

Dominion Resources

A Long Haul Strategy for MLP Growth

We see potentially at least \$8 of incremental value above our \$73 PT

After recent discussions with management, we are highlighting the potential \$8/sh of upside to our unchanged \$73 PT that could come from additional Phase 2 asset dropdowns and the additional assumption of \$3B-\$5B of long-haul pipeline construction and dropdown opportunities. Our current PT assumes only Phase 1 dropdowns of Blue Racer and Cove Point; we won't add Phase 2 or any other assets until we see the S-1 (expected this month) and get more comfortable with the company's actual plans. Currently all of our MLP modelling to date has been on a hypothetical basis – with very little hard detail to go on from management.

Initial dropdown strategy should preserve growth until GP takes over

In the IPO and the early years, sales of LP units for cash to D will dilute the growth rate slightly unless mitigating actions are taken such as reinvestment or equity avoidance/buybacks. We expect management to craft a dropdown strategy that will carefully preserve or improve the company's overall 5%-6% consolidated growth rate in the years before the GP reaches its high-split status and grows substantially faster.

Helpful new legislation just passed for VEPCO

The VA House passed HB 1059 on Feb 24th (the Senate version passed in Jan). Among its provisions, the bill will allow D's utility VEPCO to defer and amortize over 18 months the cost of nuclear refuelling outages. However, it also requires regulators to treat the deferred and amortized expense as part of the utility's costs for the purpose of earnings measurement in future biennial reviews. We expect this new provision to help keep the utility from triggering a rate reduction in the 2015 review of 2013/14 earnings. Furthermore, going forward, these costs are now 100% recoverable through a rate adjustment clause (vs only 30% now), which will reduce regulatory attrition.

Valuation: Reiterate Buy and \$73 PT; opportunity into S1 filing this month

Our PT is via '15E SOTP with the utilities at a premium to the average P/E, Phase I of the MLP valued on a DCF basis and 12x EV/EBITDA for D Energy to reflect some of the potential Phase II MLP uplift. We expect shares to trade well into MLP updates in 1H14.

Equities

Americas
Electric Utilities

12-month rating **Buy**

12m price target **US\$73.00**

Price **US\$68.05**

RIC: D.N BBG: D US

Trading data and key metrics

| | |
|----------------------------|-----------------|
| 52-wk range | US\$71.50-54.24 |
| Market cap. | US\$39.5bn |
| Shares o/s | 580m (COM) |
| Free float | 100% |
| Avg. daily volume ('000) | 653 |
| Avg. daily value (m) | US\$43.8 |
| Common s/h equity (12/13E) | US\$11.4bn |
| P/BV (12/13E) | 3.4x |
| Net debt / EBITDA (12/13E) | 4.6x |

EPS (UBS, diluted) (US\$)

| | 12/13E | |
|--------|--------|-------|
| | UBS | Cons. |
| Q1 | 0.83 | 0.83 |
| Q2 | 0.62 | 0.62 |
| Q3 | 1.00 | 1.00 |
| Q4E | 0.80 | 0.80 |
| 12/13E | 3.25 | 3.25 |
| 12/14E | 3.52 | 3.54 |
| 12/15E | 3.81 | 3.75 |

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| Highlights (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 15,197.00 | 14,410.00 | 12,837.00 | 13,102.00 | 12,450.80 | 12,908.59 | 13,262.36 | 13,824.88 |
| EBIT (UBS) | 3,233.00 | 3,424.00 | 3,401.00 | 3,559.00 | 3,984.32 | 4,334.40 | 4,559.85 | 5,023.57 |
| Net earnings (UBS) | 1,976.00 | 1,754.00 | 1,750.00 | 1,881.49 | 2,055.49 | 2,236.56 | 2,351.74 | 2,630.53 |
| EPS (UBS, diluted) (US\$) | 3.35 | 3.05 | 3.05 | 3.25 | 3.52 | 3.81 | 3.94 | 4.30 |
| DPS (US\$) | 1.83 | 1.97 | 2.11 | 2.25 | 2.40 | 2.52 | 2.65 | 2.91 |
| Net (debt) / cash | (17,836.00) | (20,842.00) | (21,495.00) | (22,062.67) | (24,521.40) | (25,796.25) | (27,051.11) | (27,905.76) |
| Profitability/valuation | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| EBIT margin % | 21.3 | 23.8 | 26.5 | 27.2 | 32.0 | 33.6 | 34.4 | 36.3 |
| ROIC (EBIT) % | 11.4 | 11.7 | 11.0 | 11.1 | 11.5 | 11.6 | 11.5 | 11.9 |
| EV/EBITDA (core) x | 9.3 | 9.7 | 10.0 | 11.5 | 10.4 | 9.7 | 9.3 | 10.2 |
| P/E (UBS, diluted) x | 12.4 | 15.6 | 17.1 | 21.0 | 19.3 | 17.9 | 17.3 | 15.8 |
| Equity FCF (UBS) yield % | (0.6) | (4.3) | (2.6) | (3.7) | (4.9) | (0.9) | (0.7) | (0.7) |
| Net dividend yield % | 4.4 | 4.1 | 4.1 | 3.3 | 3.5 | 3.7 | 3.9 | 4.3 |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$68.05 on 11 Mar 2014 19:48 EDT

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Investment Thesis

Dominion

Investment case

Dominion enjoys a very favorable regulatory construct at its largest subsidiary, VEPCO, and has a strong backlog of highly-stable, fully contracted projects at its midstream business, which will allow it to deliver on its 5-6% earnings growth target. A key driver of achieving the growth rate through 2017 will be successful execution of pipeline and processing expansion in the Marcellus and Utica along with the company's planned Cove Point LNG export facility. D plans to create an MLP in 2014, which should unlock further value. Our price target is derived from a sum-of-parts analysis, including an assumption for the dropdown of assets into a tax-advantaged MLP.

Upside scenario

Our upside case is premised on the company outperforming its 5-6% growth rate based on continued strong load growth in the northern Virginia/DC area, as well as an upside surprise at its Utica gathering and processing Blue Racer JV. The biennial review found that the company did not overearn, effectively locking-in rates through 2016. The creation of the MLP and announcement of a plan to drop all of Dominion Gas assets into it drive further upside in shares, potentially as high as \$81 per-share, as we highlight in this report.

Downside scenario

Our downside case is premised slowing growth at the utility as well as the inability to execute on the MLP creation/drop-downs in accordance with the expected timeline. With the 5-6% earnings growth rate in question, we could see shares trading at \$60 per-share.

Upcoming catalysts

| | |
|--------------|--|
| 1Q2014 | S-1 for MLP release |
| May 22, 2014 | MD PUC approval for Cove Point |
| 1H 2014 | FERC environmental permit for Cove Point |
| Mid-2014 | First expected MLP dropdown |

12-month rating

Buy

12m price target

US\$73.00

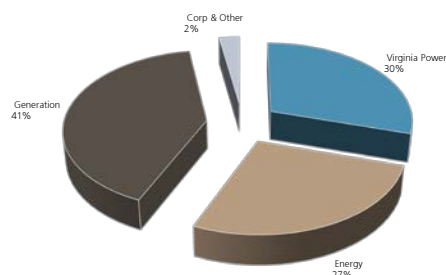
Business description

Dominion Resources Inc., based in Richmond, Virginia, is one of the largest integrated electric and natural gas companies in the US. Dominion owns and operates more than 28,200 MW of generation, 11,000 miles of natural gas pipeline, gathering, and storage, serving customers of electric and gas transmission and distribution in 11 states. The company also has the largest US underground natural gas storage system and operates one of the largest LNG facilities in the country. The company is engaged in the retail sale of energy (gas or electric) in 15 states.

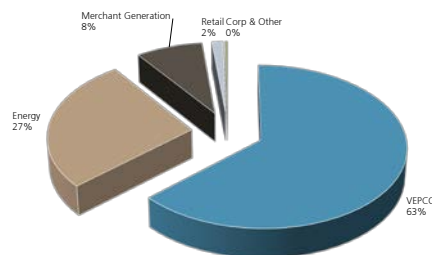
Industry outlook

The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slows mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

EBIT by Operating and Reporting Structure, 2015E (%)



EBIT by Alternate Structure, 2015E (%)



Real Upside Potential

As we recently wrote in our January 9th upgrade note and in the Feb 3rd earnings note, the planned public MLP structure should allow management to extract maximum value from its assets. Our current \$73 PT already includes \$7 of uplift from the dropdowns of "Phase 1" assets Blue Racer followed by Cove Point export terminal in 2017 once the MLP is in the high-splits. Our preliminary calculations in January also indicated at least \$5 of uplift from the dropdown of "Phase 2" assets which the company has already identified and includes ~\$1.4B EBITDA. After recent discussions with the company, we have now run a new scenario that includes the Cove Point import terminal through 2017 and a third phase of construction and dropdown of a long-haul pipeline in the 2019-2022 timeframe. Our analysis shows that Phase 2 and the long-haul pipelines could be worth an incremental \$8 (versus our previously estimated \$5) indicating the potential for a high-end valuation of \$81. We would feel comfortable adding credit for Phase 2 and a long-haul opportunity once the details of the drop-down strategy and incentive distribution rights (IDRs) are known with the S1 filing.

Dominion also has numerous other operational positives ranging from a utility with above-average load growth potential (largely due to data centers and industrial strength) in a constructive jurisdiction to transmission capex opportunities to several midstream projects (we look for details on its nascent long-haul pipe efforts on upcoming calls). The sale of the retail electric business and subsequent expansion into contracted utility-scale solar enhances the overall risk profile of the company, in our view (with limited downside to the sale given the negligible earnings contribution expected). Even generation appears poised to deliver solid results in 2014- with New England capacity now set to remain solidly high for at least the next couple years—and energy rents due to constrained gas similarly elevated through the next ~4-year period. Lastly, with the latest legislation in Virginia likely enabling VEPCO to emerge from its 2013/14 biennial review unscathed, we're only more constructive on the name (~\$400 Mn non-cash writedown equates to ~5% ROE impact, enough to cover over-earning risk)

We are reiterating our Buy rating and \$73 PT price target; with a 15%+ distribution growth CAGR potential; we think that Dominion is poised to launch among the higher quality growth MLPs in the sector, driving further upside in shares. Lastly, with investors increasingly questioning the P/E multiple of a company with 'just' 5-6% EPS growth, we remind them both the EPS contribution from the Cove Point export in-service and GP splits as seemingly 'incremental' to the range (driving an 8% EPS CAGR on our estimates). Additionally, with flexibility around timing of future drops, we see limited external equity needs for the foreseeable future. All around, we see positive catalysts into and beyond the near-term S1 filing.

Long-Term MLP Growth from Long-Haul Pipelines and Utica Infrastructure

What's new: Following recent discussions with the company, we've run another MLP valuation scenario based on the assumption that the company drops down all Phase 2 assets (~\$1.4B of EBITDA) and additionally pursues an opportunity to build a \$3B-\$5B long-haul pipeline for dropdown in the 2019-2021 timeframe as well. We now also assume that Cove Point import terminal is dropped in alongside Blue Racer as part of Phase 1 from 2014-2017. Executed optimally, we see at least \$8 of incremental value beyond our \$73 PT, which only assumes Phase 1 is dropped in for now.

We expect the company to start the MLP with ~\$83M in distributable cash flow in 2014 and a 4.0% yield – comparable to other recent MLP IPOs including Valero in Dec 2013 at \$59M, Phillips in July 2013 at \$74M, and MPLX in Oct 2012 at \$105M; the lower the initial starting size of the distributable cash flow, the better in terms of achieving the targeted GP splits quickly. An initial LP yield of 4.0% that grows to 6.0% by the time the MLP reaches the high splits in 2017 compares to other recent 2012-2013 MLP IPO yields of 3.7%-4.8% for Valero, Phillips, and MPLX. It also compares well to our more mature MLP comp group average of 6.1%, including 5.7% for close Utica comps MarkWest at 5.7% and Access Midstream at 4.4%. We expect Dominion's MLP to start life with a comparable 15% annual growth in distributable cash flow as well (potentially exceeding this pace).

We believe that once the company's current gas transmission and processing assets have been placed into the MLP, future distribution growth will probably be based on both continued buildout of Utica and Marcellus infrastructure as well as the construction of new long-haul pipeline out of the region. In particular, management has taken note of the need for transportation southward, where Transco is currently the dominant player (we flag such a pipe could entail contracting with its utility VEPCO, which is poised to see its own consumption of gas rise with the slew of new projects already underway).

Dominion East Ohio transmission assets eligible for dropdown under new Ohio Law

Management believes that it will be able to drop down the transmission system of Dominion East Ohio under the provisions of Ohio HB 487, a new law passed in 2013 that essentially would allow for the transfer of assets out of local gas distribution companies for the purpose of promoting economic development – i.e., to support drilling activities in the state. The company intends to transfer underutilized portions of its dry-gas transmission and distribution system and convert it to a liquids gathering system, eligible for dropdown into the MLP. We've included this dropdown in our Phase 2 assumptions (part of the \$8 incremental value above our \$73 PT).

We believe that once the company's current gas transmission and processing assets have been placed into the MLP, future distribution growth will probably be based on both continued buildout of Utica and Marcellus infrastructure as well as the construction of new long-haul pipeline out of the region.

Many investors remain confused on whether East Ohio is 'qualifying income' –

management states ~90% of it does

For initial dropdowns, a strategy to preserve D growth

Both the IPO and subsequent dropdowns all entail the sale of D assets for cash and LP shares from the MLP. In our modelling, we've assumed these transfers happen at 12x 2015 EBITDA (all LP shares, no cash). The LP shares are then expected to distribute fast-growing distributions (we assume 15%), which the company intends to treat as net income for accounting purposes (see below for tax implications). Thus far, all of our modelling has been for valuation purposes only – we have not yet integrated the MLP distributions into our income statement or estimates yet.

Importantly, the growth in distributions is expected to substantially fill the hole left in D's consolidated growth rate by the dropdown of the asset into the MLP in the first place. However, to the extent that D takes some of its payment in cash or the MLP dilutes itself with additional shares to the public, these actions obviously contribute to a slowing of the growth rate. We expect management to craft a dropdown strategy that will carefully preserve or improve the company's overall 5%-6% consolidated growth rate in the years before the GP reaches its high-split status and grows substantially faster.

Hypergrowth of GP eventually takes over

Eventually, the hypergrowth of the GP distributions per share should help make up for any slowdown from cash (especially once the MLP reaches the 50%/50% distribution splits between LP and GP). However, at the IPO and the early years of the MLP, the taking of cash from the MLP will initially slow the growth of the consolidated company unless other mitigating actions are taken. These could include reinvestment in other high-growth assets (a strong possibility), an avoidance of equity issuance, or even stock buybacks. We also note that the dropdown of Cove Point import terminal in the years 2014-2017 prior to conversion to export could actually help with the overall growth rate as we expect the declining earnings profile for LNG imports to be a drag on earnings growth through 2017. As such, we consider Cove Point import to be an ideal candidate for early dropdown. *We flag that our estimates have yet to embed the potential uplift from even early year GP benefits; we expect to do so with greater detail from the S1.*

Ultimately, due to the inherent accretion the GP eventually enjoys at the high splits - receiving 50% of the distributable cash flows for only 2% of the ownership - this is where the truly value-enhancing proposition of the MLP lies. D may decide to sell a stake in the GP as well, perhaps even in an IPO. As our comp table below shows, GPs typically grow much faster and trade at much higher multiples in the 14x-40x current distributable cash flow range versus LPs in the 16x range.

Taxation occurs at the holder (D) level, reducing the benefit somewhat vs a direct MLP shareholder

Although the company expects to treat the LP and GP distributions as net income in its financial statements, we expect taxation to work a little differently. Recognizing that every MLP has unique circumstances, in most cases, about 80% of the MLP distribution is considered by the IRS to be a return of capital that reduces basis and results in a capital gain tax when the shares are sold. The remaining 20% is considered to be the holder's allocation of the MLP's net taxable

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Dominion will need to balance retaining a (taxable) interest in the MLP against tax considerations of sales

income, which increases basis (but is usually offset by the holder's share of depreciation). Once the basis gets to zero, all further distributions are then taxed as a capital gain in the year they are received.

Investors in D, however, will receive the benefits of the MLP only through the taxed filter of a C-corp holding company, which reduces the tax benefit versus an investor who directly holds LP units. Nevertheless, there is still a tax advantage with most of the distribution taxed at the lower capital gains rate rather than the full income tax rate of pre-MLP EBITDA prior to dropdown. Ultimately, as noted above, the real value-added of creating the MLP and dropping assets into it will be the hypergrowth of the GP distributions.

New scenario shows potential \$8/sh incremental value beyond Phase 1

In our January 9th upgrade note "Extracting the Fullest Value from Midstream" and February 3rd earnings note, we based our \$73 PT on an initial, paced dropdown of Blue Racer to kick off the MLP in 2014, with enough LP distribution growth to reach the high splits by the time Cove Point export terminal is ready to be dropped in 2018.

Our new scenario is based on several assumptions listed below, all of which taken together could potentially add up to an incremental \$8 of value to our PT (i.e., up to \$81). Bear in mind that nothing is known yet about management's actual plans, which will be revealed in the upcoming S-1 filing, which is expected by the end of this month followed by a mid-year IPO.

Our new scenario is based on several assumptions listed below, all of which taken together could potentially add up to an incremental \$8 of value to our PT (i.e., up to \$81).

Assumptions:

- Initial phased dropdowns of Blue Racer and Cove Point import terminal from 2014-2017, reaching the high splits by the end of 2017 ("Phase 1"). We expect the company to start the MLP with about \$83M in distributable cash flow in 2014 – comparable to other recent MLP IPOs including Valero in Dec 2013 at \$59M, Phillips in July 2013 at \$74M, and MPLX in Oct 2012 at \$105M.
- Full dropdown of Cove Point export terminal in 2018 at the high splits ("Phase 1; about \$800M-\$1B of EBITDA")
- Continue with dropdowns of Dominion East Ohio's transmission system (DEO), Dominion Transmission (DTI), and the company's 24.72% interest in Iroquois pipeline. ("Phase 2; about \$1.4B of EBITDA")
- Continue even further with the assumption of \$3B-\$5B long-haul pipeline construction and dropdown in 2019-2021 timeframe. We believe this could be the start of a series of long-term distribution growth drivers, although for modelling and valuation purposes, we stop at one.

Figure 1: UBS Assumed Dropdown Schedule, \$M of Distributable Cash Flow

| | DCF Dropdowns | | | | | | | | Total | YoY % | DCF Cover |
|------|---------------|---------|---------|---------|---------|---------|-----------|----------|-------|-------|-----------|
| | Phase 1 | Phase 1 | Phase 1 | Phase 2 | Phase 2 | Phase 2 | Long-Haul | | | | |
| | BR | CP Imp | CP Exp | Iroq | DEO | DTI | Oppty | | | | |
| 2014 | \$ 28 | \$ 55 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 83 | | 1.07x | |
| 2015 | \$ 70 | \$ 136 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 206 | 150% | 1.06x | |
| 2016 | \$ 100 | \$ 183 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 284 | 37% | 1.05x | |
| 2017 | \$ 125 | \$ 151 | \$ 153 | \$ - | \$ - | \$ - | \$ - | \$ 429 | 51% | 1.12x | |
| 2018 | \$ 138 | \$ - | \$ 621 | \$ - | \$ - | \$ - | \$ - | \$ 759 | 77% | 1.31x | |
| 2019 | \$ 143 | \$ - | \$ 629 | \$ 40 | \$ 241 | \$ 243 | \$ 226 | \$ 1,521 | 101% | 1.05x | |
| 2020 | \$ 148 | \$ - | \$ 636 | \$ 40 | \$ 253 | \$ 483 | \$ 381 | \$ 1,941 | 28% | 1.06x | |
| 2021 | \$ 154 | \$ - | \$ 643 | \$ 41 | \$ 265 | \$ 719 | \$ 476 | \$ 2,298 | 18% | 1.05x | |
| 2022 | \$ 160 | \$ - | \$ 642 | \$ 41 | \$ 277 | \$ 954 | \$ 476 | \$ 2,550 | 11% | 1.04x | |
| 2023 | \$ 166 | \$ - | \$ 642 | \$ 42 | \$ 288 | \$ 948 | \$ 476 | \$ 2,561 | 0% | 1.05x | |
| 2024 | \$ 172 | \$ - | \$ 642 | \$ 42 | \$ 298 | \$ 943 | \$ 476 | \$ 2,573 | 0% | 1.05x | |
| 2025 | \$ 179 | \$ - | \$ 642 | \$ 42 | \$ 307 | \$ 937 | \$ 476 | \$ 2,584 | 0% | 1.06x | |
| 2026 | \$ 186 | \$ - | \$ 641 | \$ 43 | \$ 316 | \$ 932 | \$ 476 | \$ 2,594 | 0% | 1.06x | |
| 2027 | \$ 194 | \$ - | \$ 641 | \$ 43 | \$ 325 | \$ 926 | \$ 476 | \$ 2,605 | 0% | 1.07x | |
| 2028 | \$ 202 | \$ - | \$ 641 | \$ 44 | \$ 332 | \$ 920 | \$ 476 | \$ 2,615 | 0% | 1.07x | |
| 2029 | \$ 210 | \$ - | \$ 641 | \$ 44 | \$ 339 | \$ 914 | \$ 476 | \$ 2,624 | 0% | 1.07x | |
| 2030 | \$ 219 | \$ - | \$ 640 | \$ 45 | \$ 346 | \$ 908 | \$ 476 | \$ 2,634 | 0% | 1.08x | |

CAGR 2014-2017 73%

CAGR 2014-2022 54%

Source: Company filings and UBS estimates; Phases 1 and 2 are assets the company has now. The long-haul opportunity is our assumption for this scenario.

- LP distribution growth of 15% per year as long as can be supported (2018 in our model with the limited project list we are using). Then 10% LP growth and eventually no growth once our list of assumed projects ends. In reality, we expect this to be a conservative assumption vs the continued growth that management will presumably target.
- An initial LP yield of 4.0% that grows to 6.0% by the time the MLP reaches the high splits in 2017. This compares to other recent 2012-2013 MLP IPO yields of 3.7%-4.8% for Valero, Phillips, and MPLX; we flag that Dominion's MLP will have *more* growth projects to drop down organically than these recent IPO successes. It also compares well to our MLP comp group average of 6.1%, including 5.7% for close Utica comps MarkWest at 5.7% and Access Midstream of 4.4%..

Figure 2: Public Natural Gas Gathering and Processing MLP Comparisons

| Ticker | UBS Rating | UBS Estimates | | | | | | | | | | | | | | |
|--------------------------------|------------|---------------|---------|-------------------------|-----------------------|--------------------|------------------------|-------------------|------------------------------|-------------------|---------------------------|-------------------------|-------------------------|----------------------------------|--------------|---------|
| | | Unit Price | | Market Cap (\$ billion) | Total EV (\$ billion) | Paid Distribn 2014 | Distribn CAGR 3-Yr Fwd | Ann Curr Yld 4Q14 | LP Unit Distribn Cover 2014E | Debt / NTM EBITDA | Maint Capex / EBITDA 2013 | EV / LP's EBITDA* 2014E | Price / LP's DCF* 2014E | GP's Share of Distribution 2014E | GP IDR Level | |
| | | Current | Target | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| Nat Gas Gathering & Processing | | | | | | | | | | | | | | | | |
| Access Midstream | ACMP | Buy | \$57.54 | \$63.00 | \$9.4 | \$12.7 | \$2.42 | 15.0% | 4.4% | 1.3x | 3.2x | 13% | 14.6x | 20.3x | 19% | 25% |
| Crestwood Midstream | CMLP | Neutral (C) | \$22.83 | \$23.00 | \$1.5 | \$2.5 | \$1.70 | 6.5% | 7.6% | 1.1x | 5.9x | 6% | 5.5x | 12.5x | 6% | 50% |
| DCP Midstream | DPM | Neutral | \$50.00 | \$52.00 | \$4.1 | \$5.9 | \$3.06 | 8.2% | 6.3% | 1.0x | 4.1x | 7% | 14.7x | 16.2x | 27% | 50% |
| MarkWest Energy | MWE | Neutral | \$64.17 | \$65.00 | \$9.4 | \$12.7 | \$3.56 | 7.4% | 5.7% | 1.1x | 3.7x | 3% | 13.9x | 15.9x | 0% | No IDRs |
| Regency Energy LP | RGP | Buy | \$27.38 | \$28.00 | \$5.1 | \$8.2 | \$1.98 | 5.3% | 7.4% | 1.2x | 4.3x | 8% | 11.3x | 12.9x | 6% | 25% |
| Western Gas Partners | WES | Buy | \$64.39 | \$72.00 | \$6.7 | \$8.3 | \$2.70 | 15.6% | 4.5% | 1.2x | 2.5x | 7% | 18.1x | 21.5x | 28% | 50% |
| Midcoast Energy | MEP | Buy | \$20.08 | \$23.00 | \$0.4 | \$0.4 | \$1.35 | 16.0% | 7.1% | 1.2x | 3.5x | 0% | 3.8x | 13.6x | 2% | 2% |
| Average | | | | | | | | 10.6% | 6.1% | 1.2x | 3.9x | 6% | 11.7x | 16.1x | 13% | |
| General Partners | | | | | | | | | | | | | | | | |
| Energy Transfer Equity | ETE | Buy | \$45.22 | \$44.00 | \$22.9 | \$59.8 | \$1.55 | 16.2% | 4.6% | 29.2x | 5.8x | 0% | 0.0x | 29.2x | 0% | 0% |
| Crestwood Equity | CEQP | Neutral | \$13.27 | \$14.00 | \$2.3 | \$8.4 | \$0.58 | 18.9% | 6.0% | 23.0x | 4.7x | 0% | 0.0x | 23.0x | 0% | 0% |
| NuStar GP Holdings | NSH | Neutral | \$31.48 | \$29.00 | \$1.2 | \$1.2 | \$2.18 | 1.4% | 6.9% | 14.4x | 8.1x | 0% | 0.0x | 14.4x | 0% | 0% |
| Plains GP Holdings | PAGP | Buy | \$27.96 | \$27.00 | \$15.3 | \$30.6 | \$0.69 | 21.9% | 3.3% | 40.7x | 75.5x | 0% | 0.0x | 40.7x | 0% | 0% |
| Average | | | | | | | | 12.2% | 5.8% | 22.2x | 6.2x | 0.0% | 0.0x | 22.2x | 0.0% | |

Prices as of: 03/09/2014

Sources: Company reports, FactSet, and UBS Research

NM = Not Meaningful, NA = Not Available, CBE = Core Banding Exception

Note: Averages are not market cap weighted. Propane and Marine Transport names are using Factset consensus est for leverage ratio.

Source: Company filings and UBS estimates

- For valuation purposes, we assume that D keeps all LP and GP shares, although it is likely that at least some significant portion of the LP units will be sold to the public in order to raise cash for the construction/expansion of Blue Racer and Cove Point. Cash flows are discounted based on a levered beta since distributed cash flow is after interest expense and we assume 60% debt financing for Cove Point.
- For the purposes of valuing the LP: we estimate the cost of equity at nearly 9%, in near the midpoint of the range of equity cost for a variety of assets (8-10%). While our initial distribution implies a yield of 4.0%, this is justified by a substantial ~22% CAGR in distribution growth. With the substantial size of the Cove Point Export terminal of at ~\$700 Mn in EBITDA (relative to start EBITDA from Blue Racer of ~\$140 Mn/yr, and only half of it initially dropped in).
- For the purposes of valuing the GP: We apply a conservative ~2% *higher* cost of equity discount rate to reflect the capital markets risk in executing on drop-downs that only meaningfully will take place in 2017-2019 as the Cove Point export facility reaches in-service. Valuing this at the *same* rate as the LP would drive another \$1/sh in our SOP. We believe this portion of the value uplift from the MLP may take some time to fully reflect, but anticipate at least a portion is reflected as investors more formally the GP along with the S-1 later this quarter.
- Taxation: we assume that 80% of distributions are taxed at 20% capital gains tax throughout our NPV. The remaining 20% is taxed as regular income, offset substantially with depreciation deductions.

Our results show potentially incremental \$8 of value to our \$73 PT when accounting for the additional Phase 2 assets, the dropdown of Cove Point import terminal in Phase 1 from 2014-2017, and a \$3B-\$5B long-haul pipeline opportunity.

Figure 3: MLP Value to Dominion

| Dominion MLP | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| LP Distribution Per Unit | \$ 1.29 | \$ 1.48 | \$ 1.70 | \$ 1.96 | \$ 2.25 | \$ 2.48 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 | \$ 2.63 |
| Coverage | 1.07x | 1.06x | 1.05x | 1.12x | 1.31x | 1.05x | 1.06x | 1.05x | 1.04x | 1.05x | 1.05x | 1.05x | 1.06x | 1.06x | 1.07x | 1.07x | 1.08x |
| Terminal Value | | | | | | | | | | | | | | | | | \$ 44.65 |
| Present Value of Distribution | \$ 1.29 | \$ 1.36 | \$ 1.44 | \$ 1.52 | \$ 1.61 | \$ 1.63 | \$ 1.59 | \$ 1.46 | \$ 1.34 | \$ 1.24 | \$ 1.14 | \$ 1.05 | \$ 0.96 | \$ 0.88 | \$ 0.81 | \$ 0.75 | \$ 0.69 |
| Terminal PV | | | | | | | | | | | | | | | | | \$ 11.69 |
| LP Equity Value Per LP Share | | | | | | | | | | | | | | | | | \$ 32.46 |
| Implied Yield | 4.0% | 4.6% | 5.3% | 6.0% | 6.9% | 7.6% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% | 8.1% |
| CAGR on Distribution Growth | | | | | 15% | | | | | | | | | | | | |
| Value to Dominion: | | | | | | | | | | | | | | | | | |
| LP Distribution (\$M) | \$ 148 | \$ 184 | \$ 249 | \$ 308 | \$ 477 | \$ 901 | \$ 1,322 | \$ 1,589 | \$ 1,796 | \$ 1,843 | \$ 1,843 | \$ 1,843 | \$ 1,843 | \$ 1,843 | \$ 1,843 | \$ 1,843 | \$ 1,843 |
| LP Distribution (\$M) after D's cap-gains tax | \$ 124 | \$ 155 | \$ 209 | \$ 258 | \$ 401 | \$ 757 | \$ 1,111 | \$ 1,335 | \$ 1,509 | \$ 1,548 | \$ 1,548 | \$ 1,548 | \$ 1,548 | \$ 1,548 | \$ 1,548 | \$ 1,548 | \$ 1,548 |
| Terminal Value | | | | | | | | | | | | | | | | | \$ 26,304 |
| Present Value of Distribution | \$ 124 | \$ 142 | \$ 177 | \$ 201 | \$ 287 | \$ 498 | \$ 672 | \$ 743 | \$ 772 | \$ 728 | \$ 670 | \$ 616 | \$ 566 | \$ 521 | \$ 479 | \$ 441 | \$ 405 |
| Terminal PV | | | | | | | | | | | | | | | | | \$ 6,885 |
| LP Equity Value | | | | | | | | | | | | | | | | | \$ 14,926 |
| D Shares Outstanding | | | | | | | | | | | | | | | | | 580 |
| LP Equity Value Per D share | | | | | | | | | | | | | | | | | \$ 25.76 |
| GP Distribution (\$M) | \$ 3 | \$ 4 | \$ 12 | \$ 29 | \$ 102 | \$ 257 | \$ 430 | \$ 517 | \$ 585 | \$ 600 | \$ 600 | \$ 600 | \$ 600 | \$ 600 | \$ 600 | \$ 600 | \$ 600 |
| GP Distribution (\$M) after D's cap gains tax | \$ 3 | \$ 3 | \$ 10 | \$ 25 | \$ 86 | \$ 216 | \$ 361 | \$ 434 | \$ 491 | \$ 504 | \$ 504 | \$ 504 | \$ 504 | \$ 504 | \$ 504 | \$ 504 | \$ 504 |
| GP % of Total Distributions | 2% | 2% | 5% | 9% | 18% | 22% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Terminal Value | | | | | | | | | | | | | | | | | \$ 6,462 |
| Present Value of Distribution | \$ 3 | \$ 3 | \$ 8 | \$ 18 | \$ 57 | \$ 129 | \$ 196 | \$ 213 | \$ 217 | \$ 201 | \$ 182 | \$ 164 | \$ 148 | \$ 134 | \$ 121 | \$ 109 | \$ 99 |
| Terminal PV | | | | | | | | | | | | | | | | | \$ 1,264 |
| GP Equity Value | | | | | | | | | | | | | | | | | \$ 3,265 |
| D Shares Outstanding | | | | | | | | | | | | | | | | | 580 |
| GP Equity Value Per D share | | | | | | | | | | | | | | | | | \$ 5.63 |

Source: Company filings and UBS estimates

Figure 4: Demonstration of MLP Uplift

| Prior Enterprise Valuation vs MLP Uplift | 2015E EBITDA | EV/EBITDA | EV |
|--|--------------|--------------|------------|
| Blue Racer JV with Calman Value (15x 2015 Net Income + NPV of 2013/14 Distributions) | | Equity value | \$ 1,125 |
| Cove Point Export Equity Value NPV at 9x 2019 EBITDA | | Equity value | \$ 1,951 |
| Iroquois Pipeline (D's 24.72% Interest) | \$ 44 | 12.0x | \$ 528 |
| Dominion East Ohio | \$ 286 | 12.0x | \$ 3,431 |
| Dominion Transmission (DTI) | \$ 876 | 12.0x | \$10,512 |
| 2015 Debt Assumption (\$M) | | | |
| Iroquois Pipeline (D's 24.72% Interest) | | | \$ (60) |
| Dominion East Ohio | | | \$ (1,159) |
| Dominion Transmission (DTI) | | | \$ (1,828) |
| Debt assumption on NPV of 2019-2021 Long-Haul Pipeline \$4B of capex | | | \$ (3,128) |
| Total Equity Value | | | \$11,372 |
| Versus NPV GP + LP Distributions, including 2019-2021 Long-Haul pipeline dropdown | | | \$18,191 |
| Incremental MLP Uplift | | | \$ 6,819 |
| Incremental MLP Uplift per D share | | | \$ 11.77 |
| Versus previous UBS PT MLP Uplift per D share (only Blue Racer and Cove Point dropdowns) | | | \$ 3.94 |

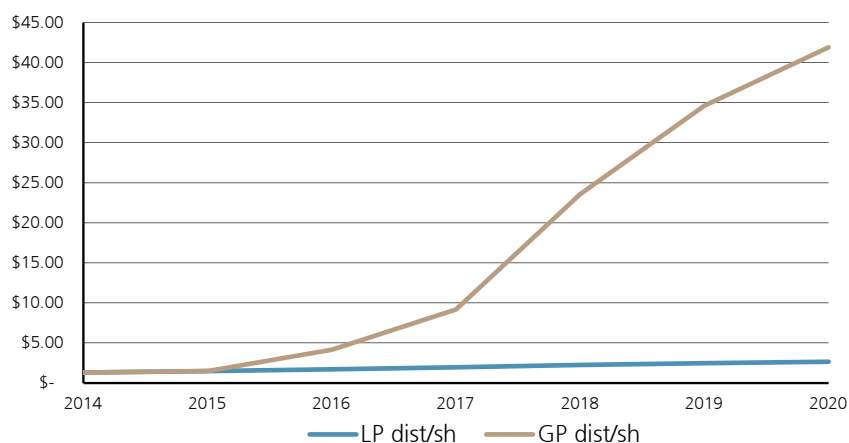
Source: Company filings and UBS estimates

Sanity Check – How Do Our MLP Multiples Look?

The following tables show how we've grown our distributions over time and how we've managed our dropdowns to ensure continued distribution coverage of ~1.0x-1.1x (at least 90% of cash flow is distributed). Our discount rate assumptions result in a net present value of LP and GP distributions in the neighborhood of 15x and 31x their respective 2017 distributions (the year the MLP hits the high splits). While this is admittedly a subjective measurement that depends on the year you choose for a multiple, it nevertheless falls in the range of

reasonable vs other public MLPs, especially considering the high-quality of Dominion's assets and the geographic positioning of the company over the fast growing Utica and Marcellus. In our comp table above, the LP's are trading at an average 16.1x and the public GPs are trading in a range of 14x-41x with an average of 22x.

Figure 5: UBS Assumed LP and GP Distribution Growth Profile



| | 50% Split | | GP Dist | | |
|--------------|-----------|----------------------------|------------|------------|-----------|
| | LP Dist | Level | LP Dist \$ | GP Dist \$ | Equiv |
| 2014 | \$ 1.29 | | \$ 74 | \$ 2 | \$ 1.29 |
| 2015 | \$ 1.48 | 15% | \$ 184 | \$ 4 | \$ 1.48 |
| 2016 | \$ 1.70 | 15% | \$ 249 | \$ 12 | \$ 4.12 |
| 2017 | \$ 1.96 | 15% | \$ 308 | \$ 29 | \$ 9.17 |
| 2018 | \$ 2.25 | 15% | \$ 477 | \$ 102 | \$ 23.58 |
| 2019 | \$ 2.48 | 10% | \$ 901 | \$ 257 | \$ 34.62 |
| 2020 | \$ 2.63 | 6% | \$ 1,322 | \$ 430 | \$ 41.91 |
| 2021 | \$ 2.63 | 0% | \$ 1,589 | \$ 517 | \$ 41.91 |
| 2022 | \$ 2.63 | 0% | \$ 1,796 | \$ 585 | \$ 41.91 |
| 2023 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2024 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2025 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2026 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2027 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2028 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2029 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| 2030 | \$ 2.63 | 0% | \$ 1,843 | \$ 600 | \$ 41.91 |
| Term Value | \$ 44.65 | | | | \$ 560.03 |
| Disc Rate | 8.7% | | | | 10.7% |
| NPV | \$29.85 | | | | \$ 286.04 |
| Mult of 2017 | 15.2x | (year reach 50%/50% split) | | | 31.2x |

Source: Company filings and UBS estimates

Dropdown of Blue Racer in thirds could create pathway to high splits

Our assumption is that Blue Racer EBITDA grows at ~9% CAGR from 2H2014-2017. We then make an additional assumption that this project is dropped into the MLP in rough thirds each year through yearend 2016, along with the Cove Point import terminal EBITDA, resulting in distributable cash flow (DCF) to the MLP

that grows at ~75% CAGR. By issuing enough LP shares to keep ~90% of DCF flowing out of the MLP, our analysis results in a ~15% annualized growth in LP distributions through 2017, with the highest GP IDR sharing target (50%) reached in 2017, just before Cove Point export is dropped down.

Managing drop-downs to optimize tax efficiency

There are tax issues associated with drop-downs/sales of fully depreciated assets that need to be balanced as to avoid significant tax liabilities, although we understand that drop-downs generally have favorable tax treatment that permits amortization rather than immediate gains recognition, a concept we do not believe is fully appreciated by the Street. In contrast, intercompany transfers are generally tax-free 'transactions' and do not incur tax liabilities. In any case, the taxable basis of drop-downs could be more of an issue with older "Phase 2" assets after Blue Racer and Cove Point are dropped in. Another mitigating factor in most cases is that the previous two years of capital spend are added to basis as well, reducing the potential tax burden further.

We understand that drop-downs have favorable tax treatment that permits amortization rather than immediate gains recognition, a concept we do not believe is fully appreciated by the Street.

Robust Pipeline Expansion for Dominion Energy

In September, D formed Dominion Gas Holdings, a new first-tier subsidiary holding company for all its rate-regulated natural gas assets. In October, Dominion Gas raised \$1.2B of debt through a 144A senior notes offering that will be registered with the SEC this year, and plans to raise another \$1B in 2014.

In 2013, D finished the Sabinsville-Morrisville and Tioga expansion projects and construction continues on the Allegheny Storage project, with injections beginning this Spring and full operational capability by November. The Natrium-to-Market project received FERC certification in September and construction is still slated to begin this Spring with a November 2014 CoD. In New York, precedent agreements have been signed for the New Market Project with Brooklyn Union and Niagara Mohawk for the expansion of service by 112,000 dth/day for 15 years beginning November 2016. Furthermore, multiple agreements have also been signed with plant developers along the Cove Point pipeline in MD to provide gas transportation service.

Additionally, the company continues to expand firm transportation service to shale gas producers with binding precedent agreements with Dominion Transmission or Dominion East Ohio. Management listed several projects currently under development that are short-lead time, minimal capital investment, 100% owned by Dominion, and outside the Blue Racer joint venture:

- 10-year agreement with Gulfport for 100,000 dth/day
- 10-year agreement with Next Era Energy for 100,000 dth/day
- 6-year agreement with J. Aron for 150,000 dth/day
- 21-year agreement with Gulfport Energy for 150,000 dth/day
- 17-year agreement with American Energy-Utica, LLC for 100,000 dth/day
- Western Access project on Dominion East Ohio system for 10 years for 300,000 dth/day

- For service beginning in 2016, a 15-year agreement with CNX Gas for 250,000 dth/day in the Marcellus Farmout acreage to interconnects with Texas Eastern and Rockies Express

In the Marcellus, D also reached agreement with multiple counterparties to farm out 100,000 acres. The company expects these agreements to initially generate \$20M of annual EBIT from ongoing lease and drilling activity payments, with additional revenues accruing from volumetric royalty payments.

Utica expansion a key driver of MLP growth

Up through mid-January, 1,042 horizontal well permits have been issued, with 679 drilled in the Utica shale play, representing 9% and 14% increases, respectively, over the past three months. Producing wells increased 60% to 270 over the same period.

Blue Racer's Natrium I processing and fractionation plant is now back in full service after a fire damage brought the facility out of service in September. The TL-388 pipeline was dropped into Blue Racer at the end of September and will serve as a central connector between gathering lines and key producer acreage. Blue Racer has entered into long-term gathering, processing, and transportation acreage dedication agreements with more than 300,000 acres from several producers, including Eclipse Resources, Hess, Consol, PDC Energy, Chesapeake, Total, Rex, and Enervest. These agreements alone are expected to be more than enough at full production to support both the Natrium II and Berne processing facilities and Blue Racer remains in discussions for additional acreage as well. Natrium II is expected to be in service in March, bringing total processing capability up to 400 mmcf/day. At Berne, the first 200 mcf/day of cryogenic processing plant is expected to be online by the end of 3Q and Berne is designed to support three of these plants.

Natrium's fractionation capacity will be expanded from 46,000 bbl/d to 126,000 bbl/day by March 2015 and the plant is increasing its takeaway capabilities by adding barge services as well (the only fractionation plant in Utica to do so). Natrium is expected to be able to process the volumes from both Natrium I and II as well as Berne, with the expansion enabling increased ethane recovery and accommodating future NGL growth from further expansion of Berne. In fact, a 30-mile Y-grade pipeline will carry processed liquids from Berne to Natrium for fractionation. Blue Racer's ethane pipeline provides direct access to Enterprise's Appalachia-to-Texas (ATEX) pipeline, and additional pipeline access will connect to Sunoco's Mariner East and West as well as Enterprise's TEPPCO pipeline. Furthermore, in addition to its current connections to Dominion Transmission and Dominion East Ohio, Blue Racer is pursuing interconnects with other long-haul NGL pipes as well, including Texas Eastern and Rockies Express.

Dominion's Cove Point facility receives PMSA approval; expect to begin construction this year

On Feb 27th, the US Department of Transportation Pipeline and Hazardous Materials Safety Administration (PMSA) approved Dominion's methodology for determining candidate design spills to establish siting of its upcoming Cove Point LNG export facility. This is one milestone in the FERC approval process. Within the next few weeks, FERC will release a schedule which will lay out the timeline for the remaining required steps in the FERC approval process. An environmental permit is expected from FERC in 1H14. (Docket number: CP13-113)

In the Marcellus, D also reached agreement with multiple counterparties to farm out 100,000 acres. The company expects these agreements to initially generate \$20M of annual EBIT from ongoing lease and drilling activity payments, with additional revenues accruing from volumetric royalty payments.

Furthermore, in addition to its current connections to Dominion Transmission and Dominion East Ohio, Blue Racer is pursuing interconnects with other long-haul NGL pipes as well, including Texas Eastern and Rockies Express.

On Friday, the Maryland Court of Special Appeals also granted Cove Point permission to proceed with its plans with its LNG facility, rejecting opposition by the Sierra Club, the environmentalist group. There are several remaining approvals required from the Maryland Public Service Commission as well, including a certificate of public convenience and necessity (CPCN) for Cove Point expected around May 22. Regulators recommended approval in January.

Subject to these approvals, the company is expected to begin construction of the export terminal this year and target commercial operation in late 2017.

On February 11th, Cove Point also established a joint venture with subsidiaries of Sumitomo Corp. and Tokyo Gas Co. Ltd for contracted natural gas liquefaction processing and sales. Tokyo Gas's TG Plus as well as Sumitomo's Pacific Summit Energy and Kansai Electric Power Co would receive 2.3 million, 1.4 million and 800,000 tons per annum of LNG respectively. These joint ventures increase prospects for stable revenue streams.

Latest indications from management suggest that Cove Point is likely to produce ~\$750 Mn/yr in EBITDA (up from the \$650-700 Mn) we had originally assumed. Meanwhile, with Blue Racer likely to put off at least ~\$200 Mn/yr, we see clear line of site for the two Phase I assets to produce closer to ~\$1 Bn than we had previously assumed (prior statements had suggested cash flow would total 'up to' \$1 Bn).

Valuation: Reiterate Buy rating and \$73 PT

For a detailed derivation of our price target and methodology surrounding the valuation of the MLP, please see our January 9th upgrade note, "Extracting the Fullest Value from Midstream". Our \$73 PT assumes the more conservative scenario of Phase I dropdown only (Blue Racer through 2017 and then Cove Point export terminal in 2017) and a 12.0x 2015E EV/EBITDA multiple applied to the remaining Phase II assets (DTI, East Ohio, Iroquois). We make some other MLP-related adjustments

- 1) Add back EBITDA attributable to Cove Point and Blue Racer from Energy EBITDA in EV/EBITDA multiple
- 2) Remove associated debt, which we estimate will be levered at 3.5x Debt/EBITDA, *only* for these two assets. This is clearly conservative as our 2015 Projected Debt does include some debt for the Export facility as well (assuming some spending is already ongoing).
- 3) Add back NPV of cash flow attributable to Blue Racer and Cove Point Import facility *prior* to their 'dropping' into the MLP vehicle (off a 2015 base year).

Pushing up our EV/EBITDA multiple on remaining energy assets

Another incremental ~\$3/sh of value has already been added for the expected EV/EBITDA multiple expansion from 11.0x to 12.0x for the remaining MLP-eligible assets at Dominion Energy. This higher 2015E multiple conservatively reflects the market assumption for Access Midstream (14.6x on 2014E) and MarkWest Energy (13.9x on 2014E). However, as we've illustrated in this report, there is at least another \$8 of potential upside from dropping these assets into the MLP (and building/dropping a long-haul pipeline as well).

Figure 6: Dominion Valuation assuming \$4 of value uplift for MLP of Just "Phase 1" assets

| Sum of the Parts Analysis - UBS | | | | | | | |
|---|-------------------|---------------------|--------------|--------------|------------------|-----------------|-----------------|
| | 2015E Adj. EBITDA | EV/EBITDA | | | Enterprise Value | | |
| | | Low | Base | High | Low | Base | High |
| Dominion Merchant Generation | 419 | 8.0x | 9.0x | 10.0x | 3,349 | 3,767 | 4,186 |
| Hedge Value | 71 | 8.0x | 9.0x | 10.0x | 571 | 642 | 714 |
| Dominion Energy (ex-LDCs/BlueRacer/CovePoin | 738 | 11.0x | 12.0x | 13.0x | 8,119 | 8,857 | 9,595 |
| Dominion Retail | 67 | 4.0x | 5.0x | 6.0x | 268 | 335 | 402 |
| Total / Implied | 1,295 | 9.3x | 10.2x | 11.2x | 12,039 | 13,267 | 14,495 |
| MLP Blue Racer incremental dropdowns through yearend 2016 followed by Cove Point dropdown in 2017 | | | | | | | |
| LP Distribution Equity Value NPV | | | | | 6,487 | \$ | 11.19 |
| GP Distribution Equity Value NPV | | | | | 1,214 | \$ | 2.10 |
| Total Equity Value of MLPs | | | | | 7,701 | | |
| add: NPV of Cove Pt/Blue Racer (Prior to Drop Down) | | | | | 199 | | |
| less Total Dominion net debt | | | | | (22,764) | | |
| netting VEPCO-associated debt | | | | | 10,633 | | |
| netting VEPCO debt allocated to HoldCo | | | | | 2,373 | | |
| netting MLP related debt (Cove Pt Import/Blue Racer-Only) | | | | | 1,491 | | |
| netting Gas LDC-associated debt | | | | | 1,098 | | |
| Net Energy/Generation Debt | | | | | (7,169) | | |
| add: NPV of Merchant Generation Hedges | | | | | (98) | | |
| Dominion Energy, MLP, Merchant Generation, and Retail | | | | | \$ 15,646 | \$ 13,901 | \$ 18,102 |
| Current Number of Shares outstanding | | | | | 580 | 580 | 580 |
| Dominion Energy, MLP, Merchant Generation, and Retail per Share | | | | | \$ 27.00 | \$ 23.99 | \$ 31.24 |
| Dominion Delivery | Net Income | P/E Multiple | | | | | |
| Electric | 378 | 14.9x | 15.9x | 16.9x | 5,653 | 6,031 | 6,409 |
| Transmission | 269 | 15.9x | 16.9x | 17.9x | 4,284 | 4,553 | 4,822 |
| Dominion Generation-Utility | 946 | 14.9x | 15.9x | 16.9x | 14,140 | 15,086 | 16,031 |
| Total VEPCO Net Income | 1,593 | 15.1x | 16.1x | 17.1x | 24,077 | 25,670 | 27,262 |
| Gas Distribution LDCs | | | | | | | |
| East Ohio | 137 | 15.9x | 16.9x | 17.9x | 2,193 | 2,331 | 2,468 |
| Hope Gas | 10 | 15.9x | 16.9x | 17.9x | 158 | 167 | 177 |
| Total Gas Distribution Net Income | 147 | 15.9x | 16.9x | 17.9x | 2,351 | 2,498 | 2,645 |
| Current Number of Shares outstanding | | | | | 580 | 580 | 580 |
| Dominion Regulated Utilities SOP Value (\$/sh) | | | | | \$ 45.60 | \$ 48.61 | \$ 51.61 |
| Total Equity Value per Share | | | | | \$ 72.60 | \$ 72.59 | \$ 82.85 |

Source: Company filings and UBS estimates

Dominion Resources (D.N)

| Income statement (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
|---|-------------------|-------------------|-------------------|-------------------|---------------|-------------------|--------------|-------------------|-------------------|-------------------|
| Revenues | 15,197.00 | 14,410.00 | 12,837.00 | 13,102.00 | 2.1 | 12,450.80 | -5.0 | 12,908.59 | 13,262.36 | 13,824.88 |
| Gross profit | 8,544.00 | 8,031.00 | 7,601.00 | 7,576.00 | -0.3 | 8,440.90 | 11.4 | 8,866.97 | 9,187.76 | 9,715.97 |
| EBITDA (UBS) | 4,288.00 | 4,493.00 | 4,551.00 | 4,766.00 | 4.7 | 5,227.72 | 9.7 | 5,617.49 | 5,901.20 | 6,391.55 |
| Depreciation & amortisation | (1,055.00) | (1,069.00) | (1,150.00) | (1,207.00) | 5.0 | (1,243.41) | 3.0 | (1,283.09) | (1,341.35) | (1,367.98) |
| EBIT (UBS) | 3,233.00 | 3,424.00 | 3,401.00 | 3,559.00 | 4.6 | 3,984.32 | 12.0 | 4,334.40 | 4,559.85 | 5,023.57 |
| Associates & investment income | 169.00 | 221.00 | 176.00 | 177.00 | 0.6 | 0.00 | - | 0.00 | 3.00 | 13.00 |
| Other non-operating income | 0.00 | 0.00 | 0.00 | 0.00 | - | (7.00) | - | (2.00) | 0.00 | 0.00 |
| Net interest | (816.00) | (853.00) | (821.00) | (854.00) | -4.0 | (918.08) | -7.5 | (973.34) | (1,006.95) | (1,064.56) |
| Exceptionals (incl goodwill) | 0.00 | 0.00 | 0.00 | 0.00 | - | 0.00 | - | 0.00 | 0.00 | 0.00 |
| Profit before tax | 2,586.00 | 2,792.00 | 2,756.00 | 2,882.00 | 4.6 | 3,059.24 | 6.1 | 3,359.06 | 3,555.90 | 3,972.01 |
| Tax | (577.00) | (1,004.00) | (963.00) | (962.00) | 0.1 | (967.75) | -0.6 | (1,086.49) | (1,168.17) | (1,305.48) |
| Profit after tax | 2,009.00 | 1,788.00 | 1,793.00 | 1,920.00 | 7.1 | 2,091.49 | 8.9 | 2,272.56 | 2,387.74 | 2,666.53 |
| Preference dividends | (16.00) | (16.00) | (16.00) | (16.00) | - | (16.00) | - | (16.00) | (16.00) | (16.00) |
| Minorities | (17.00) | (18.00) | (27.00) | (22.51) | 16.6 | (20.00) | 11.2 | (20.00) | (20.00) | (20.00) |
| Extraordinary items | 0.00 | 0.00 | 0.00 | 0.00 | - | 0.00 | - | 0.00 | 0.00 | 0.00 |
| Net earnings (local GAAP) | 1,976.00 | 1,754.00 | 1,750.00 | 1,881.49 | 7.5 | 2,055.49 | 9.2 | 2,236.56 | 2,351.74 | 2,630.53 |
| Net earnings (UBS) | 1,976.00 | 1,754.00 | 1,750.00 | 1,881.49 | 7.5 | 2,055.49 | 9.2 | 2,236.56 | 2,351.74 | 2,630.53 |
| Tax rate (%) | 22.3 | 36.0 | 34.9 | 33.4 | -4.5 | 31.6 | -5.2 | 32.3 | 32.9 | 32.9 |
| Per share (US\$) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
| EPS (UBS, diluted) | 3.35 | 3.05 | 3.05 | 3.25 | 6.6 | 3.52 | 8.5 | 3.81 | 3.94 | 4.30 |
| EPS (local GAAP, diluted) | 3.35 | 3.05 | 3.05 | 3.25 | 6.6 | 3.52 | 8.5 | 3.81 | 3.94 | 4.30 |
| EPS (UBS, basic) | 3.35 | 3.05 | 3.05 | 3.25 | 6.6 | 3.52 | 8.5 | 3.81 | 3.94 | 4.30 |
| Net DPS (US\$) | 1.83 | 1.97 | 2.11 | 2.25 | 6.6 | 2.40 | 6.7 | 2.52 | 2.65 | 2.91 |
| Cash EPS (UBS, diluted)* | 5.14 | 4.91 | 5.05 | 5.33 | 5.6 | 5.66 | 6.1 | 5.99 | 6.18 | 6.54 |
| Book value per share | 19.98 | 19.06 | 18.51 | 19.75 | 6.7 | 21.18 | 7.2 | 22.81 | 24.35 | 26.73 |
| Average shares (diluted) | 590.10 | 574.60 | 574.60 | 579.50 | 0.9 | 583.23 | 0.6 | 587.71 | 597.41 | 611.59 |
| Balance sheet (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
| Cash and equivalents | 62.00 | 102.00 | 248.00 | 234.43 | -5.5 | 217.84 | -7.1 | 221.36 | 224.15 | 228.45 |
| Other current assets | 5,338.00 | 5,328.00 | 4,892.00 | 4,624.36 | -5.5 | 4,296.98 | -7.1 | 4,366.55 | 4,421.63 | 4,506.40 |
| Total current assets | 5,400.00 | 5,430.00 | 5,140.00 | 4,858.79 | -5.5 | 4,514.81 | -7.1 | 4,587.91 | 4,645.79 | 4,734.85 |
| Net tangible fixed assets | 26,713.00 | 29,670.00 | 30,773.00 | 33,457.00 | 8.7 | 37,137.09 | 11.0 | 39,423.08 | 41,788.39 | 44,385.42 |
| Net intangible fixed assets | 6,553.00 | 6,529.00 | 6,734.00 | 6,734.00 | 0.0 | 6,734.00 | 0.0 | 6,734.00 | 6,734.00 | 6,734.00 |
| Investments / other assets | 4,151.00 | 3,985.00 | 4,191.00 | 4,191.00 | 0.0 | 4,191.00 | 0.0 | 4,191.00 | 4,191.00 | 4,191.00 |
| Total assets | 42,817.00 | 45,614.00 | 46,838.00 | 49,240.79 | 5.1 | 52,576.91 | 6.8 | 54,936.00 | 57,359.18 | 60,045.27 |
| Trade payables & other ST liabilities | 3,890.00 | 3,669.00 | 3,128.00 | 3,084.08 | -1.4 | 2,672.33 | -13.4 | 2,697.49 | 2,723.41 | 2,750.11 |
| Short term debt | 1,883.00 | 3,293.00 | 2,412.00 | 2,334.03 | -3.23 | 2,549.47 | 9.23 | 2,691.28 | 2,886.26 | 3,037.02 |
| Total current liabilities | 5,773.00 | 6,962.00 | 5,540.00 | 5,418.10 | -2.2 | 5,221.80 | -3.6 | 5,388.78 | 5,609.68 | 5,787.13 |
| Long term debt | 15,758.00 | 17,394.00 | 19,074.00 | 18,706.08 | -1.9 | 20,432.76 | 9.2 | 21,569.33 | 23,132.00 | 24,304.20 |
| Other long term liabilities | 9,032.00 | 9,498.00 | 11,342.00 | 12,357.00 | 8.9 | 12,757.00 | 3.2 | 12,757.00 | 12,757.00 | 12,757.00 |
| Preferred shares | 257.00 | 257.00 | 257.00 | 1,257.00 | -389.11 | 1,757.00 | -39.78 | 1,757.00 | 1,257.00 | 757.00 |
| Total liabilities (incl pref shares) | 30,820.00 | 34,111.00 | 36,213.00 | 37,738.18 | 4.2 | 40,168.56 | 6.4 | 41,472.11 | 42,755.68 | 43,641.33 |
| Common s/h equity | 11,997.00 | 11,446.00 | 10,568.00 | 11,445.62 | 8.3 | 12,351.35 | 7.9 | 13,406.89 | 14,546.50 | 16,346.94 |
| Minority interests | 0.00 | 57.00 | 57.00 | 57.00 | 0.0 | 57.00 | 0.0 | 57.00 | 57.00 | 57.00 |
| Total liabilities & equity | 42,817.00 | 45,614.00 | 46,838.00 | 49,240.79 | 5.1 | 52,576.91 | 6.8 | 54,936.00 | 57,359.18 | 60,045.27 |
| Cash flow (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | % ch | 12/14E | % ch | 12/15E | 12/16E | 12/17E |
| Net income (before pref divs) | 1,992.00 | 1,770.00 | 1,766.00 | 1,897.49 | 7.4 | 2,071.49 | 9.2 | 2,252.56 | 2,367.74 | 2,646.53 |
| Depreciation & amortisation | 1,055.00 | 1,069.00 | 1,150.00 | 1,207.00 | 5.0 | 1,243.41 | 3.0 | 1,283.09 | 1,341.35 | 1,367.98 |
| Net change in working capital | 181.00 | (439.00) | 426.00 | 223.71 | -47.5 | (84.37) | - | (44.41) | (29.16) | (58.07) |
| Other operating | 0.00 | 0.00 | 0.00 | 0.00 | - | 0.00 | - | 0.00 | 0.00 | 0.00 |
| Operating cash flow | 3,228.00 | 2,400.00 | 3,342.00 | 3,328.20 | -0.4 | 3,230.53 | -2.9 | 3,491.25 | 3,679.92 | 3,956.44 |
| Tangible capital expenditure | (3,384.00) | (3,636.00) | (4,145.00) | (4,780.00) | -15.3 | (5,172.50) | -8.2 | (3,828.08) | (3,975.66) | (4,244.00) |
| Intangible capital expenditure | 0.00 | 0.00 | 0.00 | 0.00 | - | 0.00 | - | 0.00 | 0.00 | 0.00 |
| Net (acquisitions) / disposals | 4,153.00 | 0.00 | 115.00 | 650.00 | 465.2 | 0.00 | - | 0.00 | 0.00 | 0.00 |
| Other investing | (350.00) | 331.00 | 190.00 | 0.00 | - | 0.00 | - | 0.00 | 0.00 | 0.00 |
| Investing cash flow | 419.00 | (3,305.00) | (3,840.00) | (4,130.00) | -7.6 | (5,172.50) | -25.2 | (3,828.08) | (3,975.66) | (4,244.00) |
| Equity dividends paid | (1,060.00) | (1,113.00) | (1,193.00) | (1,287.87) | -8.0 | (1,383.76) | -7.4 | (1,465.03) | (1,564.75) | (1,764.09) |
| Share issues / (buybacks) | (826.00) | (563.00) | 265.00 | 300.00 | 13.2 | 250.00 | -16.7 | 300.00 | 650.00 | 950.00 |
| Other financing | (35.00) | (58.00) | (46.00) | (16.00) | 65.22 | (16.00) | 0.00 | (16.00) | (16.00) | (16.00) |
| Change in debt & pref shares | (311.00) | 2,112.00 | 823.00 | 554.10 | -32.67 | 2,442.13 | 340.74 | 1,278.38 | 1,257.65 | 858.95 |
| Financing cash flow | (2,232.00) | 378.00 | (151.00) | (449.77) | -197.9 | 1,292.37 | - | 97.36 | 326.90 | 28.86 |
| Cash flow inc/(dec) in cash | 1,415.00 | (527.00) | (649.00) | (1,251.57) | -92.8 | (649.60) | 48.1 | (239.47) | 31.16 | (258.70) |
| FX / non cash items | (1,401.00) | 567.00 | 795.00 | 1,238.00 | 55.7 | 633.00 | -48.9 | 243.00 | (28.37) | 263.00 |
| Balance sheet inc/(dec) in cash | 14.00 | 40.00 | 146.00 | (13.57) | - | (16.60) | -22.3 | 3.53 | 2.79 | 4.30 |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Dominion Resources (D.N)

| Valuation (x) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| P/E (local GAAP, diluted) | 12.4 | 15.6 | 17.1 | 21.0 | 19.3 | 17.9 | 17.3 | 15.8 |
| P/E (UBS, diluted) | 12.4 | 15.6 | 17.1 | 21.0 | 19.3 | 17.9 | 17.3 | 15.8 |
| P/CEPS | 8.1 | 9.7 | 10.3 | 12.8 | 12.0 | 11.4 | 11.0 | 10.4 |
| Equity FCF (UBS) yield % | (0.6) | (4.3) | (2.6) | (3.7) | (4.9) | (0.9) | (0.7) | (0.7) |
| Net dividend yield (%) | 4.4 | 4.1 | 4.1 | 3.3 | 3.5 | 3.7 | 3.9 | 4.3 |
| P/BV x | 2.1 | 2.5 | 2.8 | 3.4 | 3.2 | 3.0 | 2.8 | 2.5 |
| EV/revenues (core) | 2.6 | 3.0 | 3.6 | 4.2 | 4.4 | 4.2 | 4.1 | 4.7 |
| EV/EBITDA (core) | 9.3 | 9.7 | 10.0 | 11.5 | 10.4 | 9.7 | 9.3 | 10.2 |
| EV/EBIT (core) | 12.4 | 12.8 | 13.4 | 15.3 | 13.7 | 12.6 | 12.0 | 13.0 |
| EV/OpFCF (core) | NM | NM | NM | NM | NM | NM | 28.5 | NM |
| EV/op. invested capital | 1.4 | 1.5 | 1.5 | 1.7 | 1.6 | 1.5 | 1.4 | 1.5 |
| Enterprise value (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Market cap. | 24,852.31 | 28,631.74 | 30,466.16 | 39,475.80 | 39,475.80 | 39,475.80 | 39,475.80 | 39,475.80 |
| Net debt (cash) | 17,032.00 | 17,032.00 | 17,032.00 | 17,032.00 | 17,032.00 | 17,032.00 | 17,032.00 | 27,478.44 |
| Buy out of minorities | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Pension provisions/other | 1,930.00 | 1,930.00 | 1,930.00 | 1,930.00 | 1,930.00 | 1,930.00 | 1,930.00 | 1,930.00 |
| Total enterprise value | 43,814.41 | 47,593.84 | 49,428.26 | 58,437.90 | 58,437.90 | 58,437.90 | 58,437.90 | 68,884.34 |
| Non core assets | (3,825.00) | (3,825.00) | (3,825.00) | (3,825.00) | (3,825.00) | (3,825.00) | (3,825.00) | (3,825.00) |
| Core enterprise value | 39,989.41 | 43,768.84 | 45,603.26 | 54,612.90 | 54,612.90 | 54,612.90 | 54,612.90 | 65,059.34 |
| Growth (%) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Revenue | -0.3 | -5.2 | -10.9 | 2.1 | -5.0 | 3.7 | 2.7 | 4.2 |
| EBITDA (UBS) | -5.4 | 4.8 | 1.3 | 4.7 | 9.7 | 7.5 | 5.1 | 8.3 |
| EBIT (UBS) | -11.8 | 5.9 | -0.7 | 4.6 | 12.0 | 8.8 | 5.2 | 10.2 |
| EPS (UBS, diluted) | 2.4 | -8.8 | -0.2 | 6.6 | 8.5 | 8.0 | 3.4 | 9.3 |
| Net DPS | 4.6 | 7.7 | 7.1 | 6.6 | 6.7 | 5.0 | 5.0 | 10.0 |
| Margins & Profitability (%) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Gross profit margin | 56.2 | 55.7 | 59.2 | 57.8 | 67.8 | 68.7 | 69.3 | 70.3 |
| EBITDA margin | 28.2 | 31.2 | 35.5 | 36.4 | 42.0 | 43.5 | 44.5 | 46.2 |
| EBIT margin | 21.3 | 23.8 | 26.5 | 27.2 | 32.0 | 33.6 | 34.4 | 36.3 |
| Net earnings (UBS) margin | 13.0 | 12.2 | 13.6 | 14.4 | 16.5 | 17.3 | 17.7 | 19.0 |
| ROIC (EBIT) | 11.4 | 11.7 | 11.0 | 11.1 | 11.5 | 11.6 | 11.5 | 11.9 |
| ROIC post tax | 8.9 | 7.5 | 7.1 | 7.4 | 7.9 | 7.8 | 7.7 | 8.0 |
| ROE (UBS) | 17.0 | 15.0 | 15.9 | 17.1 | 17.3 | 17.4 | 16.8 | 17.0 |
| Capital structure & Coverage (x) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Net debt / EBITDA | 4.2 | 4.6 | 4.7 | 4.6 | 4.7 | 4.6 | 4.6 | 4.4 |
| Net debt / total equity % | 148.7 | 181.2 | 202.3 | 191.8 | 197.6 | 191.6 | 185.2 | 170.1 |
| Net debt / (net debt + total equity) % | 59.8 | 64.4 | 66.9 | 65.7 | 66.4 | 65.7 | 64.9 | 63.0 |
| Net debt/EV | 44.6 | 47.6 | 47.1 | 40.4 | 44.9 | 47.2 | 49.5 | 42.9 |
| Capex / depreciation % | NM | NM | NM | NM | NM | NM | NM | NM |
| Capex / revenue % | 22.3 | 25.2 | NM | NM | NM | 29.7 | 30.0 | NM |
| EBIT / net interest | 4.0 | 4.0 | 4.1 | 4.2 | 4.3 | 4.5 | 4.5 | 4.7 |
| Dividend cover (UBS) | 1.8 | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| Div. payout ratio (UBS) % | 54.6 | 64.5 | 69.3 | 69.3 | 68.1 | 66.2 | 67.2 | 67.7 |
| Revenues by division (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Others | 15,197.00 | 14,410.00 | 12,837.00 | 13,102.00 | 12,450.80 | 12,908.59 | 13,262.36 | 13,824.88 |
| Total | 15,197.00 | 14,410.00 | 12,837.00 | 13,102.00 | 12,450.80 | 12,908.59 | 13,262.36 | 13,824.88 |
| EBIT (UBS) by division (US\$m) | 12/10 | 12/11 | 12/12 | 12/13E | 12/14E | 12/15E | 12/16E | 12/17E |
| Others | 3,233.00 | 3,424.00 | 3,401.00 | 3,559.00 | 3,984.32 | 4,334.40 | 4,559.85 | 5,023.57 |
| Total | 3,233.00 | 3,424.00 | 3,401.00 | 3,559.00 | 3,984.32 | 4,334.40 | 4,559.85 | 5,023.57 |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

| | |
|-----------------------------|--------|
| Forecast price appreciation | +7.3% |
| Forecast dividend yield | 3.5% |
| Forecast stock return | +10.8% |
| Market return assumption | 5.4% |
| Forecast excess return | +5.4% |

Statement of Risk

Risks to our estimates and price target include: unfavourable movements in commodity prices; mild weather in utility service territories; unfavourable regulatory outcomes; lower than expected natural gas or oil production; and unplanned disruptions at power generation facilities. Further risks include volumetric, credit, and collateral risk associated with its retail power and gas marketing business. Operational risk is present through the day to day operation of its large power fleet (both regulated and merchant), T&D assets, large gas midstream business, and marginal upstream assets.

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| UBS 12-Month Rating | Definition | Coverage ¹ | IB Services ² |
|-----------------------|---|-----------------------|--------------------------|
| Buy | FSR is > 6% above the MRA. | 44% | 36% |
| Neutral | FSR is between -6% and 6% of the MRA. | 45% | 35% |
| Sell | FSR is > 6% below the MRA. | 11% | 23% |
| UBS Short-Term Rating | Definition | Coverage ³ | IB Services ⁴ |
| Buy | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1% | less than 1% |
| Sell | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1% | less than 1% |

Source: UBS. Rating allocations are as of 31 December 2013.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Julien Dumoulin-Smith; Paul Zimbardo.

Company Disclosures

| Company Name | Reuters | 12-month rating | Short-term rating | Price | Price date |
|---|---------|-----------------|-------------------|-----------|-------------|
| Dominion Resources ^{2, 4, 5, 6a, 6b, 6c, 7, 16} | D.N | Buy | N/A | US\$68.05 | 11 Mar 2014 |

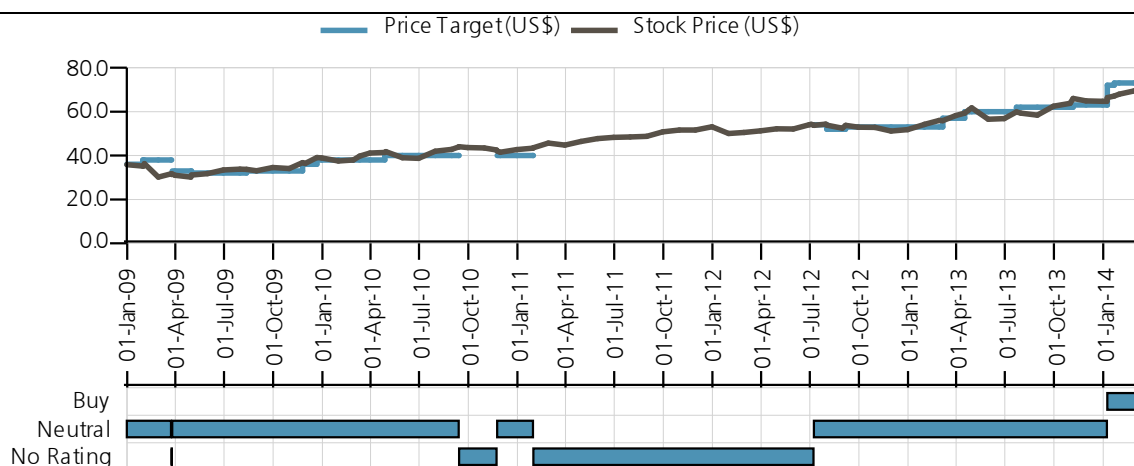
Source: UBS. All prices as of local market close.

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Dominion Resources (US\$)



Source: UBS; as of 11 Mar 2014

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