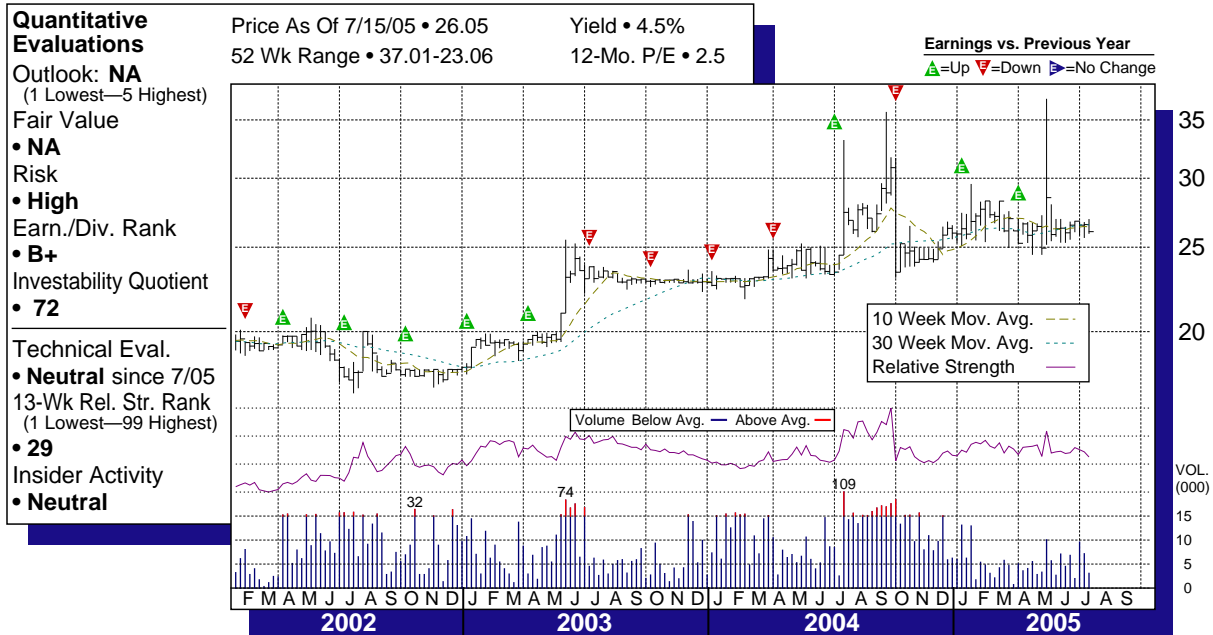


**STOCK REPORTS**

**GICS Sector:** Utilities  
**Sub-Industry:** Gas Utilities  
**Peer Group:** Distributors - Smaller

**Summary:** This company sells and distributes natural gas to customers in Virginia and West Virginia.



**Business Profile - June 28, 2005**

In May, the company said that second quarter results reflected improved natural gas sales margins. Also in May, the company said it would be implementing the State Corporation Commission approved Weather Normalization Adjustment (WNA) with bills that customers receive in May. The commission gave Roanoke Gas Co. the authority to add a separate line item to residential and commercial customers' bills to either charge customers or return to customers an amount to reflect the impact of more normal weather. On July 12, 2004, the company sold the assets of its subsidiary, Diversified Energy Co., for about \$28.5 million, to Inergy Propane, LLC. The company realized an after-tax gain of \$9.5 million on the sale of assets.

**Operational Review - June 28, 2005**

Operating revenues in the six months ended March 31, 2005 rose 12%, year to year, reflecting an 11% increase in gas utility revenues and a 16% rise in energy marketing revenues. Gross margins narrowed due to higher gas costs. Other operating expenses declined 2.9%, primarily due to reductions in employee benefit costs. Operating income rose 19%. Following an 8.9% increase in interest expense, pretax income rose 23%. After taxes at 38.2%, versus 38.1%, income from continuing operations increased 22% to \$3,689,114 (\$1.77 a share, on 2.7% more shares) from \$3,018,984 (\$1.49). Results exclude income of \$0.85 a share from discontinued operations in FY 04 (Sep.).

**Stock Performance - Jul 15, 2005**

In the past 30 trading days, RGCO's shares have declined 0.91%, compared to a 3% rise in the S&P 500. Average trading volume for the past five days was 612 shares, compared with the 40-day moving average of 1,125 shares.

**Key Stock Statistics**

Dividend Rate/Share	1.18	Shareholders	1,660
Shs. outstg. (M)	2.1	Market cap. (B)	\$0.054
Avg. daily vol. (M)	0.001	Inst. holdings	11%
Tang. Bk. Value/Share	18.75		
Beta	-0.05		

Value of \$10,000 invested five years ago: \$ 22,528

**Fiscal Year Ending September 30**

	2005	2004	2003	2002	2001	2000
<b>Revenues (Million \$)</b>						
1Q	34.67	29.87	28.46	22.85	41.19	18.42
2Q	43.33	39.72	41.22	31.74	46.45	26.12
3Q	—	18.23	19.29	14.18	17.00	14.71
4Q	—	15.32	15.39	11.45	12.81	13.57
Yr.	—	103.2	104.4	80.23	117.4	77.75
<b>Earnings Per Share (\$)</b>						
1Q	0.78	0.57	0.78	0.44	0.96	0.63
2Q	0.99	0.93	1.59	1.28	1.24	1.42
3Q	—	-0.13	-0.28	-0.15	-0.34	-0.16
4Q	—	-0.34	-0.32	-0.29	-0.63	-0.36
Yr.	—	1.01	1.77	1.28	1.21	1.54

**Next earnings report expected: mid-August**

**Dividend Data** (Dividends have been paid since 1942.)

Amount (\$)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.295	Sep. 27	Oct. 13	Oct. 15	Nov. 01 '04
0.295	Nov. 23	Jan. 12	Jan. 14	Feb. 01 '05
0.295	Mar. 28	Apr. 13	Apr. 15	May. 01 '05
0.295	Jun. 28	Jul. 13	Jul. 15	Aug. 01 '05

For important regulatory information, go to [www.standardandpoors.com](http://www.standardandpoors.com), "Regulatory Disclosures."

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**Business Summary - June 28, 2005**

RGC Resources is a holding company that distributes and sells natural gas to customers in Virginia and West Virginia, through its subsidiaries, Roanoke Gas Co., Bluefield Gas Co., Diversified Energy Co. and RGC Ventures, Inc. The company's near-term focus is on growing and enhancing its natural gas distribution systems and looking for opportunities to develop and offer energy and utility related products and services.

To further that focus, the company invested \$7.9 million in natural gas distribution system capital improvements in 2004. It completed a reinforcement program on the ten-inch natural gas distribution main serving Bluefield Gas Co. and added a section of 12-inch pipeline to reinforce the Roanoke Gas system eastern loop. RGCO also replaced eight miles of older cast iron and bare steel mains with new plastic or coated steel pipe to enhance deliverability and safety as well as to lower repair and maintenance costs. The company expects to continue the cast iron and bare steel replacement program. RGCO also installed 12 miles of new distribution mains and over 1,200 new service lines to extend gas service to new commercial and residential customers.

The company's gas distribution business accounted for about 81%, 85% and 83% of total revenues in FY 04 (Sep.), FY 03 and FY 02, respectively. Increases or decreases in the

cost of natural gas are passed on to the customers through purchased gas adjustment mechanism. The company's revenues are impacted by changes in gas costs as well as by changes in volume due to weather and economic conditions.

The company has renewed its interstate pipeline and natural gas storage capacity contracts on the Columbia Gas Transmission system through 2014. Other pipeline and storage capacity contracts remain in place with renewal dates ranging from 2008 through 2014.

In 1994, the Highland Gas Marketing division was established to broker natural gas to several industrial transportation customers of Roanoke Gas and Bluefield Gas. In 2000, RGC Ventures, Inc., a newly created subsidiary, was merged with Cox Heating and Cooling, Inc., conducting business as Highland Heating and Cooling. Due to poor performance the company restructured Highland and discontinued the sales of heating and air conditioning equipment, but continued the service operations. In 1999, the company acquired the assets of GIS/GPS Solutions, Inc. in order to offer geographic mapping technology, combined with database management tools, to develop user friendly, broad-based management information systems.

In 2000, the information technology department formed Application Resources, Inc. to provide information technology consulting services to Orcom Solutions, Inc.

**Per Share Data (\$)**

(Year Ended September 30)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Tangible Bk. Val.	17.73	16.75	16.21	15.88	15.39	15.36	14.75	13.49	12.86	12.25
Earnings	1.01	1.77	1.28	1.21	1.54	1.59	1.60	1.53	1.51	1.26
S&P Core Earnings	1.26	NA	1.10	1.20	NA	NA	NA	NA	NA	NA
Dividends	1.16	1.14	1.14	1.11	1.09	1.07	1.06	1.04	1.02	1.00
Payout Ratio	115%	64%	89%	92%	71%	68%	66%	1%	1%	1%
Prices - High	35.75	25.50	20.75	21.25	22.50	23.25	22.75	21.37	18.50	17.00
- Low	21.79	17.86	16.99	18.22	15.81	19.25	17.50	15.75	14.50	13.50
P/E Ratio - High	35	14	16	18	15	15	14	12	12	13
- Low	22	10	13	15	10	12	11	10	9	10

**Income Statement Analysis (Million \$)**

Revs.	103	104	80.2	117	77.8	57.1	59.4	65.0	65.8	48.6
Depr.	4.13	5.42	5.11	4.83	4.54	3.02	2.81	2.53	2.29	2.13
Maint.	1.74	1.67	1.25	1.40	1.23	1.08	1.43	1.46	1.87	1.23
Fxd. Chgs. Cov.	2.77	1.99	2.98	2.66	2.81	NA	NA	NA	NA	NA
Constr. Credits	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Eff. Tax Rate	37.2%	37.8%	37.5%	40.3%	34.5%	35.8%	29.5%	26.2%	30.0%	29.0%
Net Inc.	2.07	3.53	2.49	2.31	2.87	2.88	2.73	2.31	2.20	1.78
S&P Core Earnings	2.59	3.50	2.13	2.30	NA	NA	NA	NA	NA	NA

**Balance Sheet & Other Fin. Data (Million \$)**

Gross Prop.	105	119	111	104	96.7	89.6	81.8	73.3	66.1	61.1
Cap. Exp.	7.93	8.35	8.61	8.03	7.92	8.94	9.24	8.05	NA	NA
Net Prop.	70.6	71.8	69.1	65.9	62.9	59.1	54.1	48.2	43.2	40.1
Capitalization:										
LT Debt	26.0	30.2	30.4	22.5	23.3	23.3	20.7	17.1	20.2	17.5
% LT Debt	41.5	47.2	48.6	42.3	43.7	45.3	43.9	45.3	51.6	49.9
Pfd.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
% Pfd.	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Common	36.6	33.9	32.1	30.7	30.0	28.2	26.5	20.6	19.0	17.6
% Common	58.5	52.8	51.4	57.7	56.3	54.7	56.1	54.7	48.4	50.1
Total Cap.	68.0	69.8	68.5	58.4	58.1	55.8	51.1	41.3	42.7	38.4
% Oper. Ratio	100.2	99.5	94.1	95.0	93.1	91.6	89.7	93.2	93.8	92.8
% Earn. on Net Prop.	13.7	21.5	9.1	11.5	8.9	8.5	9.2	9.6	9.7	9.1
% Return On Revs.	2.0	3.4	3.1	2.0	3.7	5.1	4.6	3.6	3.3	3.7
% Return On Invest. Capital	5.8	11.7	7.4	9.9	9.3	9.3	10.4	10.8	10.2	10.0
% Return On Com. Equity	5.9	10.7	7.9	7.6	9.9	10.6	11.6	11.7	12.0	10.5

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes primary EPS - prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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## NEWS HEADLINES

■ **May 13, 2005** NEW YORK (Standard & Poor's)--May 12, 2005, RGC Resources Inc., announced 4Q EPS \$0.99 vs. \$0.92 and annual EPS \$1.32 vs. \$1.19. Results exclude gains of \$4.42 for year '05, and \$0.63 & \$0.59 for 4Q & year '03, from discount. ops.

■ **July 12, 2004** UP 2.29 to 26.77...

Says its subsidiary, Diversified Energy Co., has sold its propane assets to Inergy Propane L.L.C. for about \$28 million in cash... Sets special dividend of \$4.50 per share for shareholders of record September 30.

■ **May 18, 2004** NEW YORK (Standard & Poor's)--May 18, 2004, RGC

Resources Inc., announced 2Q EPS \$1.55 vs. \$1.59 and 6 mos. EPS \$2.34 vs. \$2.37.

■ **February 17, 2004** NEW YORK (Standard & Poor's)--Feb 16, 2004, RGC Resources Inc., announced 1Q EPS \$0.79 vs. \$0.78.

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## SUB-INDUSTRY OUTLOOK

S&P's fundamental outlook for natural gas utilities is neutral. Year to date through June 17, the S&P Gas Utilities Index was up 8.3%, versus a 0.8% gain for the S&P 1500. In 2004, the Index outperformed the broader market, rising 12.5%, versus 10.0% for the 1500. Gas utilities (characterized by slower growth but higher dividend yields) have enjoyed above average returns versus the S&P 1500, due in part to historically low interest rates, which have made their dividends more attractive to investors. A lower tax rate on dividend income, enacted in 2003, has also increased the appeal of these traditionally high yielding equities.

For 2005, we expect mid-single digit growth, on average, for regulated utility operations. Rising insurance and labor expenses, higher bad debt costs, and a difficult regulatory environment for utility rate relief should mostly offset new customer additions from population growth and oil-to-gas switching. With ratepayers already paying more for natural gas supplies (via supply cost pass-through mechanisms), we believe utilities will face an uphill battle in securing rate increases. High natural gas prices should lead to lower usage per customer, particularly from industrial customers with dual fuel operations, in our view. We

think oil-to-gas conversions will continue, but at a slower pace as customers react to higher commodity prices.

Over the next two to three years, we look for earnings growth at gas utilities to be below that of the S&P 1500. We also believe there are investment risks associated with a recovery in the economy, which we think will lead to higher interest rates over the next couple of years, making these shares somewhat less attractive on a yield basis.

On the other hand, we have a favorable outlook for natural gas distribution companies with exploration and production operations. These vertically integrated companies should see robust earnings growth driven by higher gas prices and a favorable regulatory environment that will likely increase access to public lands for drilling and pipeline expansion, and expedite permit procedures. Gas utilities with E&P operations should be able to ramp up production to capitalize on high gas prices. We also see utilities with gas gathering, gas processing and unregulated pipeline operations benefiting from strength in gas pricing.

--Yogeesh Wagle

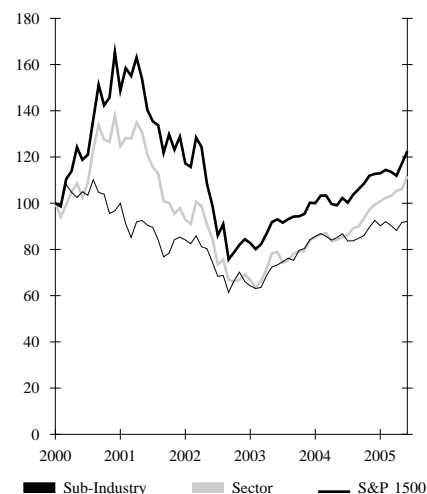
## STOCK PERFORMANCE

GICS SECTOR: Utilities

SUB-INDUSTRY: Gas Utilities

Based on S&P 1500 Indexes

Month-end Price Performance  
As of 06/30/05



NOTE: All Sector & Sub-Industry Information is based on the Global Industry Classification Standard (GICS)

## SUB-INDUSTRY: GAS UTILITIES

\*PEER GROUP: DISTRIBUTORS - SMALLER

Peer Group	Stock Symbol	Recent Stock Price	P/E Ratio	12-mth. Trail. EPS	30-day Price Chg %	1-year Price Chg. %	Beta	Yield %	Quality Ranking	Stk. Mkt. Cap. (mil. \$)	Ret. on Equity %	Pretax Margin %	LTD to Cap. %
RGC Resources	RGCO	26.05	3	10.29	2%	-5%	-0.05	4.5	B+	54	5.9	4.4	NA
Cascade Natural Gas	CGC	21.17	22	0.95	5%	4%	0.08	4.5	B+	240	11.5	NM	NA
Chesapeake Utilities	CPK	31.30	19	1.69	1%	38%	0.17	3.6	B	182	12.7	NM	NA
Corning Natural Gas	CNIG	15.05	7	2.05	7%	-9%	-0.01	Nil	B	8	11.1	3.0	NA
Delta Natural Gas	DGAS	26.57	15	1.83	-4%	11%	-0.01	4.4	B+	86	8.1	7.8	Nil
Energy West	EWST	8.65	28	0.31	-26%	19%	0.08	Nil	B-	23	NM	3.6	NA
EnergySouth	ENSI	27.71	17	1.66	0%	6%	0.15	3.1	NR	218	14.1	12.2	NA
MetroGas S.A.	MGS	4.48	NM	-2.16	-7%	14%	1.24	Nil	NR	255	NM	NM	NA

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