public Affairs and Environmental Policy Committee and the Strategic Planning Committee.

KENNETH THRASHER

Elected to the Board of Directors in February 2005, Kenneth Thrasher, 56, is Chairman and Chief Executive Officer of Compli Corporation, a software solution provider for corporate compliance management in employment practices and governance. Mr. Thrasher served as an executive for 19 years with Fred Meyer, Inc., including President and Chief Executive Officer from 1999-2001.

RUSSELL TROMLEY

The Chair of the Organization and Executive Compensation Committee is Russell F. Tromley, 66. He has served on the Board since 1994, and is a member of the Audit and Governance Committees. Mr. Tromley is Chairman and Chief Executive Officer of Tromley Industrial Holdings, Inc., a company in Tualatin, Oregon, that manufactures foundry equipment and distributes nonferrous metals.

RICHARD WOOLWORTH

Elected to the Board in 2000, Richard L. Woolworth, 64, chairs the Governance Committee, and was selected to serve as Chair of the Board effective March 1, 2005. He also serves on the Audit Committee. Mr. Woolworth is the Retired Chairman and Chief Executive Officer of The Regence Group, a regional affiliation of health plans in Portland, Oregon.

Corporate Officers



David H. Anderson, 44 [2004]
Senior Vice President and Chief Financial Officer (2004-present)
 Senior VP and CFO, TXU Gas (2004)
 Corporate Controller and Principal Accounting Officer, TXU Corp. (2003-2004)
 VP, Investor Relations and Shareholder Services, TXU Corp. (1997-2003)



Mark S. Dodson, 61 [1997]
President and Chief Executive Officer (2003-present)
 President and Chief Operating Officer (2001-2002)
 General Counsel (1997-2002)
 Senior Vice President, Public Affairs (1997-2001)



Lea Anne Doolittle, 51 [2000]
Vice President, Human Resources (2000-present)
 Director of Compensation, PacifiCorp (1993-2000)



Stephen P. Feltz, 50 [1982]
Treasurer and Controller (1999-present)
 Assistant Treasurer and Manager, General Accounting (1996-1999)



Margaret D. Kirkpatrick, 51 [2005]
Vice President and General Counsel (2005-present)
 Partner, Stoel Rives LLP (1990-2005)



Gregg S. Kantor, 48 [1996]
Senior Vice President, Public and Regulatory Affairs (2003-present)
 Vice President, Public Affairs and Communications (1998-2002)



Richelle T. Luther, 37 [2002]
Assistant Secretary (2002-present)
 Associate, Stoel Rives LLP (1997-2002)



Michael S. McCoy, 62 [1969]
Executive Vice President, Customer and Utility Operations (2000-present)
 Senior Vice President, Customer and Utility Operations (1999-2000)



C. J. Rue, 60 [1974]
Secretary (1982-present)
Assistant Treasurer (1987-present)

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NW Natural®

220 N.W. Second Avenue
Portland, Oregon 97209

(503) 226-4211 • (800) 422-4012

nwnatural.com



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220 NW Second Avenue
Portland, Oregon 97209
nwnatural.com

