Dominion Resources, Inc.

Focused Growth

New World, New Markets

1995 Annual Report

Dominion Resources

Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. More than 350,000 individuals and institutions hold, directly or indirectly, shares of Dominion Resources, which trades on the New York Stock Exchange under the symbol "D".

The primary subsidiary is Virginia Electric and Power Company, a utility serving more than 1.9 million residences and businesses in a 30,000-square-mile region in the most populous areas of Virginia and northeastern North Carolina. Virginia Power owns and operates nuclear, coal, natural gas, oil and hydroelectric power stations.

Dominion Energy, Inc. is the independent power and cogeneration subsidiary, with ownership and operating interests in 19 such facilities in six U.S. states, Argentina, Belize and Bolivia. The company is also active in the natural gas business, with more than 345 billion cubic feet of reserves in the United States and Canada.

Dominion Capital, Inc. is principally a financial services and real estate subsidiary, with two commercial lending entities, one of the Southeast's major full-service commercial real estate companies, a large hydroelectric station in Louisiana, and a variety of debt and equity investments.

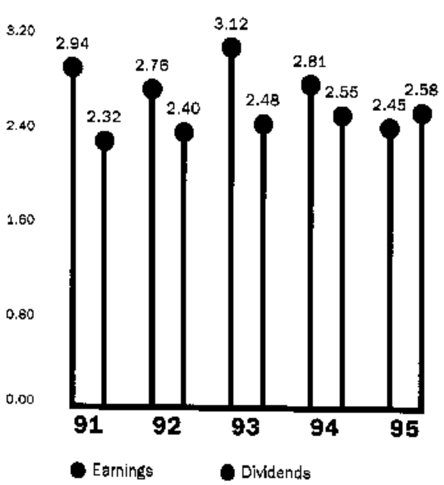
Contents

Consolidated Financial Highlights

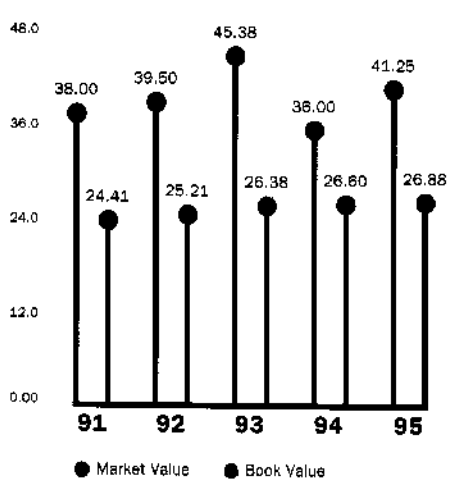
	1995	1994	% Change
Operating Results *(millions)*			
Operating revenues and income	**$ 4,651.7**	$ 4,491.1	3.6
Operating income	**1,025.6**	1,038.2	(1.2)
Net income	**425.0**	478.2	(11.1)
Data Per Common Share			
Earnings	**$ 2.45**	$ 2.81	(12.8)
Dividends paid	**2.58**	2.55	1.2
Market value *(year-end)*	**41.25**	36.00	14.6
Book value *(year-end)*	**26.88**	26.60	1.1
Financial Position at December 31			
Assets *(millions)*	**$ 13,903.3**	$ 13,562.2	
Capitalization *(millions)*	**9,914.9**	9,786.3	
Capitalization ratios(*)			
Long-term debt and capital lease obligations	**44%**	45%	
Preferred securities of subsidiary trust	**1%**		
Preferred stock	**7%**	8%	
Common equity	**48%**	47%	
Other Statistics			
Return on average common equity	**9.2%**	10.6%	
Market to book value *(year-end)*	**153.5%**	135.3%	
Common stock price range	**41⅝–34⅞**	45⅜–34⅞	
Outstanding shares of common stock *(thousands)*			
–average	**173,845**	170,316	
–actual *(year-end)*	**176,414**	172,405	
Number of registered common shareholders *(year-end)*	**233,496**	235,062	
Number of full-time employees	**10,592**	10,789	
Sales *(MWh-thousands)*	**68,953**	65,741	4.9
Independent power generation *(MWh-thousands)*	**5,189**	5,323	(2.5)
Natural gas production *(billion cubic feet equivalent)*	**36.5**	36.7	(0.5)

(*) Excludes nonrecourse-nonutility financing and short-term debt.

Earnings and Dividends
(Dollars Per Share)



Market & Book Value
(Dollars Per Share at Year-End)



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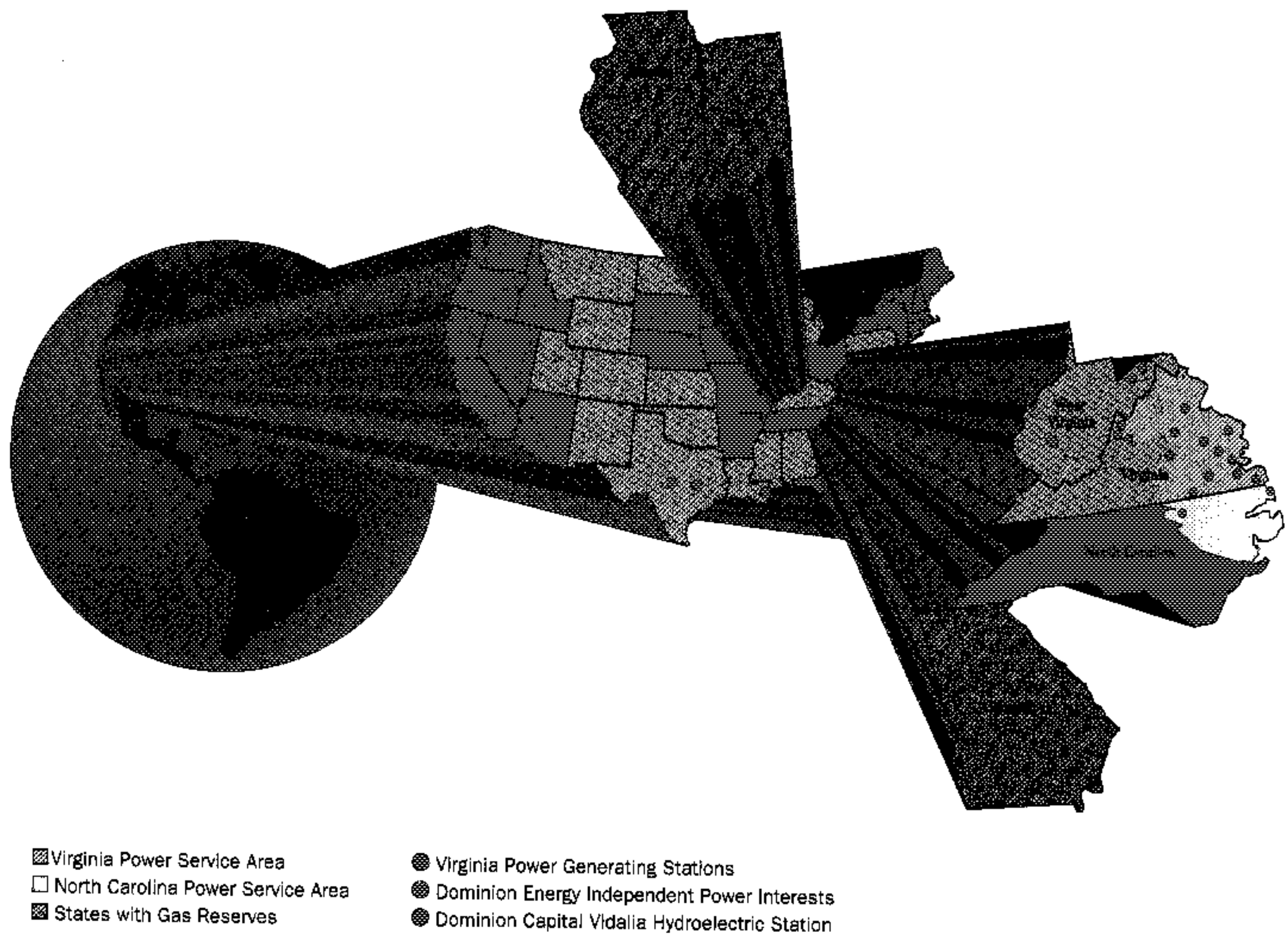
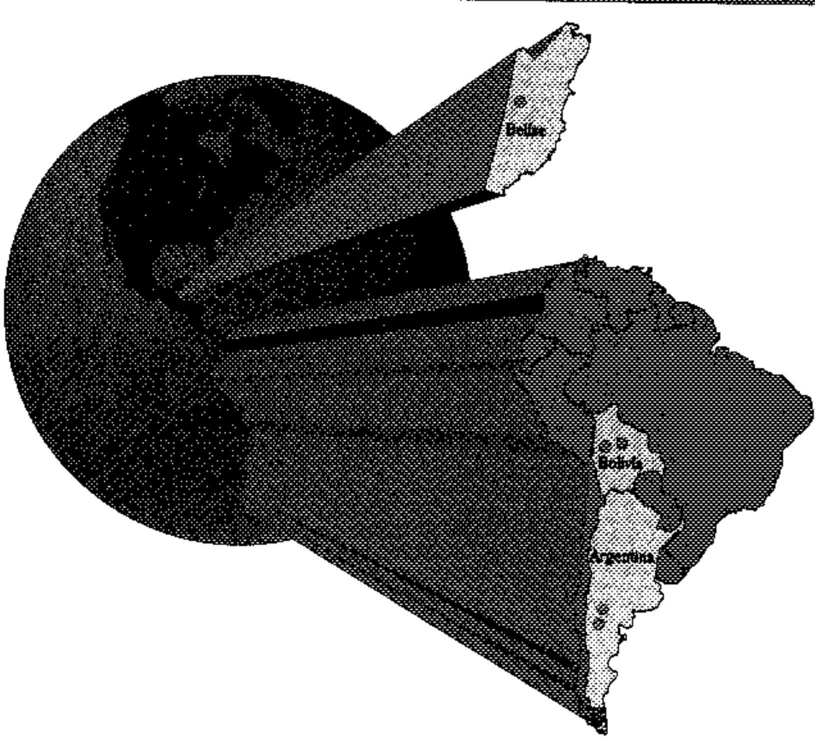
Dominion Resources, Inc. At a Glance





Argentina
Dominion Energy has upgraded its power plant at Alto Valle, Argentina, making it more competitive in that nation's privatized market. Argentina uses a national economic dispatch program, which is simply starting with the most efficient, least costly plant to meet load requirements and going down the list from there. To be a competitive player in this international energy market, Dominion Energy instituted a combined cycle program which lowered the current generation cost of $20 per megawatt-hour to around $12 per megawatt-hour. This bumps Alto Valle up about 15 plants in terms of dispatch sequence for supplying electricity.

Virginia Power Service Area

Virginia Power's strategy to remain a low-cost producer is evidenced through our electric rates and service, both of which helped bring new major businesses to our area. Some recent examples: Motorola is building a $3 billion semiconductor plant near Richmond, IBM and Toshiba will open a $1.2 billion chip plant in the northern Virginia town of Manassas, Ford Motor Company is expanding its truck manufacturing plant in Norfolk and Gateway 2000 is opening an $18 million assembly plant in the eastern Virginia town of Hampton.

Virginia Power unveiled its EVANTAGE division for retail energy services. EVANTAGE provides its customers with comprehensive and innovative packages of energy services and programs, ranging from fuel procurement and energy production to energy use analysis and management. EVANTAGE is establishing energy partnerships with industrial, commercial and governmental customers in Virginia and nationally.

Georgia

Virginia Power's initiative to become a full-service energy company was carried out through the acquisition of two energy services divisions of A&C Enercom of Atlanta. The two business units acquired by Virginia Power are A&C Enercom Services and TriTech. A&C Enercom Services provides design, implementation and management services to utilities nationwide in a wide range of customer service, marketing and energy management programs. TriTech provides expertise in technology, processes, energy and the environment to help commercial and industrial companies improve their performance and increase their competitiveness.

Indiana

Virginia Power is marketing power supply that it purchases under long-term contract from an Indiana electric cooperative and selling it to utilities in the Midwest during periods when Virginia Power does not require power from all of its available sources. It is part of our strategy to develop a power marketing business whose sole focus is the purchase and sale of wholesale electric power in the open market. The Wholesale Power Group has expanded our trading range beyond the geographic limits of our service area, and has recently developed trading relationships with utilities in Illinois, Missouri, Indiana, Kentucky, Ohio, Vermont, Michigan and Tennessee in addition to most states in the Mid-Atlantic area.

West Virginia

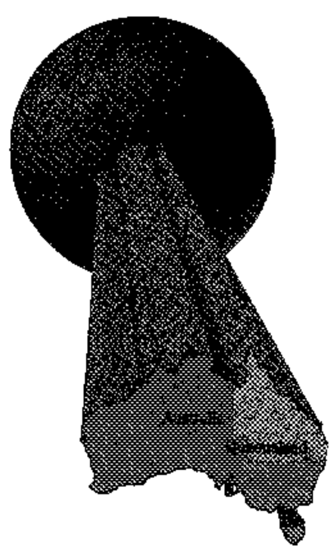
Dominion Energy's focus on becoming a major player in competitive regional markets for natural gas was realized through the purchase and consolidation of three natural gas companies in the Appalachian Basin that were managing properties we owned. This is Dominion Energy's first move into actual daily operations and management of active properties–a principal strategy enabling the company to capture new efficiencies, exploit natural synergies and decrease operating costs while improving marketing position. The acquisition cost was $11 million and adds nearly 50 billion cubic feet of reserves to Dominion Energy's assets, nearly doubling its holdings in the Appalachian Basin.

Illinois

Dominion Capital's strategy to narrow the number of business lines it has in order to focus on growth in its financial services investments was followed through its joint venture in First Source Financial. This new business will serve the nation's growing demand for loans from mid-sized corporations who are the strongest growth sector of our economy. The business strategy is to provide loans based on a company's strength in cash flows, rather than in assets. First Source Financial, headquartered in Chicago, has a solid and diversified portfolio of loans to well-established, non-high tech, manufacturing companies totaling $600 million.

Bolivia

Dominion Energy added two more generating facilities as part of our goal to expand in growing Latin American power markets. We acquired a 50 percent interest in and management control of Empresa Corani, a Bolivian power company that owns and operates two hydroelectric plants totaling 126 megawatts. Under the capitalization program, our winning bid of $58 million will be invested in new generating expansions during the next few years. Planning has already begun.



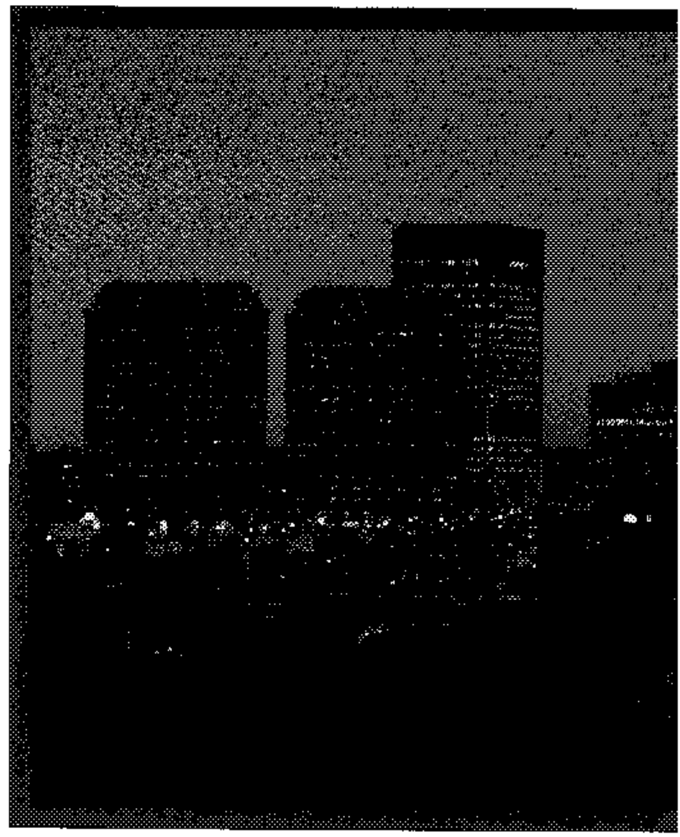
Australia

Dominion Energy's strategy to pursue overseas natural gas production opportunities was carried out through a joint venture with Enron. The companies will explore coal fields of Queensland, Australia for coal bed methane reserves that could be marketed to support commercial and industrial growth in the eastern cities of Brisbane, Gladstone and Townsville and the western mining area of Mount ISA. Under the joint venture, Enron and Dominion Energy could spend up to $80 million apiece if further testing and initial efforts yield encouraging results. Two wells have just been drilled and will be tested through the first quarter of 1996.

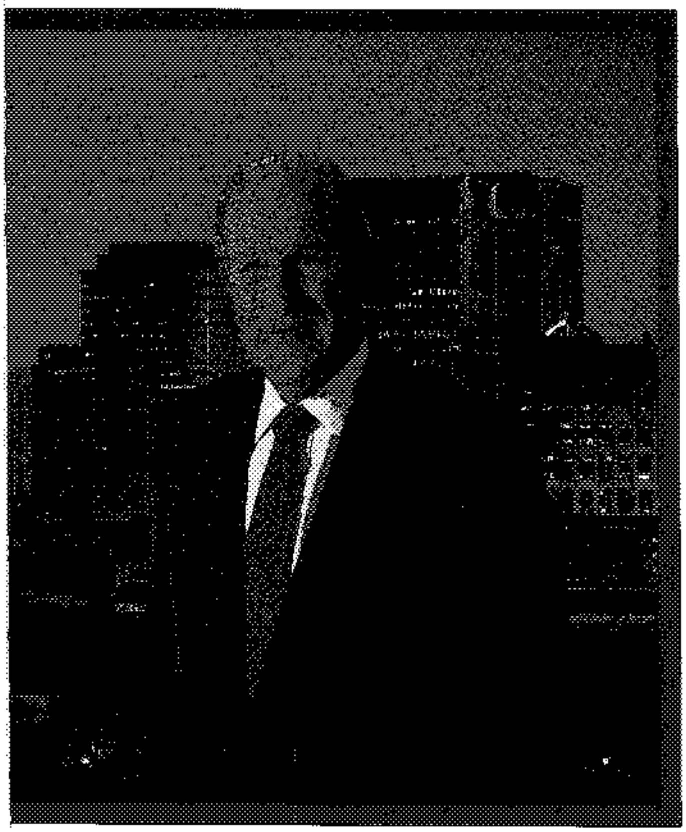
To Our Shareholders

Reflecting on your company's last year, I am reminded of the opening sentence from *A Tale of Two Cities* by Charles Dickens: "It was the best of times, it was the worst of times, it was an age of wisdom..." It was the best of times, first, because we began to see reflected in earnings the results of increased efficiency and prior reductions we had made in staffing and capital expenditures. Also, the weather was kinder to us in 1995. We had a hot summer and a cold fourth quarter. As a result, earnings from operations, or earnings adjusted for restructuring or other charges or gains, jumped to $2.91 per share from $2.80 per share in 1994, an increase of about 4 percent. This occurred even though Virginia Power completed a coal-fired unit, replaced some nuclear steam generators, and marked our third successive year without a base rate increase. It was also a good year because Virginia Power plants ran exceptionally well. Our low-cost nuclear stations operated 8 percent better than the most recent industry average. Our network of coal plants also topped the industry average by 8 percent. As a result, in part, of new initiatives to take advantage of emerging market opportunities, we tripled electricity sales outside of our traditional customer base. Through our Vision 2000 program, Virginia Power built on its fundamental strength as a low-cost generator. Your utility has largely reorganized itself into business units to reflect its increasingly distinct business lines. We have increased efficiency, lowered expenses and improved service by reducing staff, re-engineering activities and outsourcing what can be done more cost effectively by others. Virginia Power has aggressively expanded our traditional power wholesaling to take advantage of new opportunities. And we have undertaken a wide range of new activities to give customers–both long-time and newly acquired customers–innovative services tailored to their needs. In short, Virginia Power is

Virginia Power is swiftly acting on many fronts to compete even more profitably in both price and service quality.



swiftly acting on many fronts to compete even more profitably in both price and service quality. It was also the "best of times" because your nonutility companies continued their consistent records of profitability. Dominion Energy again grew its nonutility power business in 1995. We began operating our Belize project, acquired two generating units in Bolivia, and were selected for a major addition to our generating capability in the United States. As important to Dominion Energy's strategy as the assets we acquired are those we did not acquire. Dominion Energy refuses to pay prices that sacrifice reasonable profit expectations for the sake of gaining market share. Our primary objective is to continue to grow, not just in assets held and electricity sold, but in return to shareholders. In line with this objective, Dominion Energy is highly selective about the countries in which we seek to invest. In our natural gas business, Dominion Energy took actions to increase our reserves at home and abroad and to broaden our scope. We have been successful in our natural gas business and are in it for the long term. Increasingly, Dominion Energy will seek arrangements that combine our natural gas production with our power generation so that the combination has greater value than the sum of the separate elements. Dominion Capital refocused our business toward financial services and the increased generation of sustained, rather than transactional, income. First Source Financial, formed in 1995 but already contributing sustainable profits, represents the kind of niche where Dominion Capital will apply our expertise. Similar new ventures are on the drawing boards. From a cold start about a decade ago, we have built Dominion Energy and Dominion Capital into businesses with combined assets of about $2 billion, with records of consistent profits and superior returns to shareholders. I am confident this progress will continue. Unfortunately, the impressive strides that we made in implementing Virginia Power's Vision 2000 in 1995 were

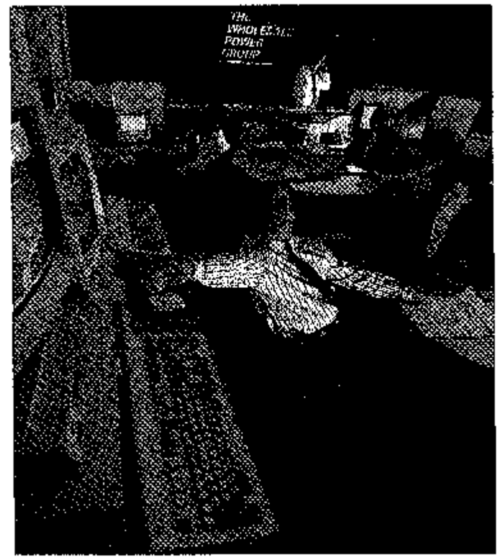


Thos. E. Capps

Increasingly, Dominion Energy will seek arrangements that combine our natural gas production with our power generation.

Virginia Power:

At Virginia Power, we moved aggressively in 1995 to carry out our strategy for success. We're working to be first in customer choice–through high-value products and energy services from a team guided by innovation, high performance standards and integrity in all that we do in the competitive marketplace. **O**n offense, we've studied that marketplace carefully and determined its needs. As a result, we've created and launched EVANTAGE, a division that incorporates new attitudes and skills to offer enhanced services to existing customers. EVANTAGE wants to help them sharpen their competitive edge through better energy management by selling a full range of energy products and services. EVANTAGE is ready to advise customers on energy use and management, fuel procurement, and electrical system maintenance, for example, or to produce energy on their behalf. **I**n short, EVANTAGE will be their energy expert and energy partner. **C**onsider the complex and costly process of designing, permitting and building a power plant–something we know quite well. It's why Chesapeake Paper Products Co. has turned to EVANTAGE to build and own a generator to serve the energy needs of a major paper facility in eastern Virginia. The project marked several important firsts in the new world of power. It's the new group's first major agreement. It's the first application of an innovative program to site and build generators on the property of major customers that want to self-generate their power. And it is among the first times that a major industrial customer has turned to its utility for expert help in designing and constructing one. **A**nother example of teamwork and innovation at EVANTAGE is found in a newly signed contract to design and construct a transmission line for an electrical service cooperative–one of the many utility, commercial, industrial and governmental customers that make up a robust potential market within Virginia Power's economically vibrant service area. **W**e will be building our team and our skills as we grow. In early 1996 Virginia Power acquired two energy services divisions from A&C Enercom, an Atlanta-based consulting firm specializing in serving the utility industry and its commercial and industrial customers. The company provides expertise in marketing, technology, processes and the environment, among others. Its addition to our team will help us to provide superior and wide-ranging services



The Wholesale Power Group is an aggressive and innovative part of our energy services business which has succeeded in a competitive market. The group has won bids to sell 300 megawatts of peaking power to other utilities as well as provide significant spot and short-term sales to both utilities and power marketers. In 1995, our power marketing revenues totaled more than $80 million.

Chesapeake Paper Products Co. is EVANTAGE's first national energy partner. EVANTAGE will build and own a 38-megawatt generating unit to provide steam and electricity for Chesapeake's production facility in the town of West Point, Virginia.

Focused Growth

New World, New Markets

our company's strategic planning and vigorous implementation of those plans in 1995 enhanced its outlook for success in the exciting and increasingly competitive world of power and energy.

At Virginia Power, we're putting ourselves through a major restructuring process known as Vision 2000—which is intensifying our focus on our customers and their needs. We're cutting costs and downsizing. We're reconfiguring ourselves to do the same things better and more quickly, and have added new skills and business capabilities too. We're putting the finishing touches on our strategies for offense and defense to develop new revenues and keep existing ones.

On defense, the strategies protect our existing market share by keeping production costs low while offering customers even better prices. We're also improving customer service to ensure loyalty to the Virginia Power brand and by signing customers to long-term contracts. On offense, the strategies promote revenue growth through bulk power sales in broadening wholesale markets and new lines of customized energy services through a corporate unit named EVANTAGE. EVANTAGE is rolling out new products and services for valued commercial, governmental and industrial customers, the first groups planning to shop in the forming energy supermarket.

Construction of the energy supermarket is still under way. A wholesale generation section is already open and could grow quite rapidly under anticipated federal regulatory changes. Other sections for marketing and customer services are still in progress. Nobody knows when federal and state regulations will open the store to everyone, or how it will ultimately look, but Virginia Power is preparing an impressive product line.

As our strategy succeeds in the competitive future, we will continue to be guided by our five core values: customer focus, performance, innovation, teamwork and integrity.

Our teams at Dominion Energy and Dominion Capital are also increasing the value of your company shares through successful competition in markets for independent electric power in other states and nations, natural gas, financial services and real estate. Once Dominion Energy and Dominion Capital were viewed by many as a simple boost to earnings from the core utility business. Now we're substantial, established businesses in our own right, with $2 billion in assets producing 10 percent of your company's income, with our own strategic plans. We're focusing on operating earnings at both companies by directly managing more ventures that produce steady streams of income. There will be fewer one-time transactions and passive investments. In all cases, we'll build on past successes with ventures that produce enduring shareholder value.

At all business units of Dominion Resources, we'll accomplish that with focused growth—growth that firmly links increased sales and expansions into new markets on one hand with growing profits and shareholder returns on the other.

not without pain and cost. It was "the worst of times" because it was very painful for us to part with employees who had provided valuable service. Even with fair severance provisions, there was

But the extensive initiatives that we undertook in 1995 should pave the way for the earnings growth that will lower our payout ratio–without any dividend cut–and allow us to again increase your dividends in the future.

regrettable hardship for those people. And yet we could not have done otherwise and fulfilled our responsibilities to our owners, our customers and our other employees. Other sectors of the American industry found themselves barely able to compete in a world market just a few years ago. Productivity had not kept pace with worldwide competitors. Thus began the "downsizing," "rightsizing," "re-engineering," or whatever one chooses to call the painful process. But the American industrial sector today is probably the most efficient and productive in the world as a result. Now the utility industry will face competition for the first time. It finds itself in the same position as the other sectors found themselves earlier. Letting excess employees go is painful, but absolutely necessary if your company is to survive in a competitive market. As the industrial sector found, good quality and service are taken for granted: price is what sells. So will it be with the electric industry. Electricity will sell on price. To get our price as low as possible we must go after costs with a vengeance. This is what we are doing. And on top of that, we are creating innovative services that increase our competitiveness even more. Thank goodness the bulk of our restructuring costs are now behind us. You can look to our operating income as a key sign of our fundamental strengths. Regrettably, we could not increase your dividend in 1995 because we must gradually lower the percentage of earnings that we pay out as dividends. But the extensive initiatives that we undertook in 1995 should pave the way for the earnings growth that will lower our payout ratio–without any dividend cut–and allow us to again increase your dividends in the future. I am pleased and proud of the strides we made in 1995 in implementing our strategic plans to build value for you, the owners of Dominion Resources. It was not only the age of wisdom: it was a time when we acted boldly based on wise plans.

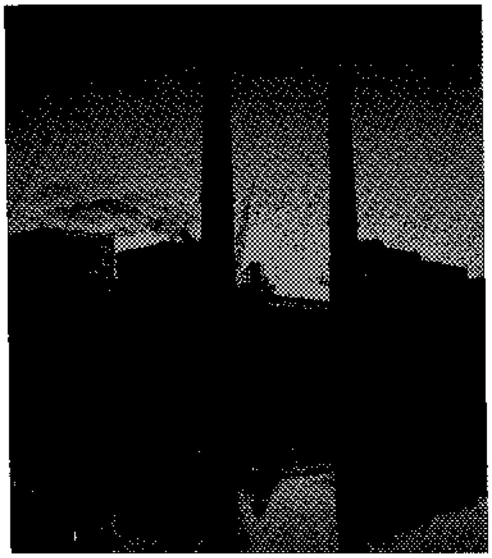
Sincerely,

Thos. E. Capps

Thos. E. Capps
Chairman of the Board, President
and Chief Executive Officer

Evantage is designed to give its customers a competitive *advantage* in energy.

Virginia Power in December unveiled the name EVANTAGE for its retail energy services business. The division provides customers with comprehensive and innovative packages of energy services and programs, from fuel procurement and energy production to energy use analysis and management. EVANTAGE initially seeks to establish energy partnerships with industrial, commercial and governmental customers of Virginia Power. Services will be custom-designed to meet the needs of individual clients. In the future, EVANTAGE will seek to serve growing numbers of customers as well as explore energy partnership opportunities outside Virginia Power's service area. Utilities today can't stop with merely selling electricity. They must become full-service energy companies, able to help their customers save money and use energy more efficiently in a complicated and changing market. Virginia Power intends to be a winner in the new energy market. Our Evantage division is on the cutting edge of providing exciting and effective new programs for clients.



Stronger relationships with wholesale customers are exemplified by the operation of the 832-megawatt Clover Power Station, a joint venture with Old Dominion Electric Cooperative. One unit entered service in 1995 and the second will come on line in 1996. Environmental safeguards make it one of the cleanest coal-fired stations in the country.

as part of our customer focus, in our service area and beyond. **Some** companies resist change. We see it as an opportunity for focused growth. **So** when changes in federal law created new opportunities for bulk transactions in wholesale power, Virginia Power acted swiftly. We found five times more trading partners and tripled our sales of wholesale power to more than 2 million megawatt-hours. We moved more than 1 million megawatt-hours of power over our transmission lines for use by other utilities and power marketers. We won bids to provide 300 megawatts of peaking power to Ohio Edison and Kentucky Utilities and responded to demand created by last summer's heat wave by making short-term sales to markets as far afield as Chicago and St. Louis. That's sound offense. **It's** possible because Virginia Power has an advantage as one of America's low-cost producers. We repeated another year of superior plant performance at our nuclear, fossil-fuel and hydroelectric facilities, easily beating industry efficiency averages in 1995. **Low**-cost production is the foundation on which ultimate success lies. It takes teamwork–like the teamwork demonstrated by the dedicated staff at our fossil fuel and hydroelectric stations who've accomplished a 30 percent reduction in operating and maintenance expenses while undergoing workforce reductions of 30 percent; or the teamwork of our nuclear generation staff who carried out a major steam generator replacement in a world-record 68 days–and $16 million under budget. Moreover, these steps to assure low-cost production have allowed us to grow earnings without an increase in customer rates since 1992 and to actually reduce our fuel rates last year by more than $107 million. **But** we're well aware that other producers are striving to catch up. That's why Virginia Power is carrying out even more restructuring and still cutting costs aggressively, reducing its total workforce some 25 percent since 1987 without sacrifices in safety or reliability. **Specific** core functions that were formerly blended into the overall organization are being set up as entirely separate business units. This will help all employees in a given unit to see more clearly how their drive for superior performance contributes to overall

Energy consulting services are an important part of Virginia Power's customer focus. With our help, the Wildlife Center of Virginia selected a geothermal heating and cooling system for its new building. Geothermal systems not only save money, but are also friendly to the environment–a feature which matches the mission of the Wildlife Center.

Our strategy is to *ensure* that we remain a low-cost, high-performance *industry leader.*

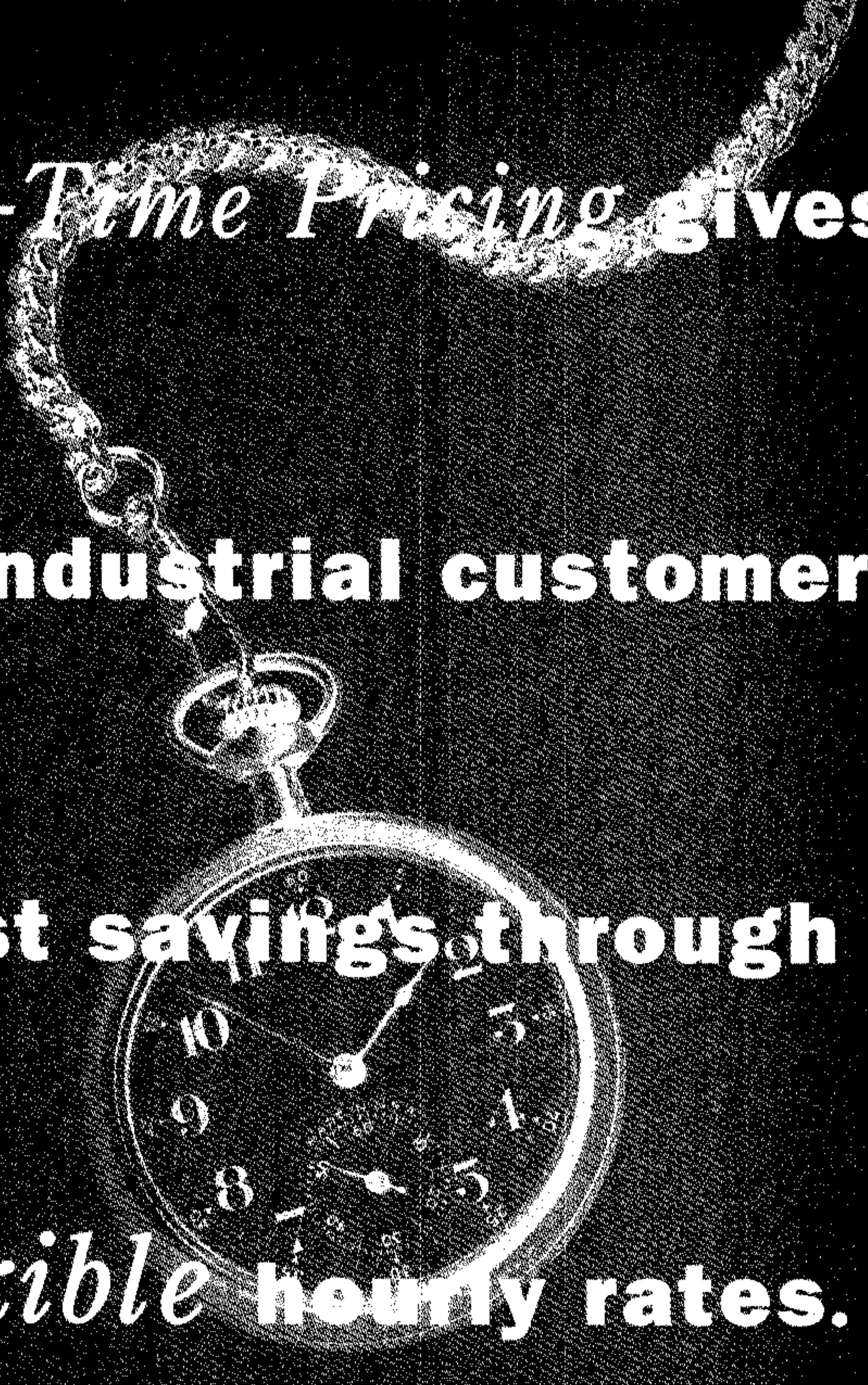
Virginia Power is recognized as one of the nation's lowest-cost producers of electricity because of its generating efficiency. Last year our four nuclear units operated at 85 percent of their theoretical capacity, while our fossil and hydro units had equivalent availabilities of 89 percent. As a result of strong plant performance, we were able to bring our cost of producing electricity down to 1.7 cents per kilowatt-hour. And, thanks largely to this excellent operating record, we reduced the fuel portion of our customers' rates in Virginia by $107 million a year. In addition, we have not sought a base rate increase since 1992. To keep our future rates competitive, we're looking to our cost reductions to substantially offset the higher costs from replacing steam generators at North Anna and the startup of the first unit at the Clover Power Station in 1995.

profitability. By the end of 1995 separate business units were in place for nuclear generation, fossil and hydroelectric generation, energy services and commercial operations. Commercial operations directs the part of our business most visible to customers on a daily basis: transmission, distribution and customer service activities. **W**ork to streamline commercial operations further is still under way. We started a major re-engineering effort in 1995, and important savings have already been realized: five separate geographic divisions that made up the commercial operations structure were consolidated into three. Another change that improved both efficiency and customer service took place when we cut costs and made it more convenient for the large group of individual customers who prefer to pay their power bills in person. Traditional business offices are being closed. Opening in their place is a customer-focused network of conveniently located payment stations at grocery stores and drug stores that operate weekdays and weekends. **A**s a further part of our defensive plan we've been rethinking our services and relationships with our 25 largest industrial customers–so large, in fact, that they produce $300 million in annual revenues. Last year Virginia Power made this vital group an offer to improve pricing flexibility. Known as Real-Time Pricing, it bases a portion of the bill each day on the actual cost of daily generation, and it's catching on. So far, nine companies have taken advantage of or said they plan to take advantage of the program, which requires a five-year customer commitment. **C**ooperatives and other wholesale customers that purchase power on a wholesale basis are another big and important group that produces about $200 million in annual revenues. So Virginia Power has negotiated long-term contracts that contain "win-win" terms for both parties. By the end of 1995, virtually all major wholesale customers had signed power-purchase contracts ranging from eight to 10 years in duration. **O**n both sides of the competitive playing field, Virginia Power is poised to emerge a winner.

Ed Clark, president and director of the Wildlife Center, discusses the benefits of energy efficiency with Rob Smith of Virginia Power. Company employees from our Western Division area volunteered to construct flight cages for the care of large birds, such as eagles, during their rehabilitation.

Dominion Energy:

At Dominion Energy, the focus remains on growth in electric power and natural gas markets beyond Virginia Power's service area. We've built our share of the world's fast-growing independent power market, closing the year as one of the 20 largest nonutility power companies. **W**e expanded our position as a leader in generation in Latin America in 1995 by acquiring a hydroelectric business that operates two stations in Bolivia. Additional future opportunities may be found in Latin America–a region familiar to Dominion Energy–where governments are turning to the private sector to help meet fast-growing and, in some instances, explosive demand for new power by improving operations of their existing facilities or by building new ones. **T**here is also a potential market for Dominion Energy in the United States. As the energy supermarket evolves, some utilities will want to turn their power plants over to the independent power industry. The

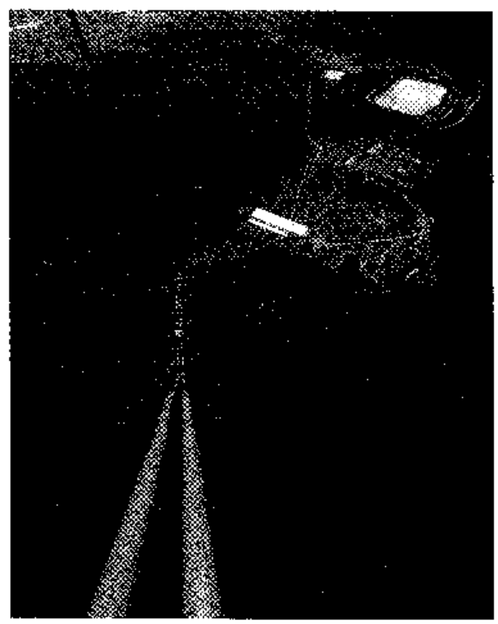


Real-Time Pricing gives our industrial customers cost savings through *flexible* hourly rates.

Our Real-Time Pricing initiative provides industrial customers with more market-based rates while helping them lower their energy costs and improve their competitiveness. A number of customers have already signed up for this flexible pricing program in which firm hourly electricity pricing is provided one day ahead based on expected marginal generating costs, plus a markup. We estimate that Real-Time Pricing could save our largest customers about $400,000 a year on average—or about 5 percent of their annual electric bill. It can also help promote stable rates for all customer classes, and possibly enhance Virginia Power's off-peak sales as well.

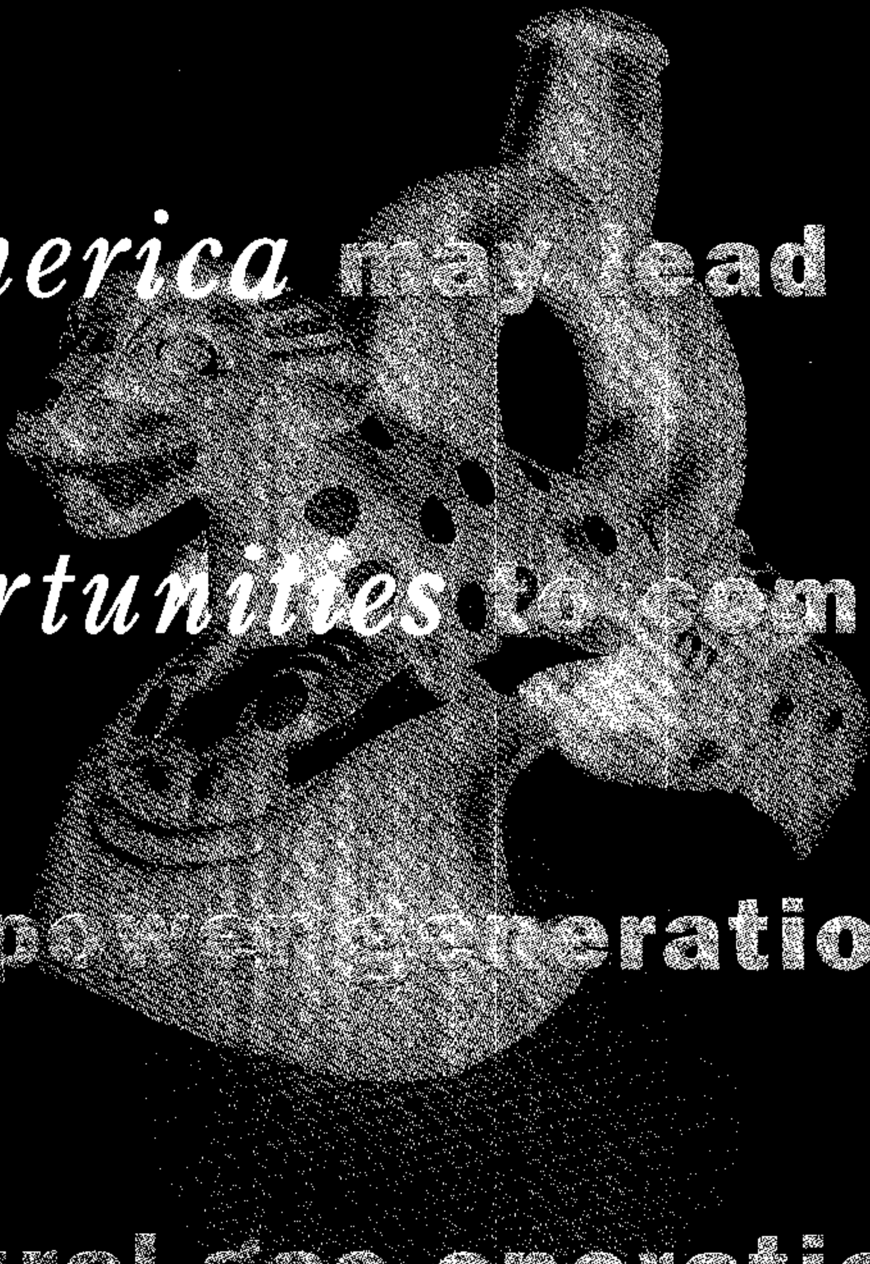
Dominion Energy purchased and consolidated three natural gas companies in the Appalachian Basin. This is our first move into actual daily operations and management of active gas properties. The consolidation enables us to decrease operating costs and improve our marketing position in that region.

idea will be to let the independents revitalize and retune the stations in preparation for competition in open markets. At home in the U.S., we were selected as the preferred bidder to own and manage a 1,108-megawatt coal-fired station in Illinois, which will double the number of company-owned nonutility megawatts when the transaction obtains regulatory approval in late 1996. **W**e're tempering our growth in new markets with prudence–the view of an experienced international company now entering its seventh year of foreign business. And we recognize that success takes more than growth. It requires consistently reliable operation at existing generating stations–a standing goal that we accomplished again in 1995 at plants in the U.S. and Latin America. **I**n our profitable natural gas division, we also stepped up the pace and scope of our activities in the U.S. and abroad, another key part of the company's strategic plan. We entered an exploratory venture with another major U.S. corporation in Queensland, Australia, marking our first step into a potentially rewarding international market. In West Virginia, Dominion Energy bought and merged three companies, doubling its Appalachian Basin reserves and creating one of the larger operating companies now doing business there. Dominion Appalachian Development, Inc. is producing more than 15 million cubic feet of natural gas each day. By supplementing our investments in gas reserves with the creation of operating companies like this, we'll build future value. Our investments in low-risk developmental drilling in Michigan, Utah and the Appalachian Basin continue to add current value. So now we're expanding into other regions of the U.S. where the risk and rewards are higher than past activities, but the potential of even more value is realistic. New drilling programs will start in Indiana, Kansas, Oklahoma, other states and offshore Louisiana. We'll also explore foreign markets, with the venture in Australia representing the first such step. **A**t Dominion Energy, we will evaluate investment opportunities in each of these related activities– as we continue the business of focused growth in independent power and natural gas.



In 1995, the government of Bolivia selected Dominion Energy to acquire half-ownership and management control of the nation's two largest hydroelectric stations, with 126 megawatts of generating capability. With a winning bid of $58.7 million, the company expanded its position as a leader in generation in Latin America in a nation with annual growth in demand between 6 and 7 percent.

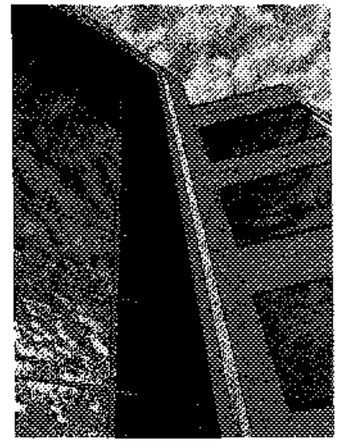
Our efforts in *Latin America* may lead to *opportunities* to combine our power generation & natural gas operations.



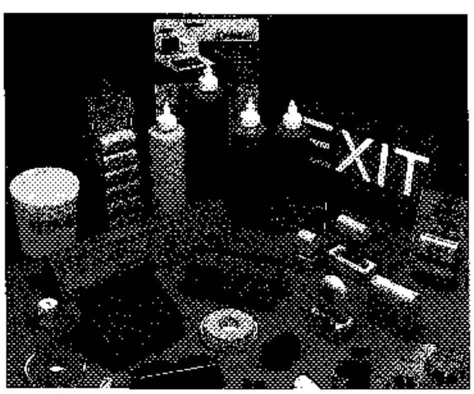
At Dominion Energy, we are selectively expanding our international power investments in the primary market of Latin America, evident by our winning bid to acquire Empresa Corani, a power company that owns and operates two hydroelectric plants in Bolivia totaling 126 megawatts. Latin America has an attractive mix of features: strong growth generating demand for more power, opportunities through government privatizations of utility assets, and open markets to make sales at competitive rates. Latin America is also a region rich in natural gas, and it is an area where gas activities and the independent power business can complement each other. If we are successful in finding gas, power generation may be the dominant way in which we're going to give value to those reserves. By working together, our gas and power businesses can add value to one another because of the similarities in the way those operations do business. As commodities, our fuel capabilities and electric generation can combine to be competitive with other players in world markets.

Dominion Capital:

We've set the stage at Dominion Capital for sustained growth in financial services, including energy-sector and commercial-sector lending, an area familiar to the company where it can earn superior returns and ongoing operating income. Demand for loans among mid-sized companies is up. This "market niche" can be served profitably with manageable risk. Last year began operations for our Chicago-based First Source Financial lending venture to middle-sized companies, which we carried out with Household Commercial Financial Services, Inc. First Source is poised to contribute ongoing income growth with nearly $600 million in loans and expected growth to nearly $1 billion by the end of 1996. We have decided to duplicate the idea of focused financial services by specializing in the energy sector. In partnership with three other companies, we are forming a new venture in 1996 to serve the financial needs of small- to medium-sized gas and oil companies. Like First Source Financial, the venture provides one-stop shopping for loans of various terms and conditions. Our existing energy-related investments sustained their excellent performance record in 1995. The 192-megawatt Vidalia hydroelectric station in Louisiana produced another year of reliable, environmentally friendly generation while providing vital flood control services on the Mississippi River. There was continuing and consistent strong performance from our Rincon portfolio of preferred stocks, which are deployed mainly in the securities of the utility industry. We had more profitability and growth in our real estate activities–including Goodman Segar Hogan Hoffler, the Norfolk-based full-service commercial real estate firm. The company leases and manages more than 17 million square feet of commercial property in the Southeast. Goodman Segar closed the year positioned for growth with properties under management totaling more than $1.3 billion. It also combined operations with an important commercial firm serving the fast-growing Research Triangle area in North Carolina. At our residential real estate unit, we completed a townhouse complex in Alexandria, positioned ourselves for more growth in Northern Virginia by obtaining needed zoning at a well-located tract on the Potomac River, and announced plans to develop a residential complex between Richmond and Williamsburg. In financial services, energy and real estate, we're looking to our second decade with a focused strategy and optimism for continued strong results.



Goodman Segar Hogan Hoffler entered the fast-growing Research Triangle Park market in Raleigh-Durham, N.C. by merging with Vanguard Associates. The merger positions Goodman Segar Hogan Hoffler as one of the largest full-service real estate companies in Virginia and a leader in the North Carolina market.



First Source Financial has a focused business strategy that concentrates on one-stop senior and subordinated loans to middle-market companies based on their strength in cash flows from operations. Micropore, Inc., an established client of First Source Financial, is a leading researcher and developer of highly specialized imaging components and systems.

Investments in financial services related and unrelated to energy businesses will be a *growth area for the future.*

First Source Financial is a strong operating company that will be a sustaining contributor to future profits. This venture continues Dominion Capital's role as a financial investment and services company, but moves the company toward long-term cash returns and earnings and away from transaction-dependent income. We will continue these investments only if our company, and its partners, possess the skills to thoroughly analyze an opportunity and successfully manage it. We believe that companies planning to prosper in the competitive future need business lines with the flexibility to identify opportunities for shareholder growth beyond their core businesses. Dominion Capital provides such flexibility.

Dominion Resources, Inc.

1995 Financial Presentation

Contents

Selected Consolidated Financial Data

(millions, except per share amounts and percentages)	1995	1994	1993	1992	1991	1990
Revenues and other income	**$ 4,651.7**	$ 4,491.1	$ 4,433.9	$ 3,791.1	$ 3,785.7	$ 3,532.5
Income before cumulative effect of a change in accounting principle	**$ 425.0**	$ 478.2	$ 516.6	$ 428.9	$ 459.9	$ 445.7
Cumulative effect on prior years of changing the method of accounting for income taxes				15.6		
Net income	**$ 425.0**	$ 478.2	$ 516.6	$ 444.5	$ 459.9	$ 445.7
Total assets	**$13,903.3**	$13,562.2	$13,349.5	$12,615.1	$11,201.4	$10,990.9
Long-term debt, preferred stock subject to mandatory redemption and preferred securities of a subsidiary trust	**$ 4,926.9**	$ 4,934.2	$ 4,976.7	$ 4,667.4	$ 4,668.2	$ 4,697.3
Common stock data:						
Earnings per share before cumulative effect of a change in accounting principle	**$ 2.45**	$ 2.81	$ 3.12	$ 2.66	$ 2.94	$ 2.92
Cumulative effect on prior years of changing the method of accounting for income taxes				.10		
Earnings per share	**$ 2.45**	$ 2.81	$ 3.12	$ 2.76	$ 2.94	$ 2.92
Dividends paid per share	**$ 2.58**	$ 2.55	$ 2.48	$ 2.40	$ 2.32	$ 2.23
Market value per share at year-end	**41.25**	36.00	45.38	39.50	38.00	31.25
Book value per share at year-end	**26.88**	26.60	26.38	25.21	24.41	23.41
Return on equity—average	**9.2%**	10.6%	12.2%	11.2%	12.4%	12.6%
Payout ratio	**105.3%**	90.7%	79.5%	87.0%	78.9%	76.4%
Price/earnings ratio at year-end	**16.8**	12.8	14.5	14.3	12.9	10.7
Outstanding shares of common stock						
—average	**173.8**	170.3	165.7	161.1	156.5	152.5
—actual (year-end)	**176.4**	172.4	168.1	163.8	158.8	154.8
Capitalization:*						
Long-term debt	**$ 4,348.9**	$ 4,384.1	$ 4,219.5	$ 4,111.8	$ 4,025.6	$ 4,105.2
Preferred securities	**135.0**					
Preferred stock	**689.0**	816.1	819.5	845.6	761.7	775.9
Common equity	**4,742.0**	4,586.1	4,435.9	4,131.3	3,877.8	3,623.9
Total capitalization	**$ 9,914.9**	$ 9,786.3	$ 9,474.9	$ 9,088.7	$ 8,665.1	$ 8,505.0
*Capitalization excludes:						
Nonrecourse-nonutility financing	**$ 684.7**	$ 727.1	$ 726.8	$ 593.4	$ 545.7	$ 494.8
Short-term debt	**$ 236.6**	$ 146.0	$ 262.8	$ 125.2	$ 154.0	$ 142.4
Property, plant and equipment:						
Electric utility	**$14,201.6**	$13,896.6	$13,376.1	$12,930.6	$12,397.7	$11,822.4
Nuclear fuel	**836.0**	817.2	814.1	754.6	766.4	732.9
Other	**939.8**	701.6	724.5	451.4	213.4	108.8
Total	**15,977.4**	15,415.4	14,914.7	14,136.6	13,377.5	12,664.1
Less accumulated depreciation, depletion and amortization	**5,655.1**	5,170.0	4,802.1	4,459.5	4,110.5	3,725.5
Net property, plant and equipment	**$10,322.3**	$10,245.4	$10,112.6	$ 9,677.1	$ 9,267.0	$ 8,938.6
CWIP included in property, plant and equipment	**$ 512.1**	$ 828.2	$ 913.1	$ 840.9	$ 736.1	$ 691.7

Consolidated Statements of Income and Retained Earnings

For The Years Ended December 31, *(millions, except per share amounts)*	**1995**	1994	1993
Operating revenues and income:			
Electric utility	**$4,350.4**	$4,170.8	$4,187.3
Nonutility	**301.3**	320.3	246.6
Total operating revenues and income	**4,651.7**	4,491.1	4,433.9
Operating expenses:			
Fuel, net	**1,006.9**	973.0	959.5
Purchased power capacity, net	**688.4**	669.4	646.1
Restructuring	**121.5**		
Other operation	**724.0**	739.6	647.8
Maintenance	**260.5**	263.2	279.5
Depreciation, depletion and amortization	**551.0**	533.1	509.5
Other taxes	**273.8**	274.6	264.2
Total operating expenses	**3,626.1**	3,452.9	3,306.6
Operating income	**1,025.6**	1,038.2	1,127.3
Other income	**7.3**	13.5	15.1
Income before fixed charges and federal income taxes	**1,032.9**	1,051.7	1,142.4
Fixed charges:			
Interest charges, net	**381.7**	360.3	373.5
Preferred dividends of Virginia Power	**44.1**	42.2	42.1
Total fixed charges	**425.8**	402.5	415.6
Income before provision for federal income taxes	**607.1**	649.2	726.8
Provision for federal income taxes	**182.1**	171.0	210.2
Net income	**$ 425.0**	$ 478.2	$ 516.6
Retained earnings, January 1	**1,455.2**	1,417.8	1,319.1
Common dividends and other deductions:			
Dividends	**(448.7)**	(434.7)	(411.2)
Other deductions	**(3.9)**	(6.1)	(6.7)
Retained earnings, December 31	**$1,427.6**	$1,455.2	$1,417.8
Earnings per common share	**$ 2.45**	$ 2.81	$ 3.12
Dividends paid per common share	**$ 2.58**	$ 2.55	$ 2.48
Average common shares outstanding	**173.8**	170.3	165.7

The accompanying notes are an integral part of the Consolidated Financial Statements.

Management's Discussion and Analysis of Operations:

(Unaudited)

Overview

Dominion Resources achieved earnings of $425.0 million in 1995 or $2.45 per average common share, compared with earnings of $478.2 million in 1994 or $2.81 per share. Virginia Power contributed $2.24 per share in 1995, down 14 cents from $2.38 per share in 1994. Dominion Resources' nonutility businesses contributed 21 cents per share in 1995, down 22 cents from 43 cents per share in 1994.

EPS

	1995	Change	1994	Change	1993
Virginia Power	$2.24	(5.9)%	$2.38	(15.6)%	$2.82
Nonutility	.21	(51.2)%	.43	43.3 %	.30
Consolidated	$2.45	(12.8)%	$2.81	(9.9)%	$3.12

Net Income

(millions)	1995	Change	1994	Change	1993
Net income	$425.0	(11.1)%	$478.2	(7.4)%	$516.6
Shares	173.8	2.1 %	170.3	2.8 %	165.7
ROE	9.2%		10.6%		12.2%

The 1995 results were affected by a number of factors described below:

Virginia Power

Earnings Impacts Included:

—increase in kilowatt-hour (kwh) sales from both retail and wholesale customers; and

—increase in operating expenses attributable to restructuring costs, which reduced earnings by 44 cents per share (see Note O).

Nonutility Businesses

Earnings Impacts Included:

—decrease in income from Dominion Energy attributable to the sale of the Black Warrior Trust units, which increased earnings by 17 cents per share in 1994.

—increase in Dominion Resources' holding company expenses attributable to restructuring costs and other charges, which reduced earnings by 5 cents per share in 1995.

Virginia Power

Virginia Power's Operating Results

As part of the Vision 2000 program, Virginia Power recorded $117.9 million of restructuring charges in 1995 (see Note O). Restructuring charges included severance costs, purchased power contract cancellation and negotiated settlement costs, capital project cancellation costs and other costs. Without restructuring costs, balance available for common stock in 1995 would have increased by $76.6 million.

Virginia Power will incur additional restructuring charges in 1996. However, the amount of restructuring charges yet to be incurred is not known at this time. Savings to be realized will be reflected in lower construction expenditures, as well as lower operation and maintenance expenses.

Virginia Power in 1994 recognized a net cost of $41.6 million associated with voluntary separation and early retirement packages accepted by about 1,400 employees. In addition, lower base revenues when compared with 1993 contributed to a decrease in the balance available for common stock in 1994.

(millions)	1995	Change	1994	Change	1993
Revenues	$4,350.4	4.3 %	$4,170.8	(0.4)%	$4,187.3
Operating expenses	3,375.8	5.0 %	3,216.4	3.1 %	3,120.4
Balance available for common stock	388.7	(4.0)%	404.9	(13.3)%	466.9

Virginia Power's Operating Revenues

In 1995 Virginia Power's revenues increased primarily due to the weather experienced in the last six months of 1995, increased customer growth and increased sales to wholesale customers.

Revenues decreased in 1994 primarily because of lower base revenues for Virginia jurisdictional and County and Municipal customers. In February 1994, Virginia Power received a final order from the Virginia Commission in its 1992 base rate case that lowered the allowed return on equity to 11.4%.

Operating Revenues

	Increase (decrease) from prior year	
(millions)	1995	1994
Customer growth	$ 76.2	$ 22.5
Weather	81.6	(8.8)
Change in base revenues	6.3	(35.0)
Fuel cost recovery	(8.9)	(7.9)
Other	24.4	12.7
Total	$179.6	$(16.5)

During 1995, Virginia Power had 44,955 new connections to its system compared to 46,741 in 1994.

Kilowatt-Hour Sales

(millions)	1995	Change	1994	Change	1993
Residential	22,512	4.1%	21,621	(1.0)%	21,846
Commercial	19,486	3.6%	18,801	1.5 %	18,526
Industrial	10,606	3.6%	10,235	4.0 %	9,840
Other	8,261	3.9%	7,950	(0.3)%	7,971
Total retail	60,865	3.9%	58,607	0.7 %	58,183
Wholesale	8,088	13.4%	7,134	4.1 %	6,853
Total sales	68,953	4.9%	65,741	1.1 %	65,036

Degree-Days

	1995	1994	Normal
Cooling degree days	1,667	1,613	1,534
Percentage change compared to prior year	3.3%	(5.2)%	
Heating degree days	3,790	3,515	3,662
Percentage change compared to prior year	7.8%	(8.3)%	

The increase in kilowatt-hour sales in 1995 as compared to 1994 reflects increased customer growth and the weather experienced in the last six months of 1995, partially offset by the milder weather experienced in the first six months of 1995.

The increase in kilowatt-hour sales in 1994 as compared to 1993 reflects the extreme weather experienced in January 1994, partially offset by lower sales during the second half of 1994 because of milder weather.

The increase in sales to wholesale customers in 1995 as compared to 1994 was primarily due to weather experienced in surrounding regions by other utilities during the last six months of 1995 and increased marketing efforts by Virginia Power.

Virginia Power's Operating Expenses
(excluding federal income taxes)

	1995	Change	1994	Change	1993
Fuel, net	$1,006.9	3.5 %	$ 973.0	1.4 %	$ 959.5
Purchased power capacity, net	688.4	2.8 %	669.4	3.6 %	646.1
Other operation	543.8	(5.8)%	577.4	9.8 %	525.7
Maintenance	260.5	(1.0)%	263.2	(5.8)%	279.5
Restructuring	117.9				
Depreciation and amortization	503.5	4.7 %	480.7	3.8 %	462.9
Taxes, other than income	254.8	0.8 %	252.7	2.4 %	246.7
Total	$3,375.8	5.0 %	$3,216.4	3.1 %	$3,120.4

Other operation and maintenance expenses decreased in 1995 as compared to 1994.

Expenses during 1994 included payroll and voluntary separation costs for those employees who elected to terminate service with Virginia Power under the 1994 Early Retirement and Voluntary Separation Programs, offset in part by recognition of insurance policyholder distributions. Expenses in 1995 reflected a decrease in payroll costs due to reduced staffing levels and weather-related overtime offset by 1995 salary increases and the impact of employees being reassigned from capital to operation and maintenance activities. In addition, 1995 expenses include expenses associated with the North Branch Power Station, increased obsolete inventory costs, increased accruals for employee benefits, and increased nuclear outage costs.

Virginia Power 1995 System Energy Output

- Nuclear 32%
- Coal 39%
- Oil 1%
- Purchased Power 25%
- Other 3%

Nonutility

Nonutility Operating Results

The nonutility net income decreased in 1995 as compared to 1994 because of the sale of the Black Warrior Trust units. The sale of the units, which hold royalty interests in proven, developed natural gas properties, provided a net gain of $28.9 million in the second quarter of 1994.

Dominion Resources also recorded $3.6 million in restructuring expenses and $8.8 million in other charges in the fourth quarter of 1995. These expenses included restructuring costs at the holding company as well as litigation and other costs. All outstanding shareholder claims that were made in 1994 have been resolved.

Without restructuring costs, net income in 1995 would have increased by $2.3 million and without other charges, net income in 1995 would have increased by $5.8 million.

The nonutility companies increased net income in 1994 as compared to 1993 by 47.7% because of Dominion Energy's sale of the Black Warrior Trust units.

(millions)	1995	Change	1994	Change	1993
Revenues	$301.3	(5.9)%	$320.3	29.9%	$246.6
Operating expenses	244.6	4.8 %	233.4	28.7%	181.4
Net income	36.3	(50.5)%	73.4	47.7%	49.7

Nonutility Operating Revenues

Nonutility revenues decreased in 1995 because of the sale of the Black Warrior Trust units in 1994, partially offset by revenues at Dominion Capital's financial services company, First Source Financial, which began operating in April 1995.

The $8.3 million gain from the sale of the remaining Black Warrior Trust units in 1995 also partially offset the decrease in nonutility revenues.

The 1994 revenue increase was attributable to the sale of the Black Warrior Trust units, partially offset by lower revenues from the Vidalia hydroelectric plant when compared with extraordinary water flows experienced in 1993.

Nonutility Operating Expenses

Operating expenses increased in 1995 because of restructuring and other charges which were incurred by Dominion Resources' holding company.

The increase in 1994 operating expenses was consistent with revenue increases.

Consolidated Non-operating Items

Income Taxes

Income taxes increased in 1995 compared to 1994 primarily because of decreases in nonconventional fuel credits and other tax benefits. The nonutility companies recorded tax credits of $33.0 million in 1995. They were primarily generated from investments in low-income housing projects and natural gas production activities.

Income taxes decreased in 1994 compared to 1993 primarily because of decreased pre-tax book income from the utility. This was partially offset by a tax increase from the nonutility companies because of the sale of the Black Warrior Trust units. The nonutility companies recorded tax credits of $36.6 million in 1994.

Interest Charges

Interest charges increased in 1995 as compared to 1994 primarily as a result of higher interest rates on the utility's First and Refunding Mortgage Bonds and Pollution Control Notes and as a result of a reduction of $10.6 million in the interest accrued for prior years on certain tax obligations in 1994.

Interest charges decreased in 1994 as compared to 1993 as a result of the utility's reduction of $10.6 million in the interest accrued for prior years on certain tax obligations, and the utility's refinancing activities in current and prior years.

Future Issues

Recently Issued Accounting Standards

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which must be adopted by the company by January 1, 1996. This statement requires the company to review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and requires rate-regulated companies to write off regulatory assets against earnings whenever those assets no longer meet the criteria for recognition of a regulatory asset as defined by SFAS No. 71.

Based on the company's current operating environment, adoption of SFAS 121 is not expected to have a material impact. However, the Virginia Commission has established a proceeding to examine the issue of competition and the regulatory framework in Virginia. In addition, the Federal Energy Regulatory Commission (FERC) has initiated proceedings to address open-access transmission policy. If future regulatory reform should provide for a departure from cost-based regulation, regulators, electric utilities and other parties involved in the restructuring of the electric industry would face significant issues. One such issue is concerned with potential "stranded investment." Stranded investment represents costs incurred or commitments made by utilities under traditional cost-based regulation based on an obligation to serve supported by an implicit promise to recover prudently incurred costs that may not be reasonably expected to be recovered. Regulatory assets recognized under SFAS 71, unrecovered investment in power plants and commitments such as long-term purchased power contracts are items that may become stranded investment if prices for electric services are based on market rather than the cost of providing that service.

Virginia Power expects to continue to operate under regulation and to recover its cost of providing traditional electric service. However, the form of cost-based rate regulation, under which Virginia Power operates, may evolve in the future to accommodate changes in the industry and to address issues such as recovery of potential stranded investment. At this time, company management can predict neither the ultimate outcome of the regulatory reform initiatives in the electric utility industry nor the impact such changes would have on the company.

In 1995, the Financial Accounting Standards Board issued SFAS No. 123 "Accounting for Stock Based Compensation." The company has decided to continue to apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," for recognition and measurement purposes.

Utility Issues

Regulatory Policy: Regulatory policy continues to be of fundamental importance to Virginia Power. The cost of purchased capacity constitutes a large category of cost incurred in Virginia Power's operations. The Virginia Commission has authorized rates providing for the current recovery of the ongoing levels of capacity payments. Moreover, the Commission has established and reaffirmed deferral accounting that is intended to ensure dollar for dollar recovery of reasonably incurred capacity costs.

Competition: In light of existing and potential threats and opportunities brought about by increased competition in the wholesale and retail markets for electricity, Virginia Power has undertaken cost-cutting measures to maintain its position as a low-cost producer of electricity, engaged in re-engineering efforts of its core business processes, and pursued a strategic planning initiative called Vision 2000 to encourage innovative approaches to serving traditional markets and to prepare appropriate methods by which to service future markets. In furtherance of these initiatives, Virginia Power has established separate business units for its nuclear operations, fossil and hydroelectric operations, commercial operations, as well as its energy services business. It has gained regulatory approval of innovative pricing proposals for industrial loads in Virginia and North Carolina, entered into an energy partnership with a key industrial customer, and in January 1996, acquired two energy services divisions of A & C Enercom of Atlanta, Georgia, which Virginia Power formed into a non-regulated subsidiary, A & C Enercom, Inc.

As part of its Vision 2000 program, Virginia Power has developed a regulatory/legislative strategy intended to establish an orderly transition to a more competitive environment.

It supports a number of legislative proposals that have been introduced during the 1996 session of the Virginia General Assembly that are aimed at achieving greater flexibility for both the Virginia Commission and Virginia Power.

Virginia Power will continue to be affected by the developing competitive market in wholesale power. Under the Energy Policy Act of 1992, any participant in the wholesale market can obtain a FERC order to provide transmission services, under certain conditions.

In 1995 a wholesale power group was formed within Virginia Power to engage in the purchase and sale of wholesale electric power. The group has already developed trading relationships beyond the geographic limits of Virginia Power's retail service territory.

In 1995, FERC issued a Notice of Proposed Rulemaking (NOPR) regarding open-access transmission service and a NOPR regarding real-time information networks and standards of conduct. The real-time information network would provide transmission users data concerning the availability of transmission service on a same-time basis. Virginia Power filed comments in both proceedings supporting FERC's objective to promote comparable open-access transmission service, however, the company urged FERC to rethink its suggestion of functional unbundling to insure the continued reliability of the transmission system.

At present, competition for retail customers is limited. It arises primarily from the ability of certain business customers to relocate among utility service territories, to substitute other energy sources for electric power and to generate their own electricity. While the Energy Policy Act bans federal orders of transmission service to ultimate customers, broader retail competition that would allow customers to choose among electric suppliers is the subject of intense debate in legislative and regulatory forums. If such competition were to develop, it would have the potential to shift costs among customer classes and to create significant transitional costs.

Potential competition also exists for Virginia Power's sales to its wholesale cooperative and municipal customers. However, nearly all of this service is under contracts with multi-year notice provisions. To date, Virginia Power has not experienced any material loss of load, revenues or net income due to competition for its wholesale customers. The utility believes it has a strong capability to meet future competition.

The City of Falls Church, Virginia, has indicated that it intends to pursue the establishment of a municipal electric system. In response to a Virginia Power petition, the Commission has ruled that it has jurisdiction over the City and that the City must seek approval from the Commission prior to implementing plans to condemn Virginia Power facilities within the City. Revenues from retail sales within the City of Falls Church account for less than 0.2% of Virginia Power's total revenues. As a result, Virginia Power will not experience a material loss of revenues or net income should a municipal electric system be created. No other city has communicated to Virginia Power any interest in forming a municipal electric system.

In accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," the company's financial statements reflect assets and costs based on current cost-based ratemaking regulations. Continued accounting under SFAS No. 71 requires that the following criteria be met:

a) A utility's rates for regulated services provided to its customers are established by, or are subject to approval by, an independent third-party regulator;

b) The regulated rates are designed to recover specific costs of providing the regulated services or products; and

c) In view of the demand for the regulated services and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover a utility's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

A utility's operations or portion of operations can cease to meet these criteria for various reasons, including a change in the method of regulation or a change in the competitive environment for regulated services. A utility whose operations or portion of operations cease to meet these criteria should discontinue application of SFAS No. 71 and write off any regulatory assets and liabilities for those operations that no longer meet the requirements of SFAS No. 71. The company's operations currently satisfy the SFAS No. 71 criteria. However, if events or circumstances should change so that those criteria are no longer satisfied, management believes that a material adverse effect on the Company's results of operations and financial position may result.

Environmental Matters: Virginia Power is subject to rising costs resulting from a steadily increasing number of federal, state and local laws and regulations designed to protect human health and the environment. These laws and regulations affect future planning and existing operations. They can result in increased capital, operating and other costs as a result of compliance, remediation, containment, and monitoring obligations of Virginia Power. These costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

Virginia Power incurred expenses of $68.3 million, $67.3 million and $72.2 million (including depreciation) during 1995, 1994 and 1993, respectively, for environmental protection facilities and expects these expenses to be approximately $68.3 million in 1996. In addition, capital expenditures to limit or monitor hazardous substances were $23.4 million, $47.3 million and $94.4 million for 1995, 1994 and 1993, respectively. The amount estimated for 1996 for these expenditures is $24.5 million.

The Clean Air Act, as amended in 1990, requires Virginia Power to reduce its emissions of sulfur dioxide and nitrogen oxides. Beginning in 1995, the sulfur dioxide reduction program is based on the issuance of a limited number of sulfur dioxide emission allowances, each of which may be used as a permit to emit one ton of sulfur dioxide into the atmosphere or may be sold to someone else. The program is administered by the Environmental Protection Agency (EPA). Virginia Power has installed sulfur dioxide (SO2) control equipment on Unit 3 at Mt. Storm Power Station. The SO2 control equipment began operation on October 31, 1994. The cost of this and related equipment was $147 million. Virginia Power has completed its compliance plan for Phase II of the Clean Air Act, with the exception of some additional studies concerning Phase II nitrogen oxide (NOx) controls. The plan will involve switching to lower sulfur coal, purchase of emission allowances and additional NOx and SO2 controls. Maximum flexibility and least-cost compliance will be maintained through annual studies. Capital expenditures on Clean Air Act compliance over the next 5 years are projected to be approximately $61 million.

Electromagnetic Fields: The possibility that exposure to electromagnetic fields (EMFs) emanating from power lines, household appliances and other electric sources may result in adverse health effects has been a subject of increased public, governmental and media attention. A considerable amount of scientific research has been conducted on this topic without definitive results. Research is continuing to resolve scientific uncertainties. It is too soon to tell what, if any, impact EMFs may have on the company's financial condition.

Nuclear Operations: Three normal refueling outages are currently scheduled for 1996. Refueling outages typically occur every 18 months and last for approximately 48 days. Virginia Power's goal is to reduce refueling outages from an average of 48 days to 35 days. When nuclear units are refueled, Virginia Power replaces the nuclear-generated power with other more expensive sources. A reduction in the length of the outage should result in increased availability of low-cost nuclear generation, thereby lowering generation expenses.

The Nuclear Regulatory Commission revised the nuclear power plant license renewal rules issued in 1991. Virginia Power intends to work with industry groups on license renewal programs and to apply for renewal of the current 40-year licenses by 1999.

Nonutility Issues

Independent Power: The major emphasis in expanding Dominion Energy's core independent power business is international. With investments in Argentina, Bolivia and Belize and growing interest elsewhere, the related risks include currency fluctuations, developments in national markets, and governmental actions. Dominion Energy is managing these risks by limiting its investments to stable countries and by avoiding over-commitment to one country or region. In the United States, the continuing industry trend toward deregulation will offer opportunities to acquire existing assets.

Dominion Energy's U.S. independent power contracts generally are not variable based on current market prices. To date, none of the company's contractual purchasers have sought to modify the terms of any of the company's independent power contracts. If any of these contracts were to be challenged and unfavorably modified there could be a significant impact on the company's results of operations. Although, in the future, there could be challenges to the enforceability of these power sales contracts, management has evaluated all of its significant independent power contracts and concluded that the terms of such contracts are enforceable.

Natural Gas: Natural gas operations are now making a significant contribution to Dominion Energy's earnings and are expected to continue to do so. Since Dominion Energy has acquired and developed primarily proven and/or producing reserves, the trend of financial performance will depend largely on the market price of natural gas. The market price of any commodity is influenced by many factors outside of the control of Dominion Energy. However, because of the advantageous cost basis of Dominion Energy's reserves and the related tax credits, the natural gas operations are profitable at today's market prices. Since the majority of the reserves have associated tax credits based on production, future profitability could be impacted adversely by federal legislation that would eliminate the tax credit before its current expiration in 2002.

Real Estate Investments: Dominion Capital's investments in real estate have historically been a relatively minor part of the nonutility business. Residential property development primarily targets the middle- to upper-price market. The critical risk to financial performance in this market is the regional economy, which affects both market price and the rate at which the market absorbs the developed product.

Commercial Lending: Dominion Capital's joint venture, First Source Financial LLP, lends to middle-market companies. First Source serves the nation's demand for loans to businesses which need funds for expansion, recapitalization and acquisition. The critical risk to financial performance of First Source is a decline in the general economy and competitive forces affecting individual borrowers. This risk is reduced through a policy of diversification of the lending portfolio. First Source has assembled a proven management team, identified a specific market and established a strategic plan for growth in the commercial lending arena.

Corporate Issues

Dominion Resources is unable to predict how changing industry conditions may affect future results and that it is possible that in order to address changing conditions in ways that are designed to improve the ability of Dominion Resources and Virginia Power to compete and to serve the goal of preserving and enhancing shareholder value, it may be necessary to effect structural changes either within Virginia Power or with respect to the holding company structure.

During 1995, in a proceeding instituted by the Virginia Commission in 1994 into the relationship between Dominion Resources and Virginia Power, the Commission Staff filed a Final Report, making numerous recommendations on corporate governance, intercompany relationships and regulatory tools for the Commission. The Commission entered a consent order, effective until July 2, 1996, requiring Commission approval before Dominion Resources may take certain corporate actions involving Virginia Power. The two companies have responded to the Final Report. The Staff's final response is due March 15, 1996. Dominion Resources is unable to predict the outcome of these matters.

Consolidated Balance Sheets

Assets

At December 31, (millions)	1995	1994
Current assets:		
Cash and cash equivalents	$ 66.7	$ 146.7
Trading securities	10.8	110.8
Customer accounts receivable, net	362.6	202.7
Other accounts receivable	104.2	83.2
Accrued unbilled revenues	179.5	97.4
Materials and supplies at average cost or less:		
Plant and general	160.2	186.6
Fossil fuel	71.2	122.9
Other	141.5	136.2
	1,096.7	1,086.5
Investments:		
Investments in affiliates	436.2	282.8
Available-for-sale securities	285.5	286.5
Nuclear decommissioning trust funds	351.4	260.9
Investments in real estate	133.0	107.5
Other	236.6	222.4
	1,442.7	1,160.1
Property, plant and equipment:		
(includes plant under construction of $512.1 [1994-$828.2])	15,977.4	15,415.4
Less accumulated depreciation, depletion and amortization	5,655.1	5,170.0
	10,322.3	10,245.4
Deferred charges and other assets:		
Regulatory assets	816.4	871.0
Other	225.2	199.2
	1,041.6	1,070.2
Total assets	$13,903.3	$13,562.2

The accompanying notes are an integral part of the Consolidated Financial Statements.

Liabilities and Shareholders' Equity

At December 31, (millions)	1995	1994
Current liabilities:		
Securities due within one year	$ 420.8	$ 399.1
Short-term debt	236.6	146.0
Accounts payable, trade	336.7	343.5
Accrued interest	110.5	106.3
Accrued payrolls	77.7	59.5
Severance costs accrued	42.5	
Customer deposits	55.4	55.0
Other	114.0	128.0
	1,394.2	1,237.4
Long-term debt:		
Utility	3,889.4	3,910.4
Nonrecourse-nonutility	523.5	640.2
Other	199.0	160.0
	4,611.9	4,710.6
Deferred credits and other liabilities:		
Deferred income taxes	1,661.1	1,613.6
Investment tax credits	272.2	289.2
Deferred fuel expenses	57.7	51.5
Other	340.2	257.7
	2,331.2	2,212.0
Total liabilities	8,337.3	8,160.0
Commitments and contingencies		
Virginia Power obligated mandatorily redeemable preferred securities of subsidiary trust*	135.0	
Preferred stock:		
Virginia Power stock subject to mandatory redemption	180.0	222.1
Virginia Power stock not subject to mandatory redemption	509.0	594.0
Common shareholders' equity:		
Common stock—no par authorized 300,000,000 shares, outstanding—176,414,110 shares at 1995 and 172,405,049 shares at 1994	3,303.5	3,157.6
Retained earnings	1,427.6	1,455.2
Allowance on available-for-sale securities	(6.7)	(47.8)
Other paid-in capital	17.6	21.1
	4,742.0	4,586.1
Total liabilities and shareholders' equity	$13,903.3	$13,562.2

**As described in Note L, the 8.05% Junior Subordinated Notes totaling $139.2 million principal amount constitute 100% of the Trust's assets.*

Consolidated Statements of Cash Flows

For The Years Ended December 31, *(millions)*	**1995**	1994	1993
Cash flows from (to) operating activities:			
Net income	**$ 425.0**	$ 478.2	$ 516.6
Adjustments to reconcile net income to net cash:			
Depreciation, depletion and amortization	**633.5**	610.7	593.9
Deferred income taxes	**26.4**	68.2	34.7
Investment tax credits, net	**(16.9)**	(17.1)	(19.2)
Allowance for other funds used during construction	**(6.7)**	(6.4)	(5.1)
Deferred fuel expenses	**6.2**	(2.6)	(36.1)
Deferred capacity expenses	**6.4**	26.5	72.8
Restructuring expenses	**96.2**		
Non-cash return on terminated construction project costs—pre-tax	**(8.4)**	(10.3)	(11.9)
Gain on sale of trust units	**(8.7)**	(49.0)	
Changes in current assets and liabilities:			
Accounts receivable	**(38.7)**	19.1	(56.6)
Accrued unbilled revenues	**(27.7)**	11.9	(6.3)
Materials and supplies	**61.1**	(6.5)	27.4
Accounts payable, trade	**(37.6)**	32.6	26.5
Accrued interest and taxes	**33.6**	(46.5)	31.1
Provision for rate refunds	**(12.2)**	(89.5)	(87.6)
Other changes	**39.8**	(27.5)	16.8
Net cash flows from operating activities	**1,171.3**	991.8	1,097.0
Cash flows from (to) financing activities:			
Issuance of common stock	**161.7**	186.7	196.6
Issuance of preferred stock			150.0
Preferred securities of subsidiary trust	**135.0**		
Issuance of long-term debt:			
Utility	**240.0**	464.0	1,035.0
Nonrecourse-nonutility	**54.3**	18.7	288.4
Issuance (repayment) of short-term debt	**101.1**	(117.0)	133.4
Repayment of long-term debt and preferred stock	**(553.0)**	(349.6)	(1,241.6)
Common dividend payments	**(448.7)**	(434.7)	(411.2)
Other	**(20.5)**	(8.0)	(8.8)
Net cash flows from (to) financing activities	**(330.1)**	(239.9)	141.8
Cash flows from (used in) investing activities:			
Utility capital expenditures (excluding AFC-equity funds)	**(577.5)**	(660.9)	(712.8)
Acquisition of natural gas and independent power properties	**(128.5)**	(60.4)	(316.8)
Sale of accounts receivable, net	**(160.0)**	(40.0)	
Sale of trust units	**16.4**	128.4	
Other investments	**(71.6)**	(74.3)	(189.6)
Net cash flows used in investing activities	**(921.2)**	(707.2)	(1,219.2)
Increase (decrease) in cash and cash equivalents	**$ (80.0)**	$ 44.7	$ 19.6
Cash and cash equivalents at beginning of the year	**146.7**	102.0	82.4
Cash and cash equivalents at end of the year	**$ 66.7**	$ 146.7	$ 102.0

The accompanying notes are an integral part of the Consolidated Financial Statements.

Management's Discussion and Analysis of Cash Flows and Financial Condition:

(Unaudited)

Consolidated

Financing Activity

Each of Dominion Resources' subsidiaries—Virginia Power, Dominion Capital, and Dominion Energy—obtains capital primarily through cash from operations, financings and equity contributed by the parent. The utility and nonutility companies obtain financing based on their individual credit profiles and ability to repay the debt. In no way are the other companies contingently liable for each other's indebtedness.

Commercial Paper

To finance working capital for operations, proceeds from the sale of Dominion Resources commercial paper in regional and national markets are made available to its nonutility subsidiaries under the terms of intercompany credit agreements. To support these borrowings, Dominion Resources had available bank lines of credit totaling $300.8 million at the end of 1995. Amounts borrowed by the subsidiaries are repaid to Dominion Resources through cash flows from operations and through proceeds from permanent financings.

Common Equity

Dominion Resources made no underwritten public offerings of common stock in 1995, but did raise capital from sales of common stock through an Automatic Dividend Reinvestment and Stock Purchase Plan, a Customer Stock Purchase Plan, and an Employee Savings Plan. Dominion Resources will continue to raise capital through these plans in 1996. Proceeds from these plans were (in millions): 1995-$136.9; 1994-$166; and 1993-$196.6. Reflected in the amounts of proceeds from these plans were the repurchases of 685,500 shares of common stock in 1995 for an aggregate price of $24.8 million, and 566,000 shares in 1994 for an aggregate price of $20.7 million. Dominion Resources is authorized to repurchase up to 5 million shares of its common stock.

Virginia Power

Liquidity and Capital Resources

Liquidity is important to Virginia Power because of the capital intensive nature of its business, which requires large investments in long-lived assets. Cash from operations has accounted for, on average, 72 percent of Virginia Power's cash requirements during the past three years. Virginia Power's major external sources of financing during 1995 were the issuances of $200 million of First and Refunding Mortgage Bonds, $135 million of preferred securities of a subsidiary trust, and $40 million of unsecured medium term notes. The proceeds from these financings were used for redemptions of various series of Dividend Preferred Stock having an aggregate principal value of $126.7 million, and payment of a portion of Virginia Power's mandatory debt maturities and capital requirements. During the year, Virginia Power retired $312.3 million of securities through mandatory debt maturities.

Cash Flows

(millions)	**1995**	1994	1993
Sources of cash:			
Cash from operations	**$1,125.4**	$1,018.3	$1,022.9
Common stock		75.0	50.0
Preferred securities of a subsidiary trust	**135.0**		
Preferred stock			150.0
Long-term debt	**240.0**	464.0	1,035.0
Other	**177.4**	6.9	76.2
	$1,677.8	$1,564.2	$2,334.1
Uses of cash:			
Utility plant	**$ 519.9**	$ 580.9	$ 644.9
Nuclear fuel	**57.6**	80.0	67.9
Repayment of long-term debt and preferred stock	**439.0**	334.3	1,072.1
Dividends	**438.6**	438.2	421.1
Nuclear decommissioning contributions	**28.5**	24.5	24.4
Other	**194.2**	106.3	103.7
	$1,677.8	$1,564.2	$2,334.1

These transactions, among other factors, had the effect of raising Virginia Power's embedded cost of debt from 7.65 percent to 7.73 percent in 1995.

Virginia Power's common equity portion of its capitalization was 43.8 percent at December 31, 1995.

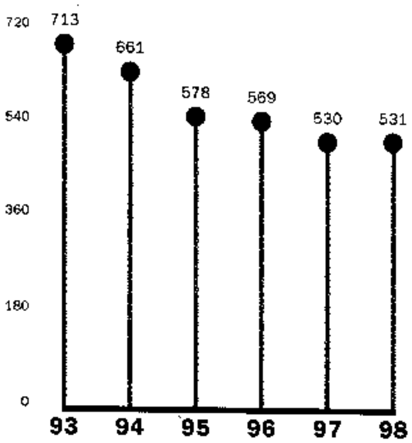
Virginia Power's commercial paper program is supported by a $300 million revolving credit facility. The program's debt limit is $300 million. Proceeds from the sale of commercial paper are primarily used to finance working capital for operations. Net borrowings under the commercial paper program were $169 million at the end of 1995.

In 1995, Virginia Power paid common stock and preferred stock dividends of $394.3 million and $44.3 million, respectively.

Capital Requirements

Virginia Power presently anticipates that kilowatt-hour sales will grow approximately two percent a year through 2010. Capacity needed to support this growth will be provided through a combination of generating units constructed by Virginia Power and purchases from nonutility generators and other utility generators. Each of these options plays an important role in Virginia Power's overall plan to meet capacity needs. After 1996, no new base load generation is expected to be needed until the end of the next decade. From 2000 until 2009, Virginia Power will need to add peaking or intermediate units to meet anticipated demand.

Virginia Power Capital Expenditures
(Millions of Dollars)



Construction continues on the Clover project in which Virginia Power has a 50 percent ownership interest. Virginia Power's share of construction costs is estimated to be $514.7 million. As of December 31, 1995, Virginia Power had incurred $500.7 million in construction expenditures. Clover Unit 1 began commercial operation in October 1995 and Clover Unit 2 is expected to be in service by April 1996.

In 1995, with the near completion of the 832 megawatt coal-fired power station near Clover, Virginia, Virginia Power began a period in which internal cash generation will exceed construction expenditures.

The internal generation of cash in 1994 and 1993 provided 88 percent and 84 percent, respectively, of the funds required for Virginia Power's capital requirements.

Virginia Power will require $259.6 million to meet long-term debt maturities in 1996. Virginia Power presently estimates that, for 1996, all of its construction expenditures, including nuclear fuel expenditures, will be met through cash flow from operations. Other capital requirements will be met through a combination of sales of securities and short-term borrowings.

Projected construction and nuclear fuel expenditures for the next three years are expected to total approximately $1.6 billion, including allowance for funds used during construction (AFC).

Nonutility

Liquidity and Capital Resources

Current capital requirements for nonutility operations are funded from: internally generated funds; intercompany credit agreements with Dominion Resources; a $200 million medium-term note facility; $185 million in bank revolving credit agreements and a $90 million commercial paper program. In 1995, net borrowings decreased by $121.5 million, primarily due to the cash inflow from the equity contributions of Dominion Resources. In 1994, net borrowings decreased by $33.7 million, primarily due to the cash inflow from the sale of the Black Warrior Trust units. Net borrowings increased by $264.2 million during 1993. These funds were borrowed principally for investments in marketable securities, natural gas acquisitions, land acquisitions and independent power projects.

Cash Flows

(millions)	**1995**	1994	1993
Sources of cash:			
Cash from operations	**$ 91.5**	$ 48.1	$116.9
Issuance of debt	**48.7**	81.3	415.5
Sale of trust units	**16.4**	128.4	
Contribution from parent	**299.3**	4.9	35.0
Other	**13.6**	55.9	91.9
	$469.5	$318.6	$659.3
Uses of cash:			
Investments	**$ 52.8**	$ 39.8	$ 61.7
Independent power properties	**60.2**		214.1
Natural gas properties	**68.3**	60.4	102.7
Land and land development	**11.7**		0.6
Repayment of debt	**170.2**	115.0	151.3
Dividends	**54.3**	39.1	32.9
Other	**52.0**	64.3	96.0
	$469.5	$318.6	$659.3

In 1995 Dominion Capital and Dominion Energy received $150 million and $149.3 million, respectively, from Dominion Resources to finance operations.

Nonutility capital requirements in 1996 are expected to be funded primarily by equity contributions and cash flows from operations.

Financial Position

(millions)	**1995**	1994	1993
Marketable securities	**$ 296.3**	$ 397.3	$ 436.9
Hydroelectric project	**129.6**	123.5	116.6
Enron/Dominion Cogen Corp.	**91.6**	86.2	90.0
Energy partnerships	**120.5**	124.0	125.6
Venture partnership	**97.5**		
Financing partnership	**59.0**		
Real estate partnerships	**15.8**	11.2	10.3
Other	**155.6**	140.3	102.4
Total investments	**$ 965.9**	$ 882.5	$ 881.8
Land and land development	**122.2**	97.2	104.7
Independent power properties	**370.8**	240.0	243.1
Natural gas properties	**314.7**	279.3	326.7
Other assets	**337.8**	472.1	303.0
Total assets	**$2,111.4**	$1,971.1	$1,859.3
Total long-term debt	**$ 523.5**	$ 640.2	$ 700.6

Notes to Consolidated Financial Statements

Note A Significant Accounting Policies

General: Dominion Resources, Inc. is a holding company headquartered in Richmond, Virginia. Its primary business is Virginia Electric and Power Company, which is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within a 30,000 square mile area in Virginia and northeastern North Carolina. It sells electricity to retail customers (including governmental agencies) and to wholesale customers such as rural electric cooperatives and municipalities. The Virginia service area comprises about 65 percent of Virginia's total land area, but accounts for over 80 percent of its population.

The company also operates business subsidiaries active in independent power production; the acquisition and sale of natural gas reserves; in financial services, and in real estate. Some of the independent power and natural gas projects are located in foreign countries. Net assets of approximately $200 million are involved in independent power production operations in Latin America.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Dominion Resources is currently exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

Accounting for the utility business conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by federal agencies and the commissions of the states in which the utility business operates.

Consolidation: The Consolidated Financial Statements include the accounts of Dominion Resources and its subsidiaries. In consolidation, all significant inter-company transactions and accounts have been eliminated.

Operating Revenues and Income: Utility revenues are recorded on the basis of service rendered. Dividend income on securities owned is recognized on the ex-dividend date.

Investments in common stocks of affiliates representing 20 percent to 50 percent ownership, and joint ventures and partnerships representing generally 50 percent or less ownership interests, are accounted for under the equity method.

Property, Plant and Equipment: Utility plant is recorded at original cost, which includes labor, materials, services, AFC (where permitted by regulators), and other indirect costs.

The cost of acquisition, exploration and development of natural resource properties is accounted for under the successful efforts method.

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In 1995, 1994 and 1993, $14.1 million, $13.8 million, and $11.1 million of interest cost was capitalized, respectively. Capitalized interest includes AFC-other funds for certain regulatory jurisdictions of $6.7 million, $6.4 million and $5.1 million for the years ended December 31, 1995, 1994 and 1993, respectively.

Major classes of property, plant and equipment and their respective balances are:

At December 31, *(millions)*	**1995**	1994
Utility:		
Production	**$ 7,340.0**	$ 6,916.6
Transmission	**1,316.1**	1,301.2
Distribution	**4,215.7**	3,989.8
Other electric	**817.7**	860.8
Construction work-in-progress	**512.1**	828.2
Nuclear fuel	**836.0**	817.2
Total utility	**15,037.6**	14,713.8
Nonutility:		
Natural gas properties	**395.7**	331.6
Independent power properties	**462.7**	253.0
Construction work-in-progress		45.6
Other	**81.4**	71.4
Total nonutility	**939.8**	701.6
Total property, plant and equipment	**$15,977.4**	$15,415.4

Depreciation, Depletion and Amortization: Depreciation of utility plant (other than nuclear fuel) is computed using the straight-line method based on projected useful service lives. The cost of depreciable utility plant retired and the cost of removal, less salvage, are charged to accumulated depreciation. The provision for depreciation on utility plant was based on weighted average depreciable plant using a rate of 3.2 percent for 1995, 1994, and 1993.

Owned nuclear fuel is amortized on a unit-of-production basis sufficient to amortize fully, over the estimated service life, the cost of the fuel plus permanent storage and disposal costs.

Costs in excess of net assets acquired from equity investments are amortized over periods not to exceed 40 years.

Nuclear Decommissioning: Nuclear plant decommissioning costs are accrued and recovered through rates over the expected service lives of Virginia Power's nuclear generating units. The amounts collected from customers are being placed in trusts, which, with the accumulated earnings thereon, will be utilized solely to fund future decommissioning obligations.

	North Anna		Surry	
	Unit 1	Unit 2	Unit 1	Unit 2
NRC license expiration year	2018	2020	2012	2013
Method of decommissioning	DECON	DECON	DECON	DECON
(millions)				
Current cost estimate (1994) dollars	$247.0	$253.6	$272.4	$274.0
External trusts balance at December 31, 1995	84.1	78.9	96.2	92.2
1995 contribution to external trusts	6.1	5.7	8.0	8.7

Approximately every four years, site-specific studies are prepared to determine the decommissioning cost estimate for Virginia Power's four nuclear units. The current cost estimate is based on the DECON method, which assumes the activities associated with the decontamination or prompt removal of radioactive contaminants will begin shortly after cessation of operations so that the property may be released for unrestricted use.

The accumulated provision for decommissioning of $351.4 million and $260.9 million is included in accumulated depreciation, depletion and amortization at December 31, 1995 and 1994, respectively. Provisions for decommissioning of $28.5 million, $24.5 million and $24.4 million applicable to 1995, 1994 and 1993, respectively, are included in depreciation, depletion and amortization expense. The net unrealized gain of $40.7 million and a net unrealized loss of $5.2 million associated with securities held by Virginia Power's Nuclear Decommissioning trust at December 31, 1995 and 1994, respectively, are included in the accumulated provision for decommissioning.

Earnings of the trust funds were $15.9 million, $15.2 million and $16.3 million for 1995, 1994 and 1993, respectively, and are included in other income in the Consolidated Financial Statements.

The accretion of the accumulated provision for decommissioning, equal to the earnings of the trust funds, is also recorded in other income.

The Financial Accounting Standards Board (FASB) is reviewing the accounting for nuclear plant decommissioning. If current electric utility industry practices for such decommissioning are changed, annual provisions for decommissioning could increase. FASB has tentatively determined that the estimated cost of decommissioning should be reported as a liability rather than as accumulated depreciation and that a substantial portion of the decommissioning obligation should be recognized earlier in the operating life of the nuclear plant.

During its deliberations, FASB has expanded the scope of this project to include similar unavoidable obligations to perform closure and post-closure activities incurred as a condition to operate assets other than nuclear power plants. Whether this position, if adopted, would impact other assets of Virginia Power cannot be determined at this time. Furthermore, the FASB has tentatively determined that it would be inappropriate to account for cost of removal as negative salvage; thus, any forthcoming standard may also cause changes in industry plant depreciation practices.

Federal Income Taxes: Dominion Resources and its subsidiaries file a consolidated federal income tax return.

Dominion Resources adopted SFAS No. 109, "Accounting for Income Taxes" in 1992 which requires companies to measure and record deferred tax assets and liabilities for all temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in future periods. The regulatory treatment of temporary differences can differ from the requirements of SFAS No. 109. Accordingly, Virginia Power recognizes a regulatory asset if it is probable that future revenues will be provided for the payment of those deferred tax liabilities. Similarly, in the event a deferred tax liability is reduced to reflect changes in tax rates, a regulatory liability is established if it is probable that a future reduction in revenue will result.

Due to regulatory requirements, Virginia Power accounts for investment tax credits under the "deferral method" which provides for the amortization of these credits over the service lives of the property giving rise to the credits.

Allowance for Funds Used During Construction: The applicable regulatory Uniform System of Accounts defines AFC as the cost during the construction period of borrowed funds used for construction purposes and a reasonable rate on other funds when so used.

The pre-tax AFC rates for 1995, 1994 and 1993 were 8.9, 8.9 and 9.4 percent, respectively. Approximately 83 percent of Virginia Power's construction work in progress (CWIP) is now included in rate base and a cash return is collected currently thereon.

Deferred Capacity and Fuel Expenses: Approximately 90 percent of fuel expenses and 80 percent of capacity expenses are subject to deferral accounting. Under this method, the difference between reasonably incurred actual expenses and the level of expenses included in current rates is deferred and matched against future revenues.

Amortization of Debt Issuance Costs: Dominion Resources defers and amortizes any expenses incurred in the issuance of long-term debt including premiums and discounts associated with such debt over the lives of the respective issues. Any gains or losses resulting from the refinancing of Virginia Power debt are also deferred and amortized over the lives of the new issues of long-term debt as permitted by the appropriate regulatory commission. At Virginia Power, gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

Marketable Securities: Dominion Resources adopted, effective January 1, 1994, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The standard requires companies to account for and classify investments in equity securities that have readily determinable fair values and for all investments in debt securities based on management's intent. The investments are to be classified into three categories and accounted for in the following manner.

Debt securities which are intended to be held to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities purchased and held with the intent of selling them in the current period are classified as trading securities. They are reported at fair value and unrealized gains and losses are included in earnings. Debt and equity securities that are neither held-to-maturity or trading are classified as available-for-sale securities. These are reported at fair value with unrealized gains and losses reported in shareholders' equity, net of tax.

This standard is to be applied on a prospective basis effective with fiscal years after December 15, 1993 and can not be applied retroactively to the prior year's financial statements.

Nonrecourse-Nonutility Financings: Dominion Resources' nonutility subsidiaries issue debt to finance their operations and obtain financings that generally are secured by the assets of the nonutility subsidiaries. However, Dominion Resources may be required to provide contingent equity support or to maintain a minimum net worth at the nonutility subsidiaries. These financings have been segregated on the accompanying financial statements to distinguish their nonrecourse nature.

Cash: Current banking arrangements generally do not require checks to be funded until actually presented for payment. At December 31, 1995 and 1994, the company's accounts payable included the net effect of checks outstanding but not yet presented for payment of $70.1 million and $72.2 million, respectively.

For purposes of the Consolidated Statements of Cash Flows, Dominion Resources considers cash and cash equivalents to include cash on hand and temporary investments purchased with a maturity of three months or less.

Supplementary Cash Flows Information:

(millions)	1995	1994	1993
Cash paid during the year for:			
Interest (reduced for net costs of borrowed funds capitalized)	**$376.0**	$355.9	$375.8
Federal income taxes	**159.6**	154.2	187.8
Non-cash transactions from investing and financing activities:			
Exchange of long-term marketable securities	**12.3**	11.8	169.8
Assumption of obligations and acquisition of utility property		26.3	
Other		3.1	(0.4)

Reclassification: Certain amounts in the 1994 and 1993 Consolidated Financial Statements have been reclassified to conform to the 1995 presentation.

Note B Sale of Receivables

Virginia Power has an agreement to sell, with limited recourse, certain accounts receivable including unbilled amounts, up to a maximum of $200 million. Additional receivables are continually sold, at Virginia Power's discretion, to replace those collected up to the limit. At December 31, 1995 no amount was outstanding; however, at December 31, 1994, $160 million of receivables had been sold and were outstanding under this agreement. The limited recourse is provided by Virginia Power's assignment of an additional undivided interest in accounts receivable to cover any potential losses to the purchaser due to uncollectible accounts. Virginia Power has provided for the estimated amount of such losses in its accounts.

Note C Taxes

(millions, except percentages)	1995	1994	1993
Taxes other than federal income tax:			
Real estate and property	**$ 91.2**	$ 83.9	$ 84.8
State and local gross receipts	**104.8**	104.9	100.8
Payroll	**31.1**	33.9	31.3
Other	**46.7**	51.9	47.3
	$273.8	$274.6	$264.2
Provision for federal income taxes:			
Included in operating expenses:			
Current	**$179.8**	$120.8	$197.2
Tax effects of temporary/timing differences:			
Liberalized depreciation	**56.6**	61.3	50.6
Indirect construction costs	**(13.8)**	(21.5)	(23.2)
Other plant related items	**12.1**	4.0	19.9
Deferred fuel	**(2.2)**	0.8	11.8
Deferred capacity	**(3.8)**	(9.0)	(24.7)
Separation costs	**(12.4)**		
Customer accounts reserve		36.8	(34.9)
Intangible drilling costs	**3.6**	4.1	15.3
Other, net	**(20.9)**	(9.2)	17.4
	19.2	67.3	32.2
Net deferred investment tax credits—amortization	**(16.9)**	(17.1)	(19.2)
Total provision for federal income tax expense	**$182.1**	$171.0	$210.2
Computation of provision for federal income tax:			
Pre-tax income	**$607.1**	$649.2	$726.8
Tax at statutory federal income tax rate of 35% applied to pre-tax income	**$212.5**	$227.2	$254.4
Changes in federal income taxes resulting from:			
Preferred dividends of Virginia Power	**15.4**	14.8	14.8
Amortization of investment tax credits	**(16.9)**	(17.1)	(16.1)
Nonconventional fuel credit	**(28.2)**	(32.0)	(30.5)
Other, net	**(0.7)**	(21.9)	(12.4)
Total provision for federal income tax expense	**$182.1**	$171.0	$210.2
Effective tax rate	**30%**	26.3%	28.9%

Dominion Resources net noncurrent deferred tax liability is attributable to:

(millions)	1995	1994
Assets:		
Deferred investment tax credits	$ (96.4)	$ (102.4)
Liabilities:		
Depreciation method and plant basis differences	$1,403.5	$1,349.7
Income taxes recoverable through future rates	171.6	172.9
Partnership basis differences	111.5	104.3
Other	70.9	89.1
Total deferred income tax liability	1,757.5	1,716.0
Net deferred income tax liability	$1,661.1	$1,613.6

Note D Regulatory Assets

Certain expenses normally reflected in income are deferred on the balance sheet as regulatory assets and are recognized in income as the related amounts are included in rates and recovered from customers. The company's regulatory assets included the following:

At December 31, (millions)	1995	1994
Income taxes recoverable through future rates	$484.5	$488.2
Cost of decommissioning DOE uranium enrichment facilities	78.5	83.7
Deferred losses (gains) on reacquired debt, net	99.3	107.0
North Anna Unit 3 project termination costs	101.8	128.5
Other	52.3	63.6
Total	$816.4	$871.0

Income taxes recoverable through future rates represent principally the tax effect of depreciation differences not normalized. These amounts are amortized as the related temporary differences reverse.

The costs of decommissioning Department of Energy's (DOE) uranium enrichment facilities have been deferred and represent the unamortized portion of Virginia Power's required contributions to a fund for decommissioning and decontaminating the DOE's uranium enrichment facilities. Virginia Power is making such contributions over a 15-year period with escalation for inflation. These costs are being recovered in fuel rates.

Losses or gains on reacquired debt are deferred and amortized over the lives of the new issues of long-term debt. Gains or losses resulting from the redemption of debt without refinancing are amortized over the remaining lives of the redeemed issues.

The construction of North Anna 3 was terminated in November 1982. All retail jurisdictions have permitted recovery of the incurred costs. For Virginia and FERC jurisdictional customers, the amounts deferred are being amortized from the date termination costs were first includible in rates.

The incurred costs underlying these regulatory assets may represent expenditures by Virginia Power or may represent the recognition of liabilities that ultimately will be settled at some time in the future. For some of those regulatory assets representing past expenditures that are not included in Virginia Power's rate base or used to adjust Virginia Power's capital structure, Virginia Power is not allowed to earn a return on the unrecovered balance. Of the $816.4 million of regulatory assets at December 31, 1995, approximately $123 million represent past expenditures that are effectively excluded from the rate base by the Virginia State Corporation Commission that has primary jurisdiction over Virginia Power's rates. However, of that amount $101.8 million represent the present value of amounts to be recovered through future rates for North Anna Unit 3 project termination costs, and thus reflect a reduction in the actual dollars to be recovered through future rates for the time value of money. Virginia Power does not earn a return on the remaining $21.2 million of regulatory assets, effectively excluded from rate base, to be recovered over various recovery periods up to 23 years, depending on the nature of the deferred costs.

Note E Jointly Owned Plants

The following information relates to Virginia Power's proportionate share of jointly owned plants at December 31, 1995:

	Bath County Pumped Storage Station	North Anna Power Station	Clover Power Station
Ownership interest	60.0%	88.4%	50.0%
(millions)			
Utility plant in service	$1,074.8	$1,798.5	$289.6
Accumulated depreciation	188.6	635.7	1.5
Nuclear fuel		405.1	
Accumulated amortization of nuclear fuel		387.3	
CWIP	0.7	110.9	211.1

The co-owners are obligated to pay their share of all future construction expenditures and operating costs of the jointly owned facilities in the same proportions as their respective ownership interest. Virginia Power's share of operating costs is classified in the appropriate expense category in the consolidated statements of income.

Note F Short-Term Debt

Dominion Resources and its subsidiaries have credit agreements with various expiration dates. These agreements provided for maximum borrowings of $885.8 million and $705.8 million at December 31, 1995 and 1994, respectively. At December 31, 1995 and 1994, $48.6 million and $135.2 million, respectively, was borrowed under such agreements and classified as long-term debt.

Dominion Resources credit agreements supported $199 million and $224 million of Dominion Resources commercial paper at December 31, 1995 and 1994, respectively.

Virginia Power credit agreements, which in September 1995 replaced the intercompany credit agreement with Dominion Resources, supported $169 million of Virginia Power commercial paper at December 31, 1995. No Virginia Power commercial paper was outstanding at December 31, 1994.

A subsidiary of Dominion Capital also had $91 million and $90.7 million of nonrecourse commercial paper outstanding at December 31, 1995 and 1994, respectively. A total of $289 million and $250 million of the commercial paper was classified as long-term debt at December 31, 1995 and 1994, respectively. The commercial paper is supported by revolving credit agreements that have expiration dates extending beyond one year.

Dominion Resources and its subsidiaries pay fees in lieu of compensating balances in connection with these credit agreements. A summary of short-term debt outstanding at December 31 follows:

(millions, except percentages)	Amount Outstanding	Weighted Average Interest Rate
1995		
Commercial paper	**$169.0**	**5.79%**
Term-notes	**67.6**	**11.7%**
Total	**$236.6**	
1994		
Commercial paper	$ 64.0	6.08%
Term-notes	82.0	7.38%
Total	$146.0	

Note G Marketable Securities

Effective January 1, 1994, Dominion Resources adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). The standard prescribes how companies are to account for and report investments in equity securities that have readily determinable fair values and for all investments in debt securities. This standard is effective for fiscal years beginning after December 15, 1993.

Securities classified as available-for-sale as of December 31 follow:

Security Type *(millions)*	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
1995				
Equity	**$288.3**	**$ 8.0**	**$ 16.5**	**$279.8**
Debt	**5.8**		**0.1**	**5.7**
1994				
Equity	$334.5	$ 1.3	$ 54.2	$281.6
Debt	5.5		0.6	4.9

Maturities of debt securities classified as available-for-sale as of December 31, 1995:

Security *(millions)*	Aggregate Type Cost	Fair Value
Tax exempt obligations:		
0-5 years	**$0.3**	**$0.3**
After five years	**5.1**	**5.0**
Temporary investments and deposits:		
0-5 years	**$0.1**	**$0.1**
After five years	**0.3**	**0.3**

For the years ended December 31, 1995 and 1994, the proceeds from the sales of available-for-sale securities were $49.4 million and $35.8 million, respectively. The gross realized gains and losses were $10.4 million and $0.1 million for 1995 and $0.4 million and $1.6 million for 1994, respectively. The basis on which the cost of these securities was determined is specific identification. For 1994, the gross gains included in earnings from transfers of securities from the available-for-sale category into the trading category was $0.8 million. The changes in net unrealized holding gain or loss on available-for-sale securities has resulted in an increase in the separate component of shareholders equity during the year ended December 31, 1995 of $41.1 million, net of tax, and a decrease of $47.2 million, net of tax, for the year ended December 31, 1994. The changes in net realized holding gain or loss on trading securities increased earnings during the year ended December 31, 1995 by $2.1 million and decreased earnings by $10 million for the year ended December 31, 1994.

In 1993, the company accounted for marketable securities as prescribed in SFAS No. 12, "Accounting for Certain Marketable Securities." A net realized gain of $12.5 million on the sale of marketable securities was included in net income for the year ended December 31, 1993.

Note H Fair Value of Financial Instruments

The fair value amounts of the company's financial instruments have been determined using available market information and valuation methodologies deemed appropriate in the opinion of management. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the company could realize in a current market exchange. The use of different market assumptions and/or estimation assumptions may have a material effect on the estimated fair value amounts.

	Carrying Amount		Estimated Fair Value	
December 31, *(millions)*	**1995**	1994	**1995**	1994
Assets:				
Cash and cash equivalents	**$ 66.7**	$ 146.7	**$ 66.7**	$ 146.7
Trading securities	**10.8**	110.8	**10.8**	110.8
Available-for-sale securities	**285.5**	286.5	**285.5**	286.5
Pollution control project funds	**11.9**	20.3	**11.9**	20.3
Notes receivable	**43.1**	17.1	**43.7**	17.1
Nuclear decommissioning trust funds	**351.4**	260.9	**351.4**	260.9
Liabilities:				
Short-term debt	**$ 236.6**	$ 146.0	**$ 236.6**	$ 146.0
Long-term debt	**5,058.8**	5,134.4	**5,322.4**	4,951.9
Preferred securities of a subsidiary trust	**$ 135.0**		**$ 140.4**	
Preferred stock	**$ 180.0**	$ 222.1	**$ 190.9**	$ 201.5

Cash and Cash Equivalents: The carrying amount of these items is a reasonable estimate of their fair value.

Marketable Securities and Nuclear Decommissioning Trust Funds: The estimated fair value is determined based on quoted market prices, dealer quotes, and prices obtained from independent pricing sources.

Notes Receivable: The carrying value approximates fair value due to the variable rate or term structure of the notes receivable.

Short Term Debt and Long-Term Debt: Market values are used to determine the fair value for debt securities for which a market exists. For debt issues that are not quoted on an exchange, interest rates currently available to the company for issuance of debt with similar terms and remaining maturities are used to estimate fair value. The carrying amount of debt issues with short-term maturities and variable rates that are refinanced at current market rates is a reasonable estimate of their fair value.

Preferred Securities of Subsidiary Trust: The fair value is based on market quotations.

Preferred Stock: The fair value of the fixed-rate preferred stock subject to mandatory redemption was estimated by discounting the dividend and principal payments for a representative issue of each series over the average remaining life of the series.

Note I Long-Term Debt

At December 31, *(millions)*	1995	1994
Virginia Power First and Refunding Mortgage Bonds (1):		
1992 Series A, 6.375%, due 1995		$ 180.0
Series T, 4.5%, due 1995		56.6
Series U, 5.125%, due 1997	**$ 49.3**	49.3
1992 Series B, 7.25%, due 1997	**250.0**	250.0
1988 Series A, 9.375%, due 1998	**150.0**	150.0
1992 Series F, 6.25%, due 1998	**75.0**	75.0
1989 Series B, 8.875%, due 1999	**100.0**	100.0
1993 Series C, 5.875%, due 2000	**135.0**	135.0
1992 Series D, 7.625%, due 2007	**215.0**	215.0
Various series, 6.0-8%, due 2001-2004	**805.0**	805.0
Various series, 5.45%-8.75%, due 2020-2025	**1,144.5**	944.5
Total First and Refunding Mortgage Bonds	**2,923.8**	2,960.4
Other long-term debt:		
Virginia Power:		
Bank loans, notes and term loans, 6.15%-10.8%, due 1995-2003	**762.7**	798.2
Pollution control financings (2):		
Money market municipals, due 2008-2027 (3)	**488.6**	488.6
Dominion Resources:		
Commercial paper (4)	**199.0**	160.0
Total other long-term debt	**1,450.3**	1,446.8
Nonrecourse—Nonutility Debt:		
Dominion Resources:		
Bank loans, 9.25%, due 2008	**21.7**	22.5
Dominion Capital:		
Senior notes, fixed rate, 6.12%-11.875%, due 1996-2005 (5)	**102.0**	102.0
Term notes, fixed rate, 4.6%-12.48%, due 1994-2020	**204.0**	206.0
Revolving credit agreements, due 1994-1998 (6)	**34.6**	61.7
Commercial paper (7)	**90.0**	90.0
Dominion Energy:		
Term loan, 7.22% (1993-10.13%), due 1996 (8)	**68.6**	71.3
Revolving credit agreements, due 1996 (9)	**14.0**	69.5
Term loan, 5.445%, due 1998	**55.0**	75.0
Bank loans, 9.70-13.20%, due 2005	**35.0**	28.8
Bank loans, 4.5%-6.43%, due 1996-2024	**59.8**	0.3
Total nonrecourse—nonutility debt	**684.7**	727.1
Less amounts due within one year:		
First and refunding mortgage bonds		236.6
Bank loans, notes and term loans	**259.6**	75.6
Sinking fund obligations		
Nonrecourse—nonutility	**161.2**	86.9
Total amount due within one year	**420.8**	399.1
Less unamortized discount, net of premium	**26.1**	24.6
Total long-term debt	**$4,611.9**	$4,710.6

(1) Substantially all of Virginia Power's property is subject to the lien of the mortgage securing its First and Refunding Mortgage Bonds.
(2) Certain pollution control equipment at Virginia Power's generating facilities has been pledged or conveyed to secure these financings.
(3) Interest rates vary based on short-term tax-exempt market rates. The weighted average daily interest rates were 3.89% and 2.96% for 1995 and 1994, respectively.
(4) See Note F to the Consolidated Financial Statements.
(5) The Rincon Securities common stock owned by Dominion Capital is pledged as collateral to secure the loan.
(6) The weighted average interest rates during 1995 and 1994 were 6.76% and 5.19%, respectively.
(7) The weighted average interest rates during 1995 and 1994 were 5.91% and 4.27%, respectively.
(8) The Enron/Dominion Cogen Corp. common stock owned by Dominion Energy is pledged as collateral to secure the loan.
(9) The weighted average interest rates during 1995 and 1994 were 6.04% and 4.72%, respectively.

On February 8, 1996, Dominion Energy established a $400 million revolving credit facility through ABN AMRO North America, Inc. The interest rate is variable and is presently set at LIBOR plus ¼. Proceeds from the revolver were used to retire a $55 million term loan on February 15, 1996. In addition, a $100 million revolving credit agreement was canceled by the company on February 8, 1996.

Maturities (including cash sinking fund obligations) through 2000 are as follows (in millions): 1996-$420.8; 1997-$459.1; 1998-$481.2; 1999-$275.3; and 2000-$260.4.

Note J Common stock

During 1995 the company purchased on the open market and retired 685,500 shares of common stock for an aggregate price of $24.8 million. From 1993 through 1995, the following changes in common stock occurred:

	1995		1994		1993	
(millions)	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	Amount
Balance at January 1	**172.4**	**$3,157.6**	168.1	$2,991.0	163.8	$2,796.3
Changes due to:						
Automatic Dividend Reinvestment and Stock Purchase Plan	**2.9**	**107.6**	2.9	112.2	2.6	115.3
Stock Purchase Plan for Customers of Virginia Power	**1.4**	**45.8**	1.3	51.3	1.0	51.6
Employee Savings Plan	**.2**	**8.3**	.6	23.2	.7	29.7
Stock repurchase and retirement	**(.7)**	**(24.8)**	(.6)	(20.7)		
Other	**.2**	**9.0**	.1	.6		(1.9)
Balance at December 31	**176.4**	**$3,303.5**	172.4	$3,157.6	168.1	$2,991.0

Note K Long-term incentive plan

A long-term incentive plan (the Plan) provides for the granting of nonqualified stock options and restricted stock to certain employees of Dominion Resources and its affiliates. The aggregate number of shares of common stock that may be issued pursuant to the Plan is 3,750,000. The changes in share and option awards under the Plan were as follows:

	Restricted Shares	Price Per Share	Stock Options	Option Price	Shares Exercisable
Balance at December 31, 1992	17,024		14,706		14,706
Awards granted—1993	19,457	$41.875–$42.75			
Exercised/distributed	(9,582)		(2,242)	$27.75–$29.625	
Balance at December 31, 1993	26,899		12,464		12,464
Awards granted—1994	19,842	$40.625–$40.875			
Exercised/distributed	(5,555)		(1,388)	$29.625	
Balance at December 31, 1994	41,186		11,076		11,076
Awards granted—1995	25,320	$37.625			
Exercised/distributed	(21,576)				
Balance at December 31, 1995	**44,930**		**11,076**		**11,076**

Note L Virginia Power Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust

In 1995, Virginia Power established Virginia Power Capital Trust I (VP Capital Trust). VP Capital Trust sold 5,400,000 shares of Preferred Securities for $135 million, representing preferred beneficial interests and 97 percent beneficial ownership in the assets held by VP Capital Trust.

Virginia Power issued $139.2 million of its 1995 Series A, 8.05 percent Junior Subordinated Notes (the Notes) in exchange for the $135 million realized from the sale of the Preferred Securities and $4.2 million of common securities of VP Capital Trust. The common securities represent the remaining 3 percent beneficial ownership interest in the assets held by VP Capital Trust. The Notes constitute 100 percent of VP Capital Trust's assets.

The Notes are due September 30, 2025, but may be extended up to an additional ten years, subject to satisfying certain conditions. However, Virginia Power may redeem the Notes on or after September 30, 2000, under certain circumstances. The Preferred Securities are subject to mandatory redemption upon repayment of the Notes at maturity or earlier redemption. At redemption, each Preferred Security shall be entitled to receive a liquidation amount of $25 plus accrued and unpaid distributions, including any interest thereon.

Note M Preferred Stock

Dominion Resources is authorized to issue up to 20,000,000 shares of preferred stock; however, no such shares are issued and outstanding.

Virginia Power has authorized 10,000,000 shares of preferred stock, $100 liquidation preference. Upon voluntary liquidation, each share is entitled to receive $100 plus accrued dividends. Dividends are cumulative. Virginia Power preferred stock subject to mandatory redemption at December 31, 1995 was as follows:

Series	Shares Outstanding
$5.58	400,000(1)(2)
6.35	1,400,000(1)(3)
Total	**1,800,000**

(1) Shares are non-callable prior to redemption.
(2) All shares to be redeemed on 3/1/00.
(3) All shares to be redeemed on 9/1/00.

During the years 1993 through 1995, the following shares were redeemed:

Year	Dividend	Shares
1995	$7.30	417,319
1994	7.30	37,681
1993	7.30	30,000
1993	7.58	480,000
1993	7.325	400,419

At December 31, 1995 Virginia Power preferred stock not subject to mandatory redemption, $100 liquidation preference, is listed in the table below.

Dividend	Issued and Outstanding Shares	Entitled Per Share Upon Redemption
$5.00	106,677	$112.50
4.04	12,926	102.27
4.20	14,797	102.50
4.12	32,534	103.73
4.80	73,206	101.00
7.05	500,000	105.00(1)
6.98	600,000	105.00(2)
MMP 1/87 series (3)	500,000	100.00
MMP 6/87 series (3)	750,000	100.00
MMP 10/88 series (3)	750,000	100.00
MMP 6/89 series (3)	750,000	100.00
MMP 9/92A (3)	500,000	100.00
MMP 9/92B (3)	500,000	100.00
Total	**5,090,140**	

(1) Through 7/31/03 and thereafter to amounts declining in steps to $100.00 after 7/31/13.
(2) Through 8/31/03 and thereafter to amounts declining in steps to $100.00 after 8/31/13.
(3) Money Market Preferred (MMP) dividend rates are variable and are set every 49 days via an auction. The weighted average rates for these series in 1995, 1994 and 1993, including fees for broker/dealer agreements, were 4.93%, 3.75%, and 3.01%, respectively.

During the years 1993 through 1995, the following shares were redeemed:

Year	Dividend	Shares
1995	$7.45	400,000
1995	7.20	450,000
1993	7.72	350,000
1993 (1972 series)	7.72	500,000

Note N Retirement Plan, Postretirement Benefits and Other Benefits

Retirement Plan: Dominion Resources' Retirement Plan (the Plan) covers virtually all employees of Dominion Resources and its subsidiaries. The benefits are based on years of service and the employee's compensation. Dominion Resources' funding policy is to contribute annually an amount that is in accordance with the provisions of the Employment Retirement Income Security Act of 1974.

The components of the provision for net periodic pension expense were as follows:

(millions)	**1995**	1994	1993
Service cost—benefits earned during the year	**$ 23.4**	$ 24.6	$ 21.9
Interest cost on projected benefit obligation	**54.9**	46.3	46.3
Actual return on plan assets	**(56.7)**	(51.3)	(49.3)
Net amortization and deferral	**(0.7)**	0.1	(2.6)
Net periodic pension cost	**$ 20.9**	$ 19.7	$ 16.3

The following table sets forth the Plan's funded status:

(millions)	**1995**	1994
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefit of 1995–$540.2 and 1994–$480.9	**$607.4**	$577.5
Projected benefit obligation for service rendered to date	**$767.0**	$678.4
Plan assets at fair value, primarily listed stocks and U.S. bonds	**763.6**	588.1
Plan assets in excess of projected benefit obligation	**(3.4)**	(90.3)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	**35.7**	102.8
Unrecognized prior service cost	**5.3**	5.9
Unrecognized net asset at January 1, being recognized over 16 years beginning in 1986	**(25.1)**	(28.5)
Prepaid (accrued) pension cost included in other assets (liabilities)	**$ 12.5**	$ (10.1)

Significant assumptions used in determining net periodic pension cost and the projected benefit obligation were:

As of December 31,	**1995**	1994
Discount rates	**8.00%**	8.25%
Rates of increase in compensation levels	**5%**	5%
Expected long-term rate of return	**9.5%**	9.5%

Postretirement Benefits: Dominion Resources and its subsidiaries provide retiree health care and life insurance benefits through insurance companies with annual premiums based on benefits paid during the year. From time to time in the past, Dominion Resources and its subsidiaries have changed benefits. Some of these changes have reduced benefits. Under the terms of their benefits plans, the companies reserve the right to change, modify or terminate the plans.

Net periodic postretirement benefit expense for 1995 and 1994 was as follows:

Year ending December 31, *(millions)*	**1995**	1994
Service cost	**$ 8.9**	$11.2
Interest cost	**21.9**	21.8
Return on plan assets	**(6.1)**	0.9
Amortization of transition obligation	**12.1**	12.1
Net amortization and deferral	**0.1**	(4.1)
Net periodic postretirement benefit expense	**$36.9**	$41.9

The following table sets forth the funded status of the plan:

December 31, *(millions)*	**1995**	1994
Fair value of plan assets	**$ 96.3**	$ 59.7
Accumulated postretirement benefit obligation:		
Retirees	**$ 211.4**	$ 208.7
Active plan participants	**99.2**	93.9
Accumulated postretirement benefit obligation	**310.6**	302.6
Accumulated postretirement benefit obligation in excess of plan assets	**(214.3)**	(242.9)
Unrecognized transition obligation	**206.2**	218.3
Unrecognized net experience gain	**8.6**	16.9
Prepaid (accrued) postretirement benefit cost	**$ 0.5**	$ (7.7)

A one percent increase in the health care cost trend rate would result in an increase of $3.5 million in the service and interest cost components and a $37.2 million increase in the accumulated postretirement benefit obligation.

Significant assumptions used in determining the postretirement benefit obligation were:

	1995	1994
Discount rates	**8.0%**	8.25%
Assumed return on plan assets	**9.0%**	9.0%
Medical cost trend rate	**9% for first year 8% for second year Scaling down to 4.75% beginning in the year 2001**	10% for first year 9% for second year Scaling down to 4.75% beginning in the year 2001

Virginia Power is recovering these costs in rates on an accrual basis in all material respects, in all jurisdictions. Current and future rate recoveries of OPEB accruals are expected to collect sufficient amounts to provide for the unfunded accumulated postretirement obligation over time.

The funds being collected for OPEB accrual in rates, in excess of OPEB benefits actually paid during the year, are contributed to external benefit trusts under Virginia Power's current funding policy.

Other Benefits: In 1994, Virginia Power offered an early retirement program to employees aged 50 or older and offered a voluntary separation program to all regular full-time employees. Approximately 1,400 employees accepted offers under these programs. The costs associated with these programs were $90.1 million. Virginia Power capitalized $25.9 million based upon regulatory precedent and expensed $64.2 million.

Note O Restructuring

In March 1995, Virginia Power announced the implementation phase of its Vision 2000 program. During this phase, Virginia Power began reviewing operations with the objective of outsourcing services where economical and appropriate, and re-engineering the remaining functions to streamline operations. The re-engineering process is resulting in outsourcing, decentralization, reorganization and downsizing for portions of Virginia Power's operations. As part of this process, Virginia Power is reevaluating its utilization of capital resources in its operations to identify further opportunities for operational efficiencies through outsourcing or re-engineering of its processes.

In 1995, restructuring charges of $121.5 million contain $117.9 million of Virginia Power's restructuring charges which included severance costs, purchased power contract cancellation and negotiated settlement costs, capital project cancellation costs, and other costs incurred directly as a result of the Vision 2000 initiatives. The Vision 2000 review of operations is expected to continue through 1996. At this time, Virginia Power management cannot estimate the restructuring costs yet to be incurred.

In May 1995, Virginia Power established a comprehensive involuntary severance package for salaried employees who lose their positions as a result of these initiatives. Virginia Power is recognizing the cost associated with employee terminations in accordance with Emerging Issues Task Force Consensus No. 94-3 as management identifies the positions to be eliminated. Severance payments will be made over a period not to exceed twenty months. Through December 31, 1995, management had decided to eliminate 1,018 positions. The recognition of severance costs resulted in a charge to operations in 1995 of $51.2 million. At December 31, 1995, 507 employees have been terminated and severance payments totaling $8.7 million have been paid. Virginia Power estimates that these staffing reductions will result in annual savings, net of outsourcing costs, in the range of $50 million to $60 million. These savings will be reflected in lower construction expenditures as well as lower operation and maintenance expenses.

In an effort to minimize its exposure to potential stranded investment, Virginia Power is evaluating its long-term purchased power contracts and negotiating modifications to their terms, including cancellations, where it is determined to be economically advantageous to do so. Virginia Power also negotiated settlements with several other parties to terminate their rights to sell power to Virginia Power. The cost of contract cancellations and negotiated settlements was $8.1 million in 1995. Based on contract terms and estimated quantities of power that would have otherwise been delivered, the cancellation of these contracts and rights to sell power to Virginia Power has the effect of reducing Virginia Power's future purchased power costs, including energy payments, by up to $214 million annually. The cost of alternative sources of power that might ultimately be required as a result of these settlements are expected to be significantly less than $214 million.

Restructuring charges reported in 1995 included $37.3 million for the cancellation of a project to construct a facility to handle low level radioactive waste at Virginia Power's North Anna Power Station. As a result of reevaluating the handling of low level radioactive waste, Virginia Power concluded that the facility should not be completed due to the additional capital investment required, decreased Virginia Power volumes of low level radioactive waste resulting from improvements in station procedures and the availability of more economical offsite processing.

As a regulated utility, Virginia Power provides service to its customers at rates based on its cost of operations and an opportunity to earn a return on its shareholder's investment. From time to time, Virginia Power reviews its cost of providing regulated services and files such information with certain regulatory commissions having jurisdiction. Virginia Power or the regulatory commissions may initiate proceedings to review rates charged to Virginia Power jurisdictional customers. The incurrence of restructuring charges and the savings resulting therefrom in subsequent periods are elements of Virginia Power's cost of operations. Accordingly, Vision 2000 costs and related savings will be considered in any future review of Virginia Power's overall regulatory cost of service.

Note P Commitments and Contingencies

As the result of issues generated in the course of daily business, the company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies. While some of the proceedings involve substantial amounts of money, management believes that the final disposition of these proceedings will not have an adverse material effect on operations or the financial position of the company.

Virginia Power

Federal Energy Regulatory Commission Audit: The Federal Energy Regulatory Commission (FERC) has recently conducted a compliance audit of Virginia Power's financial statements for the years 1990 to 1994. Virginia Power has received a preliminary draft of the audit report in which certain compliance exceptions were noted. Virginia Power has supplied information to the FERC staff relating to these preliminary exceptions, but no final audit report has been issued. Based on information available at this time, the disposition of these issues is not expected to have a significant effect on Virginia Power's financial position or results of operations.

Construction Program: Virginia Power has made substantial commitments in connection with its construction program and nuclear fuel expenditures, which are estimated to total $569.3 million (excluding AFC) for 1996. Additional financing is contemplated in connection with this program.

Purchased Power Contracts: Since 1984, Virginia Power has entered into contracts for the long-term purchase of capacity and energy from other utilities, qualifying facilities and independent power producers. As of December 31, 1995, there were 67 nonutility generating facilities under contract to provide Virginia Power 3,493 megawatts of dependable summer capacity. Of these, 66 projects (aggregating 3,295 megawatts) were operational at the end of 1995, with the remaining project to become operational before 1998. The following table shows the minimum payments expected to be made under these contracts. The totals include payments for capacity, which are subject to generating performance as provided by the contracts, and payments for the minimum amounts of energy Virginia Power is obligated to buy and the producers provide.

	Commitments	
(millions)	Capacity	Other
1996	$ 738.3	$ 207.4
1997	784.7	213.2
1998	788.8	219.8
1999	791.6	224.2
2000	707.4	163.6
After 2000	11,106.3	1,200.9
Total	**$14,917.1**	**$2,229.1**
Present value of the total	**$ 6,860.7**	**$1,243.4**

In addition to the commitments listed above, under some contracts, Virginia Power may purchase, at its option, additional power as needed. Payments for purchased power (including economy, emergency, limited-term, short-term, and long-term purchases) for the years 1995, 1994 and 1993 were $1,093 million, $1,025 million and $958 million, respectively.

Fuel Purchase Commitments: Virginia Power's estimated fuel purchase commitments for the next five years for system generation are as follows: 1996–$348 million; 1997–$319 million; 1998–$205 million; 1999–$137 million; and 2000–$151 million.

Environmental Matters: Environmental costs have been historically recovered through the ratemaking process; however, should material costs be incurred and not recovered through rates, Virginia Power's results of operations and financial condition could be adversely impacted.

The EPA has identified Virginia Power and several other entities as Potentially Responsible Parties (PRPs) at two Superfund sites located in Kentucky and Pennsylvania. The estimated future remediation costs for the sites are in the range of $46.5 million to $134.6 million. Virginia Power's proportionate share of the costs is expected to be in the range of $0.5 million to $6.7 million, based upon allocation formulas and the volume of waste shipped to the sites. As of December 31, 1995, Virginia Power accrued a reserve of $1.4 million to meet its obligations at these two sites.

Based on a financial assessment of the PRPs involved at these sites, Virginia Power has determined that it is probable that the PRPs will fully pay the costs apportioned to them.

Virginia Power and Dominion Resources along with Consolidated Natural Gas have remedial action responsibilities remaining at two coal tar sites. Virginia Power and Dominion Resources have accrued a $2 million reserve to meet their estimated liability based on site studies and investigations performed at these sites. In addition, on December 13, 1995, a civil action was instituted against the City of Norfolk and Virginia Power by a landowner who alleges that his property has been contaminated by toxic pollutants originating from one of these sites, which is now owned by the City of Norfolk. The plaintiff seeks compensatory damages of $10 million and punitive damages of $5 million from Virginia Power. The Company filed its answer denying liability on January 10, 1996.

Virginia Power generally seeks to recover its costs associated with environmental remediation from third party insurers. At December 31, 1995 pending claims were not recognized as an asset or offset against recorded obligations.

Nuclear Insurance: The Price-Anderson Act limits the public liability of an owner of a nuclear power plant to $8.9 billion for a single nuclear incident. The Price Anderson Amendments Act of 1988 allows for an inflationary provision adjustment every five years. Virginia Power has purchased $200 million of coverage from commercial insurance pools with the remainder provided through a mandatory industry risk-sharing program. In the event of a nuclear incident at any licensed nuclear reactor in the United States, Virginia Power could be assessed up to $81.7 million (including a 3 percent insurance premium tax for Virginia) for each of its four licensed reactors not to exceed $10.3 million (including a 3 percent insurance premium tax for Virginia) per year per reactor. There is no limit to the number of incidents for which this retrospective premium can be assessed.

Nuclear liability coverage for claims made by nuclear workers first hired on or after January 1, 1988, except those arising out of an extraordinary nuclear occurrence, is provided under the Master Worker insurance program. (Those first hired into the nuclear industry prior to January 1, 1988 are covered by the policy discussed above.) The aggregate limit of coverage for the industry is $400 million ($200 million policy limit with automatic reinstatements of an additional $200 million). Virginia Power's maximum retrospective assessment is approximately $12.5 million (including a 3 percent insurance premium tax for Virginia).

Virginia Power's current level of property insurance coverage ($2.55 billion for North Anna and $2.4 billion for Surry) exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per reactor site, and includes coverage for premature decommissioning and functional total loss. The NRC requires that the proceeds from this insurance be used first to return the reactor to and maintain it in a safe and stable condition, and second to decontaminate the reactor and station site in accordance with a plan approved by the NRC. Virginia Power's nuclear property insurance is provided by Nuclear Mutual Limited (NML) and Nuclear Electric Insurance Limited (NEIL), two mutual insurance companies, and is subject to retrospective premium assessments in any policy year in which losses exceed the funds available to these insurance companies. The maximum assessment at the first incident of the current policy period is $42.7 million. The maximum assessment related to a second incident is an additional $15.4 million. Based on the severity of the incident, the boards of directors of Virginia Power's nuclear insurers have the discretion to lower the maximum retrospective premium assessment or eliminate either or both completely. For any losses that exceed the limits, or for which insurance proceeds are not available because they must first be used for stabilization and decontamination, Virginia Power has the financial responsibility.

Virginia Power purchases insurance from NEIL to cover the cost of replacement power during the prolonged outage of a nuclear unit due to direct physical damage of the unit. Under this program, Virginia Power is subject to a retrospective premium assessment for any policy year in which losses exceed funds available to NEIL. The current policy period's maximum assessment is $9 million.

As a joint owner of the North Anna Power Station, ODEC is responsible for its proportionate share (11.6 percent) of the insurance premiums applicable to that station, including any retrospective premium assessments and any losses not covered by insurance.

Dominion Resources

Under the terms of an investment agreement, Dominion Resources must provide contingent equity support to Dominion Energy in the amount of $56.5 million. Management believes the possibility of such support to Dominion Energy is remote.

Dominion Energy

Dominion Energy has general partnership interests in certain of its energy ventures. Accordingly, Dominion Energy may be called upon to fund future operation of these investments to the extent operating cash flow is insufficient.

Note Q Quarterly Financial and Common Stock Data (Unaudited)

The following amounts reflect all adjustments, consisting of only normal recurring accruals (except as disclosed below), necessary in the opinion of Dominion Resources' management for a fair statement of the results for the interim periods.

Quarterly Financial and Common Stock Data—Unaudited

(in millions, except per share amounts)	**1995**	1994
Revenues		
First Quarter	**$1,129.3**	$1,167.0
Second Quarter	**1,042.8**	1,109.7
Third Quarter	**1,345.0**	1,209.8
Fourth Quarter	**1,134.6**	1,004.6
Year	**$4,651.7**	$4,491.1
Income before provision for Federal Income Taxes		
First Quarter	**$ 151.9**	$ 197.5
Second Quarter	**107.3**	188.9
Third Quarter	**295.1**	234.5
Fourth Quarter	**52.8**	28.3
Year	**$ 607.1**	$ 649.2
Net Income		
First Quarter	**$ 108.5**	$ 141.4
Second Quarter	**78.1**	136.2
Third Quarter	**197.9**	161.3
Fourth Quarter	**40.5**	39.3
Year	**$ 425.0**	$ 478.2
Earnings Per Share		
First Quarter	**$ 0.63**	$ 0.84
Second Quarter	**0.45**	0.80
Third Quarter	**1.14**	0.94
Fourth Quarter	**0.23**	0.23
Year	**$ 2.45**	$ 2.81
Dividends Per Share		
First Quarter	**$ 0.645**	$ 0.635
Second Quarter	**0.645**	0.635
Third Quarter	**0.645**	0.635
Fourth Quarter	**0.645**	0.645
Year	**$ 2.58**	$ 2.55
Stock Price Range		
First Quarter	**39¼-35½**	45⅜-39⅝
Second Quarter	**38⅝-35⅞**	42½-35⅞
Third Quarter	**37⅞-34⅞**	38⅜-34⅞
Fourth Quarter	**41⅝-37⅝**	38⅛-35⅛
Year	**41⅝-34⅞**	45⅜-34⅞

As part of the Vision 2000 program (see Note O), Virginia Power recorded $117.9 million of restructuring charges in 1995. Restructuring charges included severance costs, purchase power contract cancellation and negotiated settlement costs, capital project cancellation costs, and other costs incurred directly as a result of the Vision 2000 initiatives. Virginia Power expensed $3.5 million, $1.8 million, $30.6 million and $82 million during the first, second, third and fourth quarters, respectively. The impact of the write-off reduced net income by $2.3 million, $1.1 million, $19.9 million and $53.3 million for the first, second, third, and fourth quarters, respectively.

In the fourth quarter of 1995, Dominion Resources incurred at the holding company restructuring expenses amounting to $3.6 million and other charges amounting to $8.8 million. The other charges included litigation costs which were incurred to resolve the shareholder claims made in 1994. The impact of the restructuring expenses reduced net income by $2.3 million and the other charges reduced net income by $5.8 million.

During December 1995, Dominion Energy settled certain outstanding disputes with a supplier and renegotiated the terms of related long term supply contracts. As a result, the fourth quarter earnings include gains from these changes which total $6.2 million, net of tax.

In June 1995, Dominion Resources Black Warrior Trust units were sold to third parties amounting to a gain of $5.4 million, net of tax. These were the remaining ownership units of a trust established in June 1994 when Dominion Energy transferred from Dominion Black Warrior Basin to Dominion Resources Black Warrior Trust a 65 percent overriding royalty interest in coal seam gas properties.

In 1994, Virginia Power offered an early retirement program to employees aged 50 or older and offered a voluntary separation program to all regular full-time employees. Approximately 1,400 employees accepted offers under these programs. The costs associated with these programs were $90.1 million. Virginia Power capitalized $25.9 million to construction work in progress based upon regulatory precedent and expensed $2.8 million, $10.4 million and $51 million during the second, third and fourth quarters, respectively. The impact of the write-off was to reduce net income by $1.8 million, $6.7 million and $33.1 million for the second, third and fourth quarters, respectively.

On June 28, 1994, Dominion Energy transferred a 65% overriding royalty interest in coal seam gas properties then owned by Dominion Black Warrior Basin, a wholly owned subsidiary of Dominion Energy, to Dominion Resources Black Warrior Trust, which is sponsored by Dominion Resources. Units in the trust were sold in the second quarter to third parties, culminating in a gain of $28.9 million, net of tax. Total federal and state taxes for this transaction amounted to $20.1 million.

Report of Management's Responsibilities

The management of Dominion Resources, Inc. is responsible for all information and representations contained in the Consolidated Financial Statements and other sections of the annual report. The Consolidated Financial Statements, which include amounts based on estimates and judgments of management, have been prepared in conformity with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the Consolidated Financial Statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that Dominion Resources' and its subsidiaries' assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed and recorded in accordance with established procedures. Management recognizes the inherent limitations of any system of internal accounting control, and therefore cannot provide absolute assurance that the objectives of the established internal accounting controls will be met.

This system includes written policies, an organizational structure designed to ensure appropriate segregation of responsibilities, careful selection and training of qualified personnel, and internal audits. Management believes that during 1995 the system of internal control was adequate to accomplish the intended objectives.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, independent auditors, whose designation by the Board of Directors was ratified by the shareholders. Their audits were conducted in accordance with generally accepted auditing standards and include a review of Dominion Resources' and its subsidiaries' accounting systems, procedures and internal controls, and the performance of tests and other auditing procedures sufficient to provide reasonable assurance that the Consolidated Financial Statements are not materially misleading and do not contain material errors.

The Audit Committees of the Boards of Directors, composed entirely of directors who are not officers or employees of Dominion Resources or its subsidiaries, meet periodically with independent auditors, the internal auditors and management to discuss auditing, internal accounting control and financial reporting matters and to ensure that each is properly discharged. Both independent auditors and the internal auditors periodically meet alone with the Audit Committees and have free access to the Committees at any time.

Management recognizes its responsibility for fostering a strong ethical climate so that Dominion Resources' affairs are conducted according to the highest standards of personal corporate conduct. This responsibility is characterized and reflected in Dominion Resources' Code of Ethics, which addresses potential conflicts of interest, compliance with all domestic and foreign laws, the confidentiality of proprietary information, and full disclosure of public information.

Dominion Resources, Inc.

Thos. E. Capps

Thos. E. Capps
Chairman, President and
Chief Executive Officer

James L. Trueheart

James L. Trueheart
Vice President and Controller

Report of Independent Auditors

To the Shareholders and Board of Directors of Dominion Resources, Inc.

We have audited the accompanying consolidated balance sheets of Dominion Resources, Inc. and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income and retained earnings and of cash flows for each of the three years in the period ended December 31, 1995. These Consolidated Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of Dominion Resources, Inc. and subsidiaries as of December 31, 1995 and 1994 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Richmond, Virginia
February 2, 1996

Deloitte & Touche LLP

Directors and Officers

Outside Directors

4 5

John B. Adams, Jr., 51 (DRI/VP)
President & Chief Executive Officer of The Bowman Companies, manufacturer and bottler of alcoholic beverages, Fredericksburg, Virginia. Chairman of the Board of Virginia Power. Director since 1987.

Tyndall L. Baucom, 54 (DRI/VP/DEI/DCI)
Retired President & Chief Operating Officer of Dominion Resources. Director since 1994.

2 4

John B. Bernhardt, 66 (DRI/DCI)
Managing Director, Bernhardt/Gibson Financial Opportunities financial services, Newport News, Virginia. Director since 1981.

2 3

James F. Betts, 63 (VP)
Management Consultant, Richmond, Virginia. Director since 1978.

2 4

Kenneth A. Randall, 68 (DRI/DEI)
Corporate director for various financial companies, Williamsburg, Virginia. Director since 1971.

2 3 1 3 4

William T. Roos, 68 (DRI/VP/DCI)
Retired President of Penn Luggage, Inc., retail specialty stores, Hampton, Virginia. Director since 1975.

1 3 4

Frank S. Royal, M.D., 56 (DRI/DCI)
Physician, Richmond, Virginia. Director since 1994.

1 2

Judith B. Sack, 47 (DRI/DEI)
Senior Adviser, Morgan Stanley & Co., Inc., an investment banking firm, New York, New York. Director since 1989.

Inside Directors

Thos. E. Capps, 60 (DRI/DEI/DCI)
Chairman of the Board, President & Chief Executive Officer of Dominion Resources. Director since 1986.
11 years of service.

James T. Rhodes, 54 (VP)
President & Chief Executive Officer of Virginia Power. Director since 1989.
24 years of service.

Nonutility Presidents

Thomas N. Chewning, 50
President of Dominion Energy & Senior Vice President of Dominion Resources.
8 years of service.

David L. Heavenridge, 49
President of Dominion Capital & Senior Vice President of Dominion Resources.
21 years of service.

Dominion Resources Officers

Paul J. Bonavia, 44
Senior Vice President–Corporate
4 years of service.

Linwood R. Robertson, 56
Senior Vice President–Finance, Treasurer, Corporate Secretary & Chief Financial Officer.
26 years of service.

Thomas F. Farrell, II, 41
Vice President & General Counsel.
1 year of service.

Donald T. Herrick, Jr., 52
Vice President.
25 years of service.

Elizabeth A. Martin, 36
Vice President–Planning & Investment Analysis.
3 years of service.

Everard Munsey, 62
Vice President–Public Policy.
14 years of service.

James L. Trueheart, 44
Vice President & Controller.
18 years of service.

Virginia Power Officers

Robert E. Rigsby, 46
Executive Vice President.
24 years of service.

William R. Cartwright, 53
Senior Vice President–Fossil & Hydro.
30 years of service.

Larry W. Ellis, 55
Senior Vice President–Energy Services.
34 years of service.

Larry M. Girvin, 52
Senior Vice President–Commercial Operations.
25 years of service.

John W. Harris, 48 (DCI)
President, The Harris Group, a consulting & real estate development firm, Charlotte, North Carolina.
Director since 1994.

1 1 2

Benjamin J. Lambert, III, 59 (DRI/VP)
Optometrist, Richmond, Virginia.
Director since 1992.

1 2 4

Richard L. Leatherwood, 56 (DRI/VP/DEI)
Retired, Baltimore, Maryland.
Director since 1994.

1 3 1 3

Harvey L. Lindsay, Jr., 66 (DRI/VP)
Chairman & Chief Executive Officer, Harvey Lindsay Commercial Real Estate, Norfolk, Virginia.
Director since 1986.

1

S. Dallas Simmons, 56 (DRI/DCI)
President, Virginia Union University, Richmond, Virginia.
Director since 1992.

3 4 2 3

Robert H. Spilman, 68 (DRI/VP/DEI)
Chairman & Chief Executive Officer, Bassett Furniture Industries, Inc., Bassett, Virginia.
Director since 1994.

2 4

William G. Thomas, 56 (VP)
President, Hazel & Thomas, a law firm, Alexandria, Virginia.
Director since 1987.

David A. Wollard, 58 (DCI)
President, Bank One Colorado, N.A., Denver, Colorado.
Director since 1994.

Companies:

DRI *Dominion Resources*
VP *Virginia Power*
DEI *Dominion Energy*
DCI *Dominion Capital*

Dominion Resources Committees:

1 *Audit*
2 *Finance*
3 *Nominating*
4 *Organization & Compensation*

Virginia Power Committees:

1 *Audit*
2 *Finance*
3 *Nominating*
4 *Organization & Compensation*
5 *Ex Officio, All Committees*

James P. O'Hanlon, 52
Senior Vice President–Nuclear.
6 years of service.

Edgar M. Roach, Jr., 47
Senior Vice President–Finance & Regulation and General Counsel.
2 years of service.

Charles A. Brown, 53
Vice President–Central Division.
13 years of service.

Thomas L. Caviness, Jr., 50
Vice President–Retail Energy Services.
27 years of service.

J. Kennerly Davis, Jr., 50
Vice President–Finance & Administrative Services, Treasurer & Corporate Secretary, 14 years of service.

James T. Earwood, Jr., 52
Vice President–Energy Efficiency & Division Services.
29 years of service.

Thomas A. Hyman, Jr., 44
Vice President–Eastern Division & North Carolina Power.
23 years of service.

Michael R. Kansler, 41
Vice President–Nuclear Engineering & Services.
18 years of service.

William S. Mistr, 48
Vice President–Information Technology.
26 years of service.

F. Kenneth Moore, 54
Vice President–Fossil & Hydro Services.
28 years of service.

Thomas J. O'Neil, 53
Vice President–Human Resources.
30 years of service.

Robert F. Saunders, 52
Vice President–Nuclear Operations.
20 years of service.

Johnny V. Shenal, 50
Vice President–Northern & Western Divisions. 26 years of service.

Eva S. Teig, 51
Vice President–Public Affairs.
6 years of service.

Shareholder Information

Shareholder Inquiries
Shareholders can reach us 24 hours a day.

Shareholder Administration
1-800-552-4034 (callers anywhere in the U.S.)
775-2500 (callers in Richmond, Virginia)

Our automated telephone system offers the following information:
—Stock price
—Dividend price
—Our mailing address
—Transfer agent's address
—Dividend reinvestment plan information
—Transfer instructions
—Replacement of lost certificates

If you call between 9:00 a.m. and 4:00 p.m. (EST or EDT) Monday through Friday, a representative can assist you directly if you press "0" after hearing the stock price. If you press "0" for a representative, please have your Social Security number or account code ready. We cannot give information about a shareholder's account to a third party without the shareholder's prior approval or appropriate documents.

If you prefer, you may write Shareholder Administration at our mailing address:

Dominion Resources, Inc.
P.O. Box 26532
Richmond, Virginia 23261-6532

Common Stock Listing
New York Stock Exchange
Trading symbol: D
Newspaper listing: DominRes, DomRs

Common Stock Price Range

	1995		1994	
	High	**Low**	High	Low
First Quarter	**39¼**	**35½**	45⅜	39⅝
Second Quarter	**38⅝**	**35⅞**	42½	35⅛
Third Quarter	**37⅞**	**34⅞**	38⅜	34⅛
Fourth Quarter	**41⅝**	**37⅝**	38⅛	35⅛
Year	**41⅝**	**34⅞**	45⅜	34⅛

Where to Buy Stock
Dominion Resources common stock may be purchased through a brokerage firm. Individuals who do not have access to a stockbroker may consider consulting a bank for assistance. Common shareholders of record may purchase common stock through the Dominion Resources automatic dividend reinvestment and stock purchase plan. (Please refer to "Dividend Reinvestment Plan" in the next column for details.)

Dividend Reinvestment Plan
Dominion Resources provides holders of common stock a convenient means of purchasing additional shares of the company's common stock by reinvesting all or a portion of their quarterly dividends and by making optional cash investments. An automatic dividend reinvestment and stock purchase plan prospectus and an enrollment card are automatically mailed to all new shareholders of record. These materials can also be obtained by contacting the Shareholder Administration Department.

This plan also permits beneficial owners of Dominion Resources common stock to make optional cash investments. (Please refer to "Beneficial Owners" at the bottom of this column.)

Dividends

Dividends per share	1995	1994
First Quarter	**$0.645**	$0.635
Second Quarter	**0.645**	0.635
Third Quarter	**0.645**	0.635
Fourth Quarter	**0.645**	0.645
Year	**$2.58**	$2.55

Cash dividends on Dominion Resources common stock are paid as declared by the Board of Directors. Dividends are typically paid on the 20th day of March, June, September and December.

If you do not receive your dividend check within 10 business days after the payment date, or if your check is lost or destroyed, please notify Shareholder Administration for a replacement. Checks should be deposited or cashed promptly.

Address Changes
It is important that we have your current address on file so that you do not become a "lost" shareholder. Please contact Shareholder Administration promptly with any address changes.

Beneficial Owners
When you purchase stock and it is held for you by your broker, it may be listed with the company in the broker's name, also known as the "street name." This qualifies you as a beneficial owner. If you are a beneficial owner, you will receive all dividend payments, annual reports and proxy materials through your broker.

Transfer Agent and Registrar
Chemical Mellon Shareholder Services
85 Challenger Road
Ridgefield, New Jersey 07660-2104

Consolidating Multiple Accounts
Multiple accounts for shareholders exist when:
—A shareholder owns stock in variations of the same name (for example, John E. Smith and John Edward Smith), or
—A shareholder owns stock in his or her name alone but also owns stock with another shareholder.

When such multiple accounts exist, the company is required by law to create a separate account for each name and to mail separate dividend checks and proxy material for each account. To consolidate any multiple accounts, please contact Dominion Resources for instructions.

Sale or issuance of stock
If you want to sell certificate shares of Dominion Resources common stock, you must provide the stock certificates and a Letter of Transmittal and Sale of Shares Request card, which we will provide. Or you may write a letter of instruction listing the certificate numbers and requesting sale of the shares. All owners must have their signatures medallion guaranteed on the Letter of Transmittal or personal letter.

Another option would be to take the certificates to a stockbroker to sell for you.

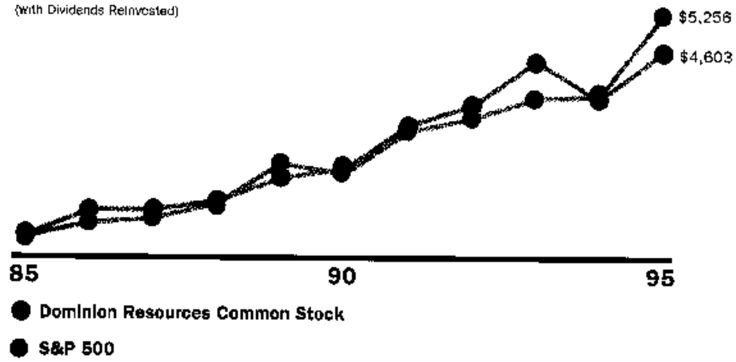
To sell shares held in the dividend reinvestment plan or to have stock certificates issued, you must provide written instructions. To expedite these transactions, please use the "Authorization Form" attached to your quarterly statement and the envelope enclosed with your statement.

We cannot take requests to sell shares or issue certificates over the phone.

Custodial Deposit of Certificate Shares
Participants in the dividend reinvestment plan may send certificate shares for safekeeping, which offers the advantage of protection against loss, theft or inadvertent destruction of certificates—as well as convenience if and when the shares are sold through the plan.

To deposit your certificates for safekeeping under the plan, you must submit the certificates and a Letter of Transmittal, which will be provided to you upon request, to Shareholder Administration. Or you may write a letter asking us to deposit your certificate shares. Whether you use a Letter of Transmittal or write your own letter, all owners must sign the letter and have their signatures medallion guaranteed. Please do not sign the certificates.

Total Return $1000 Invested
(with Dividends Reinvested)



Annual Meeting
The 1996 Annual Meeting of Shareholders of Dominion Resources, Inc. will be held Friday, April 19, at 1:30 p.m. in Kill Devil Hills, North Carolina, at First Flight Middle School, 109 Veterans Drive.

Corporate Street Address
Dominion Resources, Inc.
Riverfront Plaza—West Tower
901 East Byrd Street
Richmond, Virginia 23219-4069

Independent Auditors
Deloitte & Touche LLP
Richmond, Virginia

Additional Information
Dominion Resources will provide, without charge, a copy of any of the following items:
—1995 SEC Form 10-K.
—1995 Statistical Summary and Financial Forecast.
—Prospectus for the automatic dividend reinvestment and stock purchase plan.

Requests for these items should be made by writing to:

Investor Relations Department
Dominion Resources, Inc.
P. O. Box 26532
Richmond, Virginia 23261-6532

Security Analyst Inquiries
Institutional investors and security analysts seeking information about Dominion Resources and its subsidiaries should call:

William C. Hall, Jr.	Mark C. Stevens
1-804-775-5813	1-804-775-5740
1-804-775-5819 (Fax)	1-804-775-5819 (Fax)

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Dominion Resources

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Or E-mail us at:
evantage@vapower.com