

forward

PacifiCorp

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1995

COMPANY PROFILE. PacifiCorp has the right combination of strengths to succeed in the competitive utilities marketplace, and is actively seeking opportunities to use these strengths, both domestically and internationally, to achieve greater value for shareholders. The company currently serves 1.3 million retail electric customers in seven western states and 540,000 customers in Australia. PacifiCorp also provides telecommunications services through 520,400 access lines in 11 western and midwestern states, and has interests in independent power production facilities throughout the U.S.

active

Shareholder and Corporate Information

Stock Exchange Listings

Portland General common stock is traded on the New York and Pacific Stock Exchanges under the ticker symbol PGAL. It is listed in the First Street Annual under Portland and in Portland in most other newspapers.

Dividend Payments

The Board of Directors has historically declared quarterly common and preferred stock dividends payable on January 15, April 15, July 15, and October 15.

Dividends paid per common share in 1985 have been \$1.20 per quarter.

Dividend Reinvestment and Optional Cash Payment Plan

Portland General's Dividend Reinvestment and Optional Cash Payment Plan is a convenient way for shareholders to make investments in the Company.

Features

- **Open Enrollment**
Persons who are not already shareholders may purchase the Company's common stock and become a participant by making an initial investment of as little as \$25.
- **Dividends Can Be Automatically Reinvested**
Participants may have all or a portion of the dividends on shares of PGAL common stock reinvested in their name

and all dividends on shares held in the accounts automatically reinvested.

• Additional Shares of Stock Can Be Purchased

Participants may make optional cash payments of at least \$25 up to a maximum of \$75,000 per year, as often as once a week, through check, money order or automatic monthly electronic funds transfer from their bank account.

• Free Safekeeping of Stock Certificates

Shares purchased under the Plan are held by the Agent, relieving participants of responsibility for the safekeeping of stock certificates. Other Portland General common stock certificates registered in a participant's name can also be deposited for safekeeping at shares held under the Plan, free of charge.

• Establish an IRA

Participants may use the Plan to establish an Individual Retirement Account (IRA) and to make contributions to the IRA or roll over an existing IRA or other qualified plan distribution.

For a copy of the Prospectus and an Authorization form, call or write our Agent:

First Chicago Trust Company of New York
Stockholder Relations Plan

P.O. Box 2800
Jersey City, NJ
07302-0800
(201) 254-1044

Shareholder Assistance

For inquiries regarding:

- Change of address
- Transfer of stock certificates
- Replacement of lost, stolen, or destroyed certificates and dividend checks contact our Transfer Agent:

First Chicago Trust Company of New York
Shareholder Relations Department

P.O. Box 2800
Jersey City, NJ
07302-0800
(201) 254-1044

Business hours are 9:00 to 3:00 EST 10-4

To expedite your inquiry, have your account number and social security number readily available.

Shareholder Publications

In addition to this annual report the following reports are available at no cost from Portland General's Shareholder Service Department:

- Annual First Book
- Quarterly Shareholder Reports
- Form 10-K filed with the Securities and Exchange Commission

Corporate Information

Executive Offices:
Portland General Corporation
One World Trade Center
121 S.W. Salmon Street
Portland, OR 97204
Phone: (503) 254-6000

Shareholder Service:

Portland General Corporation
Shareholder Service Department
One World Trade Center
121 S.W. Salmon Street
Portland, OR 97204
Phone: (503) 254-6000

Annual Meeting

The annual meeting of Portland General shareholders will be held on Tuesday, May 7, 1986 1:30 p.m. at: Portland General's Western Region Center 1400 S.W. Old School Ferry Road Beaverton, OR 97007

All common shareholders are welcome to attend. Common shareholders of record at the close of business on March 15, 1986 will be entitled to vote.

Stock Price Data

1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
High	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4	\$ 20 3/4
Low	19 3/4	19 3/4	19 3/4	19 3/4	19 3/4	19 3/4	19 3/4	19 3/4	19 3/4
Opening Price	20 3/4	20 3/4	20 3/4	20 3/4	20 3/4	20 3/4	20 3/4	20 3/4	20 3/4
Cash Dividend	.20	.20	.20	.20	.20	.20	.20	.20	.20



Portland General Corporation Red World Trade Center 525 S.W. Canyon Street Portland, Oregon 97204

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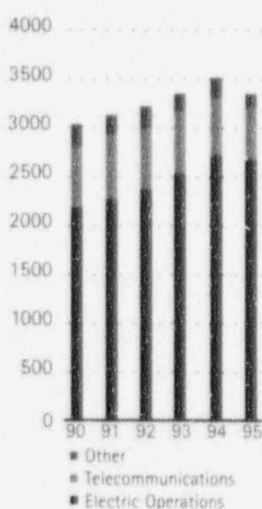
Financial Highlights

Millions of dollars, except per share amounts

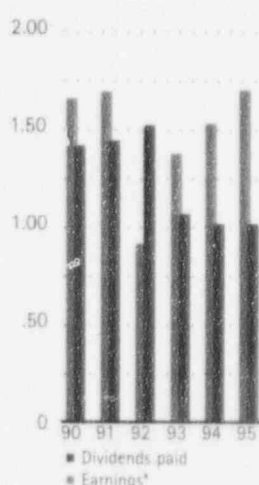
For the year	1995	1994	1995 to 1994 Percentage Comparison
Operating Results			
Revenues	\$ 3,401	\$ 3,507	(3)%
Income from Operations	1,048	1,022	2
Net Income	505	468	8
Earnings on Common Stock	466	428	9
Data Per Common Share			
Earnings	\$ 1.64	\$ 1.51	9%
Dividends Paid	1.08	1.08	—
Book Value	12.78	12.17	5
Stock Price Range	21 1/4–17 1/2	19 1/2–15 3/4	17*
Financial Position at December 31			
Assets	\$ 14,015	\$ 11,846	
Capitalization	10,359	8,365	
Capital Structure			
Total Debt	60%	52%	
Preferred Stock	5	7	
Common Equity	35	41	
Other Statistics			
Return on Average Common Equity	13.2%	12.8%	
Market to Book Value (Year End)	165%	149%	
Cash Flows from Operations	\$ 912	\$ 962	
Common Shares (Average, Thousands)	284,272	282,912	

* Based on year-end price.

Consolidated Revenues
(millions of dollars)



**Earnings and Dividends Paid
Per Common Share**
(dollars)



* Calculated using earnings from continuing operations excluding \$.50 per share of special charges in 1992

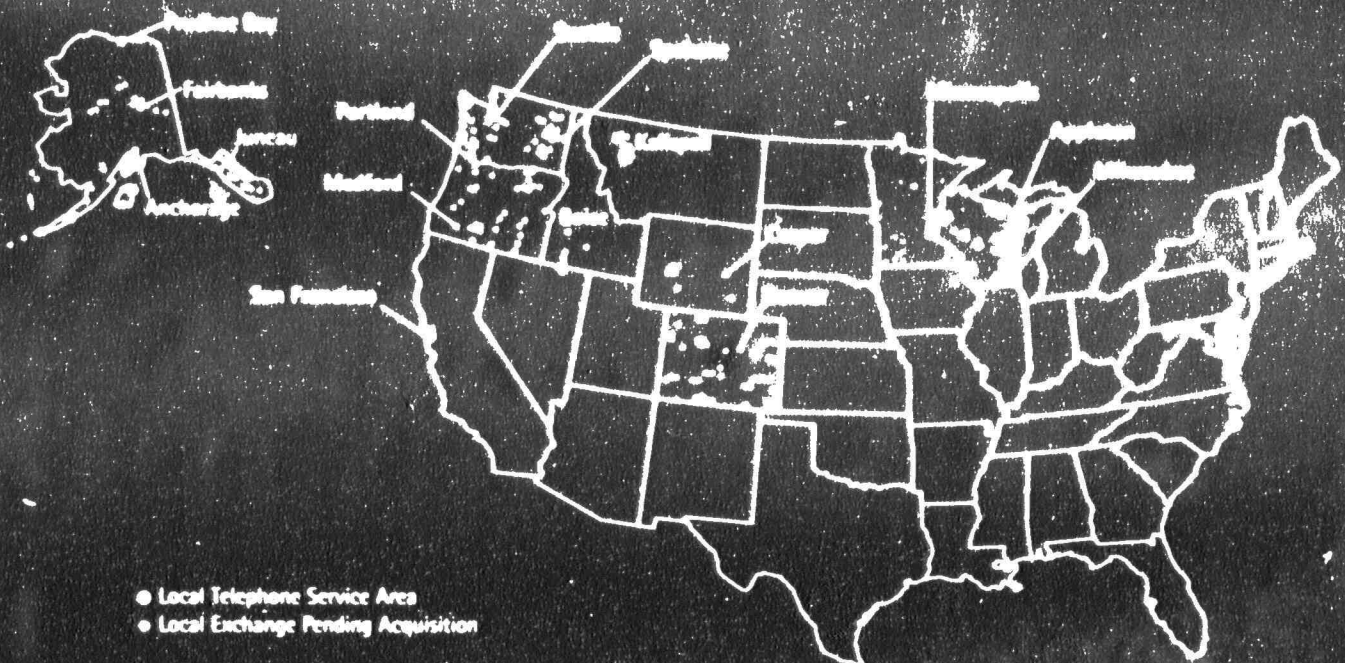
Energy

PacifiCorp is moving beyond its western U.S. boundaries as it seeks to become a leading global energy company in the future.



Telecommunications

Pacific Telecom, a wholly owned subsidiary of PacifiCorp, provides long-distance telecommunications services to rural and suburban areas.



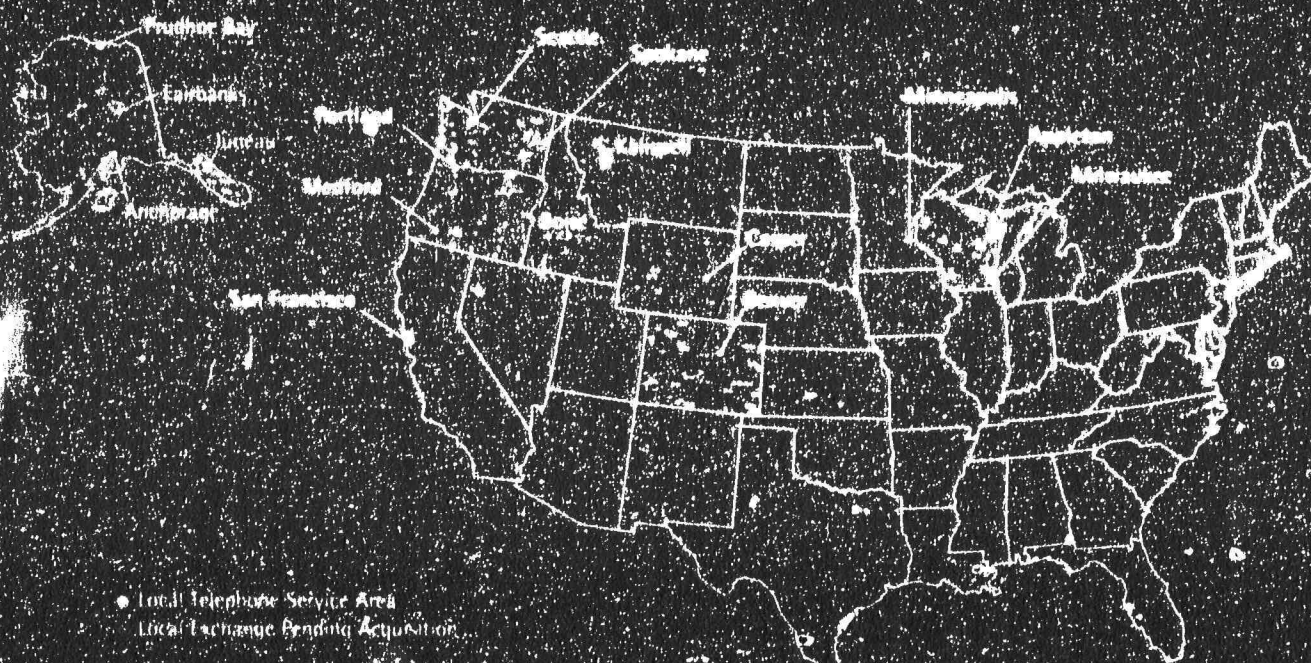
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LETTER TO OUR SHAREHOLDERS



*Frederick W. Buckman
President and Chief Executive Officer*

We had a successful year. Total shareholder return, which includes stock price increase and dividends, was 23.7 percent. This is the best result since 1989, but we are not entirely pleased because we expect to outperform most of our peers, and in 1995 we did not. The Standard & Poor's 24 electric companies index returned 31.2 percent, and the Standard & Poor's 500 was at a near record 37.7 percent.

Our 1995 revenues were \$3.4 billion compared with \$3.5 billion in 1994. Consolidated earnings available for common stock were \$466 million, or \$1.64 per share, compared with \$428 million, or \$1.51 per share in 1994. (Our 1995 earnings benefited by a \$37 million, or \$0.13 per share, gain on the sale of our Alaska long distance telephone operations.)

I believe perceptions about competition in our industry played a key role in the valuation of our stock, especially earlier in 1995. Although industry analysts consistently rank us as one of the utilities most likely to succeed in a competitive market, some don't believe competition is coming to the industry as fast as originally thought. So, for the short-term, they favored utilities with higher dividend yields.

We take a different view. We believe competition is upon us now, and that this is the time to take bold, as opposed to incremental, actions to competitively position the company and enhance shareholder value. In 1995 and early in 1996, we took several bold actions. To help you understand why, we have included a separate outlook on the industry in this annual report.

It gives our perspective on changes in the industry and how these changes might affect you as a shareholder.

Because PacifiCorp enters the new marketplace from a position of strength, we embrace competition as an opportunity to win new customers and generate more value. We are a low-cost power producer. We are known nationally for innovative wholesale power marketing. And, we are dedicated to quality customer service.

BUT THIS ISN'T ENOUGH. PacifiCorp won't outperform the industry if we stay within traditional confines. Instead, we have embarked on a path to use our considerable strengths, both domestically and internationally, to become a leading energy and utility services provider.

The most significant action we took in 1995 was the purchase of Powercor, an electric distribution and marketing company in the State of Victoria, Australia. We expect the Powercor acquisition to begin contributing to earnings in 1997 and to grow thereafter.

In the U.S., an agreement early in 1996 with Big Rivers Electric Corporation in western Kentucky marks our first significant step into the eastern U.S. power market. If definitive agreements are executed as expected, we will operate 1,740 megawatts of coal-fired generation facilities owned by Big Rivers, and sell excess capacity in the wholesale market. We expect both the Big Rivers and Powercor transactions to add significantly to shareholder value over time.

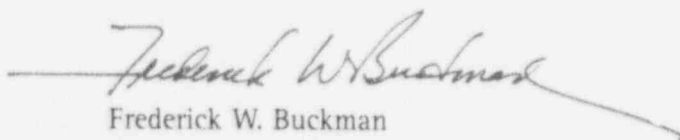
The telecommunications business is another important part of our future growth plans. In 1995, we completed the purchase of minority shares of Pacific Telecom, making it a wholly owned subsidiary. PTI is growing rapidly, and we continue to look for expansion opportunities. Even though PTI disposed of its profitable Alascom operations to AT&T in 1995, this loss should be offset in 1996 by contributions from the 1995 local exchange acquisitions. Further income improvements beyond 1996 are possible as these acquisitions become fully integrated.

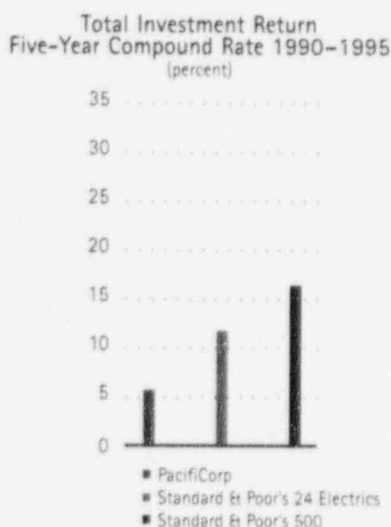
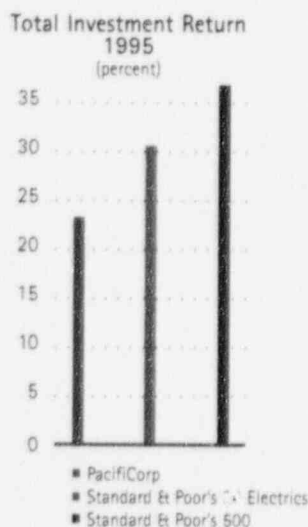
To better balance shareholder risk and reward, we initiated a process with state regulators to move toward "performance-based" regulation of our retail electric operations. In 1995, filings were made in Oregon and Wyoming.

Unlike traditional cost-of-service regulation, a performance-based system would allow a more balanced sharing of the benefits of efficient operations between investors and customers. We expect that this will be a gradual transition, one that will eventually bring utility regulation closer in line with today's competitive realities.

WE ARE READY. We have a senior management team focused on succeeding in this new environment, and employees throughout the company who are thinking creatively and coming up with innovative ways to deliver additional value to customers and shareholders.

In last year's letter, I talked about some of our plans to improve the company's competitive position. We have made significant progress. More will follow. Our primary goal continues to be superior returns for our shareholders. As we move toward that goal, we are focusing on "customer first" service and continued attention to innovation and cost levels. As attractive opportunities arise, you can also expect us to take action. I look forward to reporting more progress to you throughout 1996.


 Frederick W. Buckman
 President and Chief Executive Officer





transform

Understanding the changes coming to our industry enables us to create strategies that will position PacifiCorp as a leading global utility provider.



transform

transform your business
into a more efficient
operating environment. We
are a model utility provider.

PacifiCorp's

perspective

on the changing utility marketplace

An overview of the transformation taking place in the utility industry, and what it means for **investors**

March 1996

It's just not the same!

The old, comfortable utility industry and its dependable stock—with stable growth and high dividend yields—doesn't exist anymore. Dramatic changes are taking place and many new options are available to those who want to enter the energy marketplace.

Electricity is increasingly treated as a commodity. The price for currently available ("spot market") wholesale power at the California-Oregon border is reported daily in the Wall Street Journal. Plans exist to publish similar indices for other locations.

And, the New York Mercantile Exchange (NYMEX) will begin trading electricity futures in late March 1996. NYMEX will initially offer futures contracts based on power generated for delivery in the West, where the pace of deregulation is swift, and power production and consumption are high.

Competition is here, today, and requires fundamental **changes** in the way utilities, their customers and shareholders behave and interact. As competition increases, prices fall and profit margins are squeezed, forcing utilities to look for new earnings streams and new ways to satisfy the needs of their customers.

Customers are in the driver's seat, as they should be. They are increasingly pushing for **lower prices** and **more choices** in their energy services, the same choices they have in other aspects of their lives.

A growing number of competitors have entered the energy marketplace. As of late January 1996, there were 159 power marketers registered in the U.S., 99 more than a year earlier. Power marketers and brokers, independent power producers and unregulated subsidiaries of utility companies offer power supply alternatives in the wholesale market to other utilities and, increasingly, to large industrial customers with buying power.

Many large industrial customers actively shop for the best price and service options, and they are approached daily by these new energy providers. The ones who get—or keep—their business must keep prices low and offer enhanced service options.

For example, Monsanto in Soda Springs, Idaho, recently signed a six-year power supply contract with PacifiCorp, but only after exploring opportunities with other suppliers. PacifiCorp kept the large phosphorus production facility as a customer by negotiating an

evolutionary

innovative contract package that satisfied the needs of both Monsanto and PacifiCorp. As a result of **strategic relationships** developed during the contract negotiations, new business opportunities between Monsanto and PacifiCorp are being explored.

Customers such as Monsanto will have more choices in their energy provider in the future. The 1992 National Energy Policy Act opened up transmission lines—the “pipelines” to the marketplace—to other entities for wholesale transactions. (PacifiCorp has operated an open transmission system since 1989.) Regulation will likely evolve to the point where

all customers will be able to choose who supplies their power. The utility that owns the line to a home or business will simply transmit power from the customer's chosen supplier, charging a usage fee.

California regulators approved a plan in late 1995 that would let all customers choose their energy supplier by 2003. The proposal still needs state approval. A bill introduced in Rhode Island early in 1996 would, if passed, offer similar choice options for customers in that state. Several other states are also exploring this issue.

The advantage today goes to the energy provider that can find the best options for customers, whether through low or predictable prices, enhanced service or both. Utilities that succeed in this new marketplace are building relationships and offering **innovative solutions** to each customer's unique needs.

U.S. electricity demand growth is projected at 1.8 percent annually through 2000. To grow at a faster rate, utilities need to look beyond traditional boundaries. Some, including PacifiCorp, believe competition will eventually drive market consolidation to the point where a relatively small number of utility and energy services companies will meet much of the world's energy demands.

Utility customers compete in the global economy and they expect their power suppliers to be competitive within that framework. Several U.S. energy companies have already expanded into the international market. Five, including PacifiCorp, purchased electricity distributors in Australia in 1995, and two have entered the United Kingdom.

Compared to what is currently available in the U.S., international markets are attractive because they offer greater earnings growth potential. Also, their less-regulated environment allows a more balanced sharing of risks and rewards between customers and shareholders. Experience gained in these markets can be transferred and applied in the U.S. once markets are deregulated.

There are still significant issues to resolve in the transition of the U.S. market. One issue is how utilities will pay for their high-cost generating facilities if customers defect to lower-cost providers. For PacifiCorp, this risk is reduced because we have relatively low-cost generating facilities. But the issue is important to us from a **global economic perspective**. If regulation postpones competition until "stranded" costs are recovered, or places excessive charges on the transmission system or on customers who choose to leave a utility, the customer's right to choose will be unnecessarily delayed. Customers won't be willing to wait for utilities to recover all their costs before being allowed more choices. Ultimately, shareholders and customers will need to share the burden of stranded costs.

Another issue to resolve is how some of the environmental and social responsibilities typically paid through regulated utilities will be handled in the future, while still allowing those utilities to compete on an equal basis with new, nonregulated entities. PacifiCorp is convinced that the transition to a more competitive environment can be made while still protecting these interests. These costs will need to be shared, on some allocated basis, among existing customers, utility shareholders and, perhaps, new energy suppliers.

opportunities

What do these changes mean for investors? By owning part of this new energy marketplace, investors are exposed to an industry that has more risk than in the past, but also has the potential for higher returns. Relatively safe returns are no longer a given for utilities, and investors need to be more selective in which utilities they own.

Companies will need to retain more capital than in the past to better absorb the changes brought on by competition and to seize opportunities that a deregulated power marketplace presents. As a result, many utilities will lower their traditionally high dividend payout levels. Utility investors will need to take a total return perspective, where the potential for increasing share price is given greater consideration. The reality is that, on average for the last 10 years, more than 75 percent of the total return from the Standard & Poor's 500 has come from share price appreciation, not dividends.

This **new utility world** is no longer an environment for the hesitant or timid. For both the industry and its investors it is a time of unprecedented opportunities. Utilities are now challenged to compete, and those who are successful will find new ways to serve a growing number of customers nationally and internationally.

Changes will continue and won't be easily predictable. One thing is certain. The future will look very different. Utilities that survive, and thrive, are already preparing for it.

strategic

To become a leading global utility, we must aggressively grow our business in ways never before imagined.

A high-contrast, black and white photograph of a hand holding a pen, with the word 'strategic' overlaid in white text.

strategic

To become a leading global utility, we must aggressively grow our business in ways never before imagined.

PROFITABLE GROWTH. PacifiCorp is already embarked on a strategy to take full advantage of the developing utility marketplace. We value above all else our core group of retail customers, but we are also looking at new business opportunities involving new groups of customers because such efforts will allow us to provide superior returns to our shareholders. These new products, services and ventures are ways to offset the continuing squeeze on profit margins as competition increases in the basic supply of energy.

PacifiCorp has several key strengths which can be used to generate new earnings streams. In 1995, we produced 22.2 million tons of coal from company-owned mines, and purchased another 4.8 million tons. As a result, we understand the fuels business. We are recognized as a leading operator of coal-fired plants, as measured by costs and availability. We have the largest market share of wholesale energy sold by investor-owned utilities in the western U.S. And, we operate one of the nation's largest open-access, high-voltage transmission systems. Our electricity distribution capabilities are also far-reaching, serving 1.3 million customers throughout the western U.S. and 540,000 customers in Australia.

Through our nonregulated subsidiaries we can use our strengths to capitalize on a growing variety of domestic and international opportunities. Because many of these business ventures are outside of our current, state-regulated electric service area, we have a better opportunity to return more of the resulting value to shareholders, who also shoulder the risks involved.

PacifiCorp is working with regulators to change the regulatory environment to better match today's competitive realities. We continue to look for new products and services for customers both within and outside our traditional retail service area. We also remain focused on cost control, an area where we have already had considerable success.

Through these strategies, PacifiCorp intends to become a leading utility, one that provides superior value to customers and shareholders alike.

A black and white photograph of three surfboards lying on a sandy beach. The surfboards are arranged in a row, with their noses pointing towards the left. The word "connect" is overlaid in white lowercase letters across the middle of the image.

connect

Nothing is more important to the success of PacifiCorp than building a strong relationship with our customers.

connect

CUSTOMER SERVICE. Customers are driving the changes in our industry. They want lower prices, better service and choice. As the energy marketplace begins to deregulate and customers have more choices, PacifiCorp wants to earn their business.

Companies that can provide desired energy products and services at market-based prices will keep the customers they have and gain new ones. For industrial and large commercial customers, that means paying attention to power costs, power quality and meeting other special needs. PacifiCorp's goal is to help these customers use energy more efficiently, run a more profitable business and more conveniently manage their total energy needs. As an example, we have recently begun offering a consolidated billing software product to commercial customers.

New energy products and services for residential customers is another important market for PacifiCorp. As new energy technologies develop, we are seeking strategic alliances to help bring these technologies to customers.

In 1996, we also plan to form a new, nonregulated subsidiary to deliver products and services to customers outside our traditional service area, focusing initially on other utilities. Our strengths in the retail and wholesale arena transfer well to unregulated businesses. In particular, PacifiCorp's reputation as a good business partner will be an ongoing advantage in an environment where connections with customers, allies and competitors are even more important.

But we have room for improvement. Changes are being made in our customer service functions to address the findings of a recent study that compared PacifiCorp with other service industries, including utilities. The study showed that we provided below average retail service quality yet it cost us more than average to provide these services. By the end of 1996, we will offer expanded service options including 24-hour phone access, electronic transfer and alternative payment locations. In turn, since more than 85 percent of our customers already do business with us solely by mail or phone, customer service counters at most of our district offices will close to walk-in traffic.

The key in the future is to use our resources in the most efficient manner possible to assure customers are getting the service they expect from us. If we can exceed their expectations, we will be successful.



global

part of the

work:



global

To enhance our earnings prospects, we are using our energy supply and distribution expertise in new parts of the U.S. and the world.

GROWING THE BUSINESS. We no longer accept geography as a limiting factor in the utility business. While regulation still restricts utilities from serving retail customers outside of their established franchised areas, there is a wide range of nonregulated opportunities that will only increase as the marketplace forces its way open.

PacifiCorp intends to become a major global utility, and is taking bold steps now to begin that process. In 1995, we jumped into the international markets with the purchase of Powercor, an electric distribution and marketing company in Australia. The \$1.6 billion purchase was completed in December. Powercor serves 540,000 customers in suburban Melbourne and western and central portions of the State of Victoria. This acquisition is expected to positively impact earnings in 1997 and beyond.

The addition of Powercor gives PacifiCorp a growing business in a more competitive marketplace. Victoria took the first steps toward privatizing its electricity distribution system in 1994 by forming five distribution companies. Each of these companies was sold in 1995. Powercor has had the highest electricity load growth of the five, averaging more than 3 percent annually since 1986.

The electricity market is considerably more deregulated in Victoria than in the U.S. Large-use customers may currently choose their energy supplier, and by the year 2001, all customers will be able to choose their supplier. In 1995, Powercor not only retained existing customers but won 17 of the 41 accounts that switched suppliers. While energy supply is "contestable," the local utility maintains a monopoly on the delivery of power. Powercor derives most of its earnings from the resulting network charges.

Operating in this type of marketplace will be valuable experience for PacifiCorp and will allow us to fine-tune our U.S. operations for increasing competition. We will also benefit from the sharing of ideas and practices between Powercor and PacifiCorp. And, we will use our expertise in power supply and marketing to look for opportunities to maximize the profitability of our investment in Powercor.

Powercor serves as a platform for further growth. PacifiCorp plans to explore other opportunities in Australia, as well as in the Asia-Pacific region.

As we look internationally, we will focus on countries with minimal language, culture and business barriers. We will also look for investments that allow us to use our key strengths, offer multiple opportunities to grow earnings and provide an opportunity to learn and to introduce new competitive practices into our domestic operations.

ENTERING THE EAST. Closer to home, PacifiCorp also plans to expand into new parts of the U.S., and we recently made our entry into the eastern power market through an agreement with Big Rivers Electric Corporation in western Kentucky. A letter of intent, signed in January 1996, calls for a subsidiary of PacifiCorp to operate and manage the generation and transmission cooperative's power plants. PacifiCorp Kentucky Energy Company will sell power to Big Rivers to serve its 85,000 customers, and PacifiCorp Power Marketing will sell surplus output from the 1,740 megawatts of coal-fired generation assets to wholesale customers in the eastern U.S.

Definitive agreements need to be finalized and are subject to various federal, state and board approvals, which are expected by the end of 1996. However, we expect an interim operating agreement will allow PacifiCorp to begin receiving some earnings from the transaction before all approvals are received.

BREADTH OF OPTIONS. The Big Rivers transaction is an example of the breadth of options PacifiCorp offers to new customers. Our key strengths in coal-fired plant operation and wholesale power marketing align very well with the needs and opportunities presented by Big Rivers. Through PacifiCorp Energy, our nonregulated mining and fuels subsidiary, we will also assist Big Rivers with fuel procurement and transportation. And, Big Rivers was particularly interested in the economic development expertise we bring to the relationship.

We expect to gain additional business opportunities as we form relationships in new locations. We already have a presence in areas outside our traditional service territory through Pacific Generation Company, our independent power subsidiary. PGC has interests in 12 power projects located

throughout the U.S. PGC also recently acquired interests in a cogeneration project under construction in Ontario, Canada. Pacific Generation's 248-megawatt Crockett plant near San Francisco, California, is expected to begin commercial operation in April 1996, and a waste-to-energy project in North Carolina is scheduled to be on-line in mid-1997.

Pacific Generation plans to grow through development or acquisition of domestic independent power projects, and the development and operation of coal and hydro plants in targeted international markets. Its contribution to PacifiCorp's bottom line is expected to grow as new projects are identified and developed.

PacifiCorp is also looking internationally through EnergyWorks, a newly formed joint venture with Bechtel Enterprises. EnergyWorks is exploring opportunities for small, renewable and distributed energy systems in selected countries and will also provide industrial energy efficiency services in the U.S. and abroad.

WORKING WITH OTHERS. PacifiCorp has a reputation for innovative power arrangements, and for working out flexible energy solutions that merge our strengths with those of our partners or customers. While this capability will allow us to expand nationally and internationally, it also continues to benefit us in the western U.S. For example, we have developed partnerships with electric cooperatives such as Plains Electric Generation and Transmission in New Mexico, and public entities such as Clark Public Utilities in Vancouver, Washington, to provide specialized products and services that are in high demand. We have signed new wholesale contracts for 1996 that add approximately \$100 million in new annual revenues. Many of these contracts include nontraditional energy services, such as system dispatch, load following, capacity supply and surplus energy marketing.

In the future, we expect to continue to seek strategic partnerships with others, to serve new customers and make the strongest possible entry into new markets, using what PacifiCorp knows how to do very well—combined with strengths from others—to generate new, diversified earnings streams.



converge

Pulling together the strengths from the energy and telecommunications businesses will allow us to better serve new and existing customers.



converge

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allow us to better serve new
and existing customers.

TELECOMMUNICATIONS. It was a year of change at Pacific Telecom, PacifiCorp's telecommunications business. Most significant was the purchase of the publicly held shares of PTI stock by PacifiCorp Holdings, which makes PTI a wholly owned subsidiary. Having an energy and telecommunications combination is fairly unique among U.S. utilities, and PacifiCorp is exploring potential synergies to improve customer service and earnings prospects. As federal restrictions loosen, other electric utilities are also beginning to explore telecommunications as a new way to gain access to customers and provide interactive energy management systems.

In 1995 we also completed the sale of Alascom, PTI's long distance operation in Alaska, to AT&T. While Alascom produced strong results historically, future earnings were expected to decline. By year-end, we had replaced about one-third of Alascom's operating income contributions through growth in the local exchange business, and we expect to offset the remainder by the end of 1996.

Pacific Telecom's primary focus is on providing high-quality local exchange services to rural and suburban markets. These markets are not as vulnerable in the near-term to increasing competition because they are more expensive to serve than larger metropolitan areas. In some areas, Pacific Telecom has access to universal service support to help offset the cost of providing modern facilities and services in rural areas. Under the new Telecommunications Act, all telecommunications carriers must contribute to universal service as part of the national goal to assure that the information superhighway doesn't bypass rural America.

In 1995, Pacific Telecom had a 27 percent total increase in customer access lines served, mostly due to completion of purchases from US WEST in Colorado, Oregon and Washington. Combined, these transactions added approximately 90,000 access lines. Another 26,600 lines will be added in 1996, with the pending purchase of local exchanges in rural parts of Minnesota.

Because many areas served by Pacific Telecom are thriving, PTI's 5.3 percent internal access line growth rate is approximately 2 percent above the most recently available national average. PTI expects to increase its customer base through continued strong internal growth, expanded service options and the acquisition of additional local exchange properties.

bold

**We don't have to wait! We
are taking tangible steps today
that will position PacifiCorp
to become a leading utility in
tomorrow's global marketplace.**

bold

**We don't have to wait! We
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tomorrow's global marketplace.**

MOVING FORWARD. PacifiCorp has aggressive growth plans. We will intelligently expand into new markets, leveraging our strengths in fuels management, power generation, distribution and marketing.

We are an undisputed low-cost power producer. In 1995, our coal-fired plants had total production expenses, including labor, of \$13.51 per megawatt-hour, significantly below the most recent comparable national average of \$19.20. These low power production expenses benefit us in both wholesale and retail power markets. Wholesale sales allow us to get more value from our resources when they're not needed by our retail customers.

Our 1995 average net retail price was 4.8 cents per kilowatt-hour, considerably lower than prices in neighboring California and Southwest markets. As customer options increase, these low prices, combined with quality service, will help us fend off would-be power suppliers in our retail service area.

Our ability to deliver low-cost power to customers can help us make inroads elsewhere. But low rates are just the admission ticket to today's utility world. We also have the experience, the business relationship skills and, through our unregulated ventures, the ability to meet the unique needs of a wide range of new customers outside our traditional geographic and business boundaries.

In this growth process, we won't lose sight of the customers in the West that have been the backbone and heart of our business for more than 80 years. PacifiCorp continues to look for ways to improve their energy choices and quality. We also continue our commitment to the communities we serve. Our economic development efforts, for example, have helped add more than 24,600 jobs in our service area since 1990, and more than \$46 million in additional annual electric revenue.

PacifiCorp is more excited about the new competitive utility environment than many other utilities because we are positioned to benefit from the opportunities that await. There is more risk as we move forward, but the greater risk comes from waiting on the sidelines. The market already exists, and the advantage goes to companies that are among the first in the marketplace. PacifiCorp is one of those companies. As we succeed, we expect our shareholders to also benefit.

approach

PacifiCorp's primary goal is to provide superior total investment return for our shareholders.

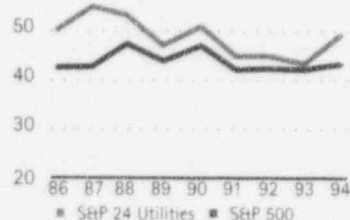
approach

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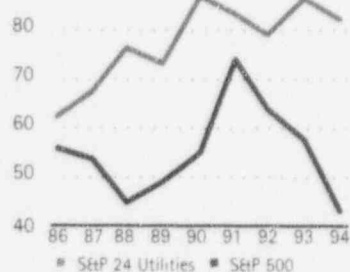
SUPERIOR RETURN: One resounding message in this annual report is that the utility business has become increasingly competitive. That fact, plus our primary goal of superior investment return for shareholders over time, affects our investment strategy and our financial policies.

Under the old model for utility companies, which included a "guaranteed" regulated return, utility executives invested ever-growing amounts of capital on which they could earn an assured return, and investors bought utility stocks primarily for high dividend yield and low-risk profile. Regulated protection from competitive pressures allowed utilities to earn on capital employed, to be more highly leveraged than most other industries and to pay out a much greater portion of their earnings in dividends.

Historical Debt/Total Capitalization
(percent)



Historical Dividend Payout Ratio
(percent)



THE OLD MODEL IS GONE. Competition has brought more risk for the utility shareholder, but also greater opportunity for superior total return for companies that retain enough earnings to take advantage of opportunities presented by a deregulated power marketplace.

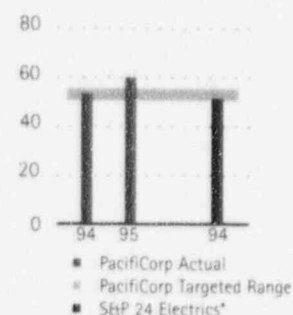
At PacifiCorp, we are focused on investing in opportunities that will lead to strong earnings growth. Earnings growth is essential for superior total shareholder return. And, as mentioned in last year's annual report, we continue to examine our capital spending levels to ensure we are using capital effectively.

Another essential element for utilities in the competitive energy marketplace is financial flexibility. The strength of PacifiCorp's balance sheet was evident in the company's credit rating agencies' recent decisions to maintain an "A" credit rating for PacifiCorp after the acquisition of Powercor.

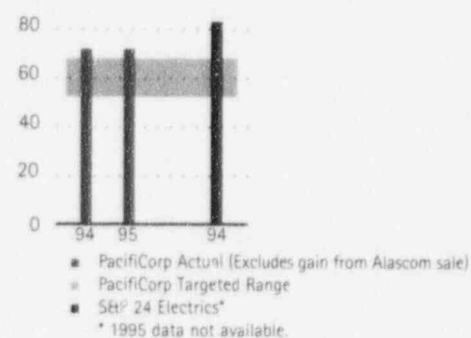
Even with the reaffirmation of our credit quality, we know we must continue to find ways to use our capital more effectively and reduce the company's debt levels. While opportunistic investments may necessitate increased debt levels in the near term, financial flexibility is essential for superior shareholder return performance.

At PacifiCorp, we are focused on strong earnings growth and financial flexibility as the keys to superior total return for utility shareholders of the future.

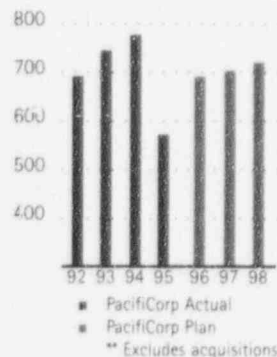
Debt/Total Capitalization
(percent)



Dividend Payout Ratio
(percent)



Capital Spending**
(millions of dollars)



Summary Information

Millions of dollars, except per share amounts

For the year	1995	1994	1993	1992	1991	1990	1995 to 1994 Percentage Comparison	5-Year Compound Annual Growth
Revenues	\$ 3,400.9	\$ 3,506.5	\$ 3,405.4	\$ 3,235.7	\$ 3,163.9	\$ 3,093.9	(3)%	2%
Income from Operations	1,047.8	1,022.3	969.2	703.5	1,032.5	1,034.5	2	—
Net Income (Loss)	505.0	468.0	479.1	(340.4)	507.2	473.9	8	1
Earnings Contribution (Loss) on Common Stock								
Continuing operations								
Electric Operations	276.4	339.8	322.3	202.9	346.6	334.2	(19)	(4)
Telecommunications	103.0	70.5	50.9	57.3	76.6	76.6	46	6
Other ^(a)	86.9	18.0	10.2	(147.3)	(3.1)	(19.3)	*	*
Total	466.3	428.3	383.4	112.9	420.1	391.5	9	4
Discontinued operations ^(b)	—	—	52.4	(490.6)	60.4	60.5	—	*
Cumulative effect of change in accounting for income taxes	—	—	4.0	—	—	—	—	—
Total	\$ 466.3	\$ 428.3	\$ 439.8	\$ (377.7)	\$ 480.5	\$ 452.0	9	1
Earnings (Loss) per Share								
Continuing operations								
Electric Operations	\$.97	\$ 1.20	\$ 1.17	\$.76	\$ 1.34	\$ 1.37	(19)	(7)
Telecommunications	.36	.25	.19	.21	.30	.31	44	3
Other ^(a)	.31	.06	.04	(.55)	(.01)	(.08)	*	*
Total	1.64	1.51	1.40	.42	1.63	1.60	9	1
Discontinued operations ^(b)	—	—	.19	(1.84)	.23	.25	—	—
Cumulative effect of change in accounting for income taxes	—	—	.01	—	—	—	—	—
Total	\$ 1.64	\$ 1.51	\$ 1.60	\$ (1.42)	\$ 1.86	\$ 1.85	9	(2)
Cash Dividends per Common Share								
Paid	\$ 1.08	\$ 1.08	\$ 1.195	\$ 1.52	\$ 1.47	\$ 1.41	—	(5)
Declared	\$ 1.08	\$ 1.08	\$ 1.08	\$ 1.53	\$ 1.485	\$ 1.425	—	(5)
Capitalization								
Common equity	\$ 3,633	\$ 3,460	\$ 3,263	\$ 2,908	\$ 3,512	\$ 3,208	5	3
Preferred stock	\$ 312	\$ 367	\$ 367	\$ 417	\$ 342	\$ 342	(15)	(2)
Redeemable preferred stock	\$ 219	\$ 219	\$ 219	\$ 219	\$ 150	\$ 50	—	34
Long-term debt	\$ 4,968	\$ 3,768	\$ 3,924	\$ 4,181	\$ 4,348	\$ 3,944	32	5
Short-term debt	\$ 1,227	\$ 551	\$ 709	\$ 973	\$ 955	\$ 1,078	123	3
Other Information								
Total assets	\$ 14,015	\$ 11,846	\$ 11,957	\$ 11,257	\$ 11,910	\$ 11,201	18	5
Total employees	12,651	12,845	13,464	12,901	13,239	13,411	(2)	(1)
Common shareholders of record (Thousands)	139.8	149.4	157.5	165.7	162.3	164.6	(6)	(3)
Book value per share	\$ 12.78	\$ 12.17	\$ 11.61	\$ 10.75	\$ 13.40	\$ 12.69	5	—
Market price per share	\$ 21 $\frac{1}{8}$	\$ 18 $\frac{3}{8}$	\$ 19 $\frac{1}{4}$	\$ 19 $\frac{1}{4}$	\$ 25 $\frac{1}{2}$	\$ 22 $\frac{1}{2}$	17	(1)
Price earnings multiple	12.9	12.0	13.8	47.0	15.4	14.0	8	(2)
Pretax interest coverage	3.0	3.1	2.6	1.6	2.5	2.4	(3)	5
Cash flows from continuing operations divided by interest	3.5	4.1	3.9	3.5	3.5	3.3	(15)	1
Return on average common equity	13.2	12.8	12.5	3.4	12.5	12.9	3	—

* Not a meaningful number.

^(a) Other includes the operations of PacifiCorp Financial Services, Inc. and Pacific Generation Company, as well as the activities of PacifiCorp Holdings, Inc. and, beginning in December 1995, Powercor Australia Limited, an electricity distributor in Australia.

^(b) Discontinued operations includes the Company's interest in NERCO, Inc. and TRT Communications, Inc.

The electric utility industry is undergoing major restructuring around the world, including the beginning of the deregulation process in the United States. PacifiCorp has recognized that these changes generate both opportunities and threats and has taken steps to meet this challenge. The Company is responding to increasing competition and deregulation in the utility industry by providing additional products and services to its traditional customer base and by expanding into new domestic and international markets through its nonregulated businesses, including independent power production, power marketing and generating plant and fuel management. The Company also continues to look for opportunities to expand its telecommunications business and to develop synergies between that business and the Company's energy operations. Through these efforts, the Company expects to provide increased value to both its customers and its shareholders.

1995 Compared to 1994

Earnings contribution on common stock increased \$38 million or 9%.

- The Company reached a tax settlement with the U.S. Internal Revenue Service for the tax years 1983 through 1988, including the issues relating to the 1983 abandonment of the Company's interest in Washington Public Power Supply System Unit 3 ("WPPS 3"). The settlement had no effect on consolidated net income, although it had the effect of reducing Electric Operations' earnings \$32 million and increasing Other earnings by \$32 million.
- Electric Operations' earnings contribution decreased \$63 million or 19% primarily due to the \$32 million tax settlement. Excluding this settlement, Electric Operations' earnings contribution decreased \$31 million or 9%. Lower fuel costs and lower spot market prices for purchased power offset decreased revenues from irrigation customers, lower prices for energy sold in the wholesale market and lower revenues from oil and gas industrial customers. However, higher pension, interest and depreciation expenses led to a reduction in earnings contribution.
- Telecommunications' earnings contribution increased \$33 million or 46% due to a \$37 million gain resulting from the sale of Alascom, Inc. ("Alascom"). Excluding the effect of the Alascom gain and its decreased earnings contribution of \$24 million, Telecommunications' contribution increased \$20 million or 75% due to the acquisition of local exchange assets, revised local exchange revenue estimates for prior years and growth in cellular operations. These increases were partially offset by increased interest expense resulting from higher levels of debt outstanding.
- The earnings contribution of other businesses increased \$69 million primarily due to a \$32 million tax adjustment relating to the settlement with the IRS described above. Also contributing was a \$27 million increase in financial services' income resulting from the effect of valuation and impairment charges of \$19 million after-tax in 1994 and increased gains in 1995 from sales of finance and real estate assets of \$4 million.

- The average number of common shares outstanding was virtually unchanged. In November 1994, the Company ceased issuing new shares to meet the requirements under dividend reinvestment and employee stock ownership plans. The Company periodically evaluates the advantages of common share issuances and, on February 15, 1996, began again to issue common stock under the dividend reinvestment plan. In addition, the Company completed a public offering of 9.7 million shares of its common stock on March 11, 1996.

1994 Compared to 1993

Earnings contribution on common stock decreased \$12 million or 3%.

- Electric Operations' earnings contribution increased \$18 million or 5% primarily due to increased energy sales in all customer categories and after-tax gains of \$6 million relating to the sale of a portion of its emission allowances and \$4 million relating to the sale of distribution facilities in Sandpoint, Idaho.
- Telecommunications' earnings contribution from continuing operations increased \$20 million or 39% primarily due to long lines settlement revenue, decreased interest expense, increased local telephone exchange access lines and continued growth in cellular operations.
- The earnings contribution of other businesses increased \$8 million primarily due to a \$12 million increase in interest revenues from a note received in connection with the June 1993 sale of NERCO, Inc. ("NERCO"), the Company's former mining and resource development subsidiary.
- Discontinued operations contribution decreased \$52 million due to the effect of a gain in 1993 relating to the sale of an international communications subsidiary. See Note 13 to Consolidated Financial Statements.
- The average number of common shares outstanding rose 3% due to the issuance of 6 million shares in a September 1993 public offering and issuances under dividend reinvestment and employee stock ownership plans.

New Accounting Standard

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company does not expect the adoption of this standard in 1996 to have a material effect on its consolidated financial statements.

Electric Operations

Electric Operations generates power primarily at coal-fired and hydroelectric plants and relies on a transmission and distribution network to serve retail and wholesale customers throughout the Pacific Northwest, Rocky Mountain and desert Southwest regions.

Factors Influencing Earnings

Financial performance is dependent on efficiently and economically balancing power supply resources with customer demand; improvements in operating efficiencies; utility commission practices; regional economic conditions; retention of commercial and industrial customers and municipal franchises; weather variations affecting customer usage; competition in bulk power markets and hydroelectric production; wholesale firm power marketing results; the success of other marketing initiatives; environmental and tax legislation; and the cost of debt and equity capital.

Factors expected to place upward pressure on Electric Operations' costs and pricing structure in the next several years include a higher effective tax rate, Bonneville Power Administration ("BPA") price increases, the potential for rising interest rates, hydroelectric relicensing and other cost increases. In addition, increased competition in the wholesale marketplace is expected to keep prices and margins low for Electric Operations' wholesale sales.

Competition

Although Electric Operations operates as a regulated monopoly within its service territories, it encounters significant competition from both traditional and nontraditional energy suppliers. Competition varies in form and intensity and includes competition from both utility and nonutility energy suppliers for industrial customers, as well as for wholesale power sales to other utilities; self-generation and cogeneration by industrial customers; and substitute energy forms for residential and commercial space heating, cooling and water heating.

The U.S. electric utility industry is experiencing increasing competitive pressures, primarily in the wholesale market, as a result of customer demands, technological advances, greater availability of natural gas and other factors. The Federal Energy Regulatory Commission ("FERC") has proposed regulatory changes to increase access to the nationwide transmission grid by utility and nonutility purchasers and sellers of electricity. Electric Operations has filed open access point-to-point and network integration tariffs with the FERC and its transmission assets have been subject to open access since 1989. A number of states are considering methods to introduce and promote retail competition.

Electric Operations has formulated strategies to meet these new challenges and capitalize on its competitive position. To give shareholders an appropriate opportunity to share in the rewards and risks of competition, Electric Operations is seeking alternate forms of regulation that will include performance indexes. Electric Operations plans to focus on the development of new products and services, as well as the use of existing technologies in new ways. Electric Operations is marketing unbundled power supply services to other utilities,

including dispatch assistance, daily system load monitoring, backup power, power storage and power marketing and services to retail customers that encourage efficient use of energy. Depending upon the success of these strategies, Electric Operations will continue to adjust its competitive direction.

Regulation

On September 1, 1995, Electric Operations filed a request with the Oregon Public Utility Commission to raise prices in Oregon by an average of 3.8%. The proposed rate increase amounts to \$25 million annually and involves a performance-based formula. Electric Operations expects that any changes to prices under this filing would not occur until July 1996. This would be Electric Operations' first general rate increase since 1987. Oregon customers accounted for 32% of Electric Operations' total retail revenues in 1995.

On November 8, 1995, Electric Operations filed a request with the Wyoming Public Service Commission ("PSC") for an overall price increase averaging approximately 4% for its Wyoming customers. The proposed rate increase amounts to \$10 million annually and also involves a performance-based formula. Electric Operations expects any changes in prices under this filing to occur during the third quarter of 1996, subject to approval from the Wyoming PSC. This would be PacifiCorp's first price increase filing in Wyoming since 1986. Wyoming customers accounted for 14% of Electric Operations' total retail revenues in 1995.

It is uncertain whether or not the Company's proposal or any other alternative form of regulation will be adopted in these jurisdictions.

For a discussion of accounting for the effects of regulation, see Note 1 to the Consolidated Financial Statements.

Environmental Issues

During 1991, the Environmental Protection Agency ("EPA") and the states began the process of implementing the newly amended Clean Air Act ("Act"). Through the ongoing rule-making process, the EPA has issued regulations to implement the Act's acid rain provisions; established a national emissions allowance trading system; and required monitoring of plant emissions.

Electric Operations' generating plants burn low-sulfur coal. Major construction expenditures have already been made at many plants to reduce sulfur dioxide emissions, but additional expenditures are expected to be required at the Centralia Plant in Washington and the Jim Bridger Plant in Wyoming. Electric Operations is studying how to bring the Centralia Plant into compliance in a cost-effective manner with the emissions limitations ordered by the environmental authorities in the state of Washington. Electric Operations has also been engaged in discussions with the environmental authorities in Wyoming with respect to alleged violations of the opacity standards applicable to the Jim Bridger Plant.

In addition, the Company and the other joint owners of the Hayden Generating Station ("Station") in Colorado are parties to a lawsuit brought by the Snake Club alleging violations of the Act at the Station, which is operated by the Public Service

Electric Operations

Millions of dollars

For the year	1995	1994	1993	1992	1991	1990	1995 to 1994 Percentage Comparison	5-Year Compound Annual Growth
Revenues								
Residential	\$ 721.9	\$ 724.9	\$ 698.9	\$ 649.8	\$ 663.8	\$ 646.6	-9%	2%
Commercial	575.9	570.4	543.9	526.9	517.4	509.0	1	3
Industrial	697.6	726.3	696.2	695.6	674.9	673.8	(4)	1
Other	29.7	30.7	29.8	29.9	34.2	34.3	(3)	(3)
Retail	2,025.1	2,052.3	1,968.8	1,902.2	1,890.3	1,863.7	(1)	2
Wholesale—firm	487.7	456.2	422.5	356.5	264.7	209.9	7	18
Wholesale—nonfirm	32.3	76.5	77.3	71.3	59.9	78.4	(58)	(16)
Wholesale	520.0	532.7	499.8	427.8	324.6	288.3	(2)	13
Other	71.0	62.8	38.3	32.4	36.9	32.5	13	17
Total	2,616.1	2,647.8	2,506.9	2,362.4	2,251.8	2,184.5	(1)	4
Expenses								
Depreciation and amortization	320.4	301.6	280.5	286.6	256.0	235.4	6	6
Operations, maintenance and other	1,494.8	1,526.9	1,442.1	1,398.1	1,212.8	1,204.1	(2)	4
Total	1,815.2	1,828.5	1,722.6	1,684.7	1,468.8	1,439.5	(1)	5
Income from Operations	800.9	819.3	784.3	677.7	783.0	745.0	(2)	1
Interest expense	311.9	264.3	270.4	271.0	265.1	250.8	18	4
Interest capitalized	(14.9)	(14.5)	(13.9)	(16.2)	(15.8)	(22.3)	3	(8)
Other (income) expense—net	(25.3)	(30.2)	(13.1)	25.0	(13.9)	(1.4)	(16)	78
Income tax expense	214.1	220.2	179.3	157.7	174.3	161.8	(3)	6
Net Income	315.1	379.5	361.6	240.2	373.3	356.1	(17)	(2)
Preferred Dividend Requirement	38.7	39.7	39.3	37.3	26.7	21.9	(3)	12
Earnings Contribution ^(a)	\$ 276.4	\$ 339.8	\$ 322.3	\$ 202.9	\$ 346.6	\$ 334.2	(19)	(4)
Identifiable assets	\$ 9,599	\$ 9,372	\$ 9,055	\$ 8,192	\$ 7,665	\$ 7,027	2	6
Capital spending	\$ 455	\$ 638	\$ 637	\$ 864 ^(b)	\$ 796	\$ 459	(29)	—
Number of employees	8,966	9,281	9,304 ^(c)	9,363	9,419	8,974	(3)	—
Expenses								
Fuel	\$ 446.6	\$ 496.4	\$ 464.7	\$ 479.0	\$ 424.1	\$ 403.5	(10)	2
Purchased power	\$ 311.3	\$ 310.4	\$ 274.9	\$ 210.2	\$ 176.4	\$ 149.6	—	16
Other operations	\$ 304.1	\$ 296.1	\$ 287.9	\$ 288.0	\$ 249.7	\$ 259.5	3	3
Maintenance	\$ 168.4	\$ 174.5	\$ 172.2	\$ 167.8	\$ 146.6	\$ 151.2	(3)	2
Administrative and general	\$ 160.5	\$ 142.7	\$ 138.2	\$ 144.5	\$ 119.1	\$ 139.5	12	3
Depreciation and amortization	\$ 320.4	\$ 301.6	\$ 280.5	\$ 286.6	\$ 256.0	\$ 235.4	6	6
Taxes, other than income taxes	\$ 103.9	\$ 106.8	\$ 104.2	\$ 108.6	\$ 96.9	\$ 100.8	(3)	1
Income taxes—utility	\$ 213.6	\$ 223.0	\$ 188.8	\$ 170.5	\$ 180.8	\$ 169.7	(4)	5
Income taxes—other	\$.5	\$ (2.8)	\$ (9.5)	\$ (12.8)	\$ (6.5)	\$ (7.9)	118	*

* Not a meaningful number.

^(a) Does not reflect elimination of interest on intercompany borrowing arrangements and includes income taxes on a separate-company basis.

^(b) Includes noncash acquisition costs of \$255 million relating to the Colorado-Ute properties.

^(c) Beginning in 1993, employees of Pacific Generation Company were reported in other businesses (127 employees in 1993).

Company of Colorado, in which the Company has an interest of approximately 17.5%. The EPA has also issued a notice of additional violations of air quality regulations applicable to the Station and proposed a penalty of \$24 million. The parties have been engaged in settlement discussions, but the Company is not able to predict the outcome of these discussions or the level of penalties or other remedies that may ultimately be imposed on the joint owners of the Station.

The greenhouse effect is believed to occur when certain trace gases in the atmosphere trap radiant heat. There is uncertainty regarding the amount of warming, its timing and impact and the effect, if any, carbon dioxide ("CO₂") emissions have on warming. Electric Operations is investigating cost-effective ways to offset future CO₂ emissions and is undertaking demonstration projects involving tree planting as a possible means of offsetting emissions. In 1994, Electric Operations joined with 37 other investor-owned utilities to sign a voluntary agreement with the U.S. Department of Energy addressing CO₂ emissions. Electric Operations' specific agreement includes a commitment to reduce its 1990 CO₂ emissions to an amount that is 10% less than the emissions in 1990 and to spend \$1 million on offset projects by the year 2000.

Actions under the Endangered Species Act with respect to certain salmon and other endangered or threatened species could result in restrictions on the Federal hydropower system and affect regional power supplies and costs. These actions could also result in further restrictions on timber harvesting and adversely affect electricity sales to Electric Operations' customers in the wood products industry.

Electric Operations is currently in the process of relicensing certain of its hydroelectric projects under the Federal Power Act and will be seeking licenses for other projects in the future. The licenses of 12 of Electric Operations' hydroelectric projects expire within the next 10 years. These projects represent 664 MW, or 62%, of Electric Operations' hydroelectric generating capacity, or 8% of total generating capacity. In the new licenses, the FERC is expected to impose conditions designed to address the impact of the projects on fish and other environmental concerns. Electric Operations is unable to predict the impact of imposition of such conditions, but capital expenditures and operating costs are expected to increase in future periods and certain projects may not be economical to operate.

Several Superfund sites have been identified where Electric Operations has been or may be designated as a potentially responsible party. In such cases, Electric Operations reviews the circumstances and, where possible, negotiates with other potentially responsible parties to provide funds for clean-up and, if necessary, monitoring activities. In addition, insurance resources are reviewed and investigated.

Future costs associated with the disposition of these matters are not expected to be material to the Company's consolidated financial statements.

1995 Compared to 1994

Revenues decreased \$32 million or 1%.

- Residential revenues decreased \$3 million and related kWh volume decreased 1%. Revenues decreased \$14 million due to warmer winter weather and \$7 million due to the effect of the sale of Sandpoint, Idaho distribution facilities in December 1994. Revenues increased \$14 million due to a 2% increase in the average number of residential customers and \$4 million from increased customer usage.
- Commercial revenues increased \$6 million or 1%. Revenues increased \$10 million due to a 2% increase in the average number of commercial customers and \$9 million due to increased customer usage. These increases were partially offset by weather-related decreases of \$7 million and a \$4 million decrease due to the sale of the Sandpoint facilities.
- Industrial revenues decreased \$29 million or 4% primarily due to a 3% decrease in kWh volume. Sales to oil and gas customers in Wyoming decreased \$21 million due to permanent oil and gas well closures and sales to irrigation customers decreased \$15 million due to increased rainfall and mild temperatures in 1995, offset in part by a \$5 million increase resulting from reductions in the BPA credit.
- Wholesale revenues decreased \$13 million, or 2%, and kWh volume increased 5%. Spot and short-term market revenues decreased \$30 million due to lower prices and \$4 million due to lower volumes sold. The lower prices resulted from increased competition, the effect of lower natural gas prices, moderate winter heating temperatures and an abundance of hydro generation in the region. Partially offsetting the declines were revenues of \$22 million from new long-term firm contracts.

Operating expenses decreased \$13 million or 1%.

- Fuel expense decreased \$50 million or 10%. Thermal generation declined 3,568,000 mWh or 7% due to a 1,391,000 mWh or 43% increase in hydro generation and the availability of lower-cost purchased power in the spot market.
- Purchased power expense increased \$1 million. A \$27 million decrease resulting from lower spot market prices was offset by an increase of \$14 million resulting from higher volumes purchased (1,839,000 mWh or 20%), a \$7 million increase in prices for firm purchases and decreased BPA exchange benefits of \$7 million.

BPA, a wholesale power and wheeling supplier, increased its rates effective October 1, 1995. The new rates will increase Electric Operations' capacity and wheeling expenses by approximately \$4 million annually and will reduce the exchange benefits directly received by Electric Operations' residential and small farm customers by approximately \$10 million annually. Electric Operations has received approval for price increases that will allow it to recover the loss of exchange benefits.

On July 10, 1995, BPA issued its initial 1996 rate case proposal. This proposal will be subject to a rate hearing which is expected to conclude May 31, 1996, with final wholesale power and wheeling rates to be effective October 1, 1996.

Electric Operations

For the year	1995	1994	1993	1992	1991	1990	1995 to 1994 Percentage Comparison	5-Year Compound Annual Growth
Energy Sales (Millions of kWh)								
Residential	12,030	12,127	12,055	11,230	11,354	10,990	(1)%	2%
Commercial	10,797	10,645	10,085	9,733	9,416	9,101	1	3
Industrial	19,748	20,306	19,671	19,942	19,322	19,507	(3)	—
Other	592	623	602	606	692	690	(5)	(3)
Retail sales	43,167	43,701	42,413	41,511	40,784	40,288	(1)	1
Wholesale—firm	13,946	12,418	11,919	10,455	7,349	6,147	12	18
Wholesale—nonfirm	2,430	3,207	3,030	2,965	2,946	3,323	(24)	(6)
Wholesale sales	16,376	15,625	14,949	13,420	10,295	9,470	5	12
Total	59,543	59,326	57,362	54,931	51,079	49,758	—	4
Energy Source (%)								
Coal	74	79	77	81	78	78	(6)	(1)
Hydroelectric	7	5	6	4	6	7	40	—
Other	2	2	1	2	1	1	—	15
Purchase and exchange contracts	17	14	16	13	15	14	21	4
Number of Retail Customers (Thousands)								
Residential	1,176	1,155	1,135	1,112	1,093	1,076	2	2
Commercial	158	156	152	149	146	142	1	2
Industrial	20	19	18	17	16	15	5	6
Other	3	4	3	3	3	3	(25)	—
Total	1,357	1,334	1,308	1,281	1,258	1,236	2	2
Residential Customers								
Average annual usage (kWh)	10,321	10,568	10,733	10,183	10,464	10,283	(2)	—
Average annual revenue per customer (Dollars)	619	631	622	589	612	605	(2)	—
Revenue per kWh (Cents)	6.0	6.0	5.8	5.8	5.8	5.9	—	—
Miles of Line								
Transmission	14,900	14,900	14,900	14,900	14,900	14,900	—	—
Distribution	44,900	44,800	44,700	44,500	44,400	44,200	—	—
System Peak Demand (Megawatts)								
Net system load ^(a)								
—summer	6,855	7,151	6,554	6,734	6,405	6,407	(4)	1
—winter	7,030	7,174	7,268	6,968	7,019	7,623	(2)	(2)
Total firm load ^(b)								
—summer	8,899	8,830	8,390	8,477	7,639	7,019	1	5
—winter	8,904	8,903	8,838	8,335	7,710	8,417	—	1
System Capability (Megawatts)^(c)								
—summer	10,224	10,020	9,757	9,753	9,629	8,551	2	4
—winter	10,994	10,391	9,916	9,982	9,316	9,141	6	4

^(a) Excludes off-system wholesale sales.

^(b) Includes off-system firm wholesale sales.

^(c) Owned and contractual generating capability at time of system firm peak.

- Other operations expense increased \$8 million or 3% primarily due to higher pension expense in 1995.
- Maintenance expense decreased \$6 million or 3% primarily due to lengthening the intervals between thermal plant overhauls and extending the duration of maintenance overhaul periods at some plants, thereby reducing the use of contract employees and overtime pay.
- Administrative and general expense increased \$18 million or 12% due to increased pension and other employee expenses in 1995 and accruals of \$3 million relating to storm damage in 1995.
- Depreciation and amortization expense increased \$19 million or 6% primarily due to additional plant in service.

Earnings contribution decreased \$63 million or 19%.

- Income from operations decreased \$18 million or 2%.
- Interest expense increased \$48 million or 18% primarily due to the \$28 million interest portion of the tax settlement with the IRS referred to above. The remaining \$20 million increase was primarily due to the effects of higher short-term interest rates and higher levels of debt outstanding in 1995.
- Other income decreased \$5 million or 16% due to the effect of a \$6 million gain on the sale of Sandpoint properties in 1994 and decreased gains of \$3 million on sales of surplus sulfur dioxide emission allowances. Electric Operations is a Phase II utility under the Clean Air Act of 1990 and may have approximately 20,000 to 25,000 tons of surplus sulfur dioxide emission allowances available for sale each year until 2024.
- Income tax expense decreased \$6 million or 3% primarily due to decreased taxable income, partially offset by the \$4 million net effect of the tax settlement (\$15 million of additional taxes due, partially offset by an \$11 million tax benefit from related interest expense). Additionally, income taxes rose due to a higher effective tax rate associated with the reversal of deductions flowed through to ratepayers in prior years.

1994 Compared to 1993

Revenues increased \$141 million or 6%.

- Residential revenues increased \$26 million or 4% and kWh volume increased 1%. Revenues increased \$19 million due to decreased BPA exchange benefits and \$16 million due to a 2% increase in the number of customers. Revenues decreased \$10 million due to unseasonably warm temperatures early in 1994, partially offset by the effects of continuing warm temperatures throughout the summer months.
- Commercial revenues increased \$27 million or 5% primarily due to a 2% increase in the average number of customers and an increase in customer usage.
- Industrial revenues increased \$30 million or 4% due to a 3% increase in kWh volume. Irrigation revenues increased \$12 million due to the effects of drier weather in 1994. Revenues from other industrial customers increased \$18 million due to customer growth, higher prices resulting from contract escalators and changes in customer mix, and increased sales to customers primarily in the paper and pulp industry.

- Wholesale revenues increased \$33 million or 7% on increased volume of 5%. Long-term firm power sales increased \$28 million, \$15 million from higher prices and \$13 million from higher volume under new and existing contracts. Increased volume in the spot market and from short-term firm contracts added revenue of \$12 million, which was partially offset by a \$7 million reduction in prices, mainly in the spot market. Spot market prices were influenced by the availability of energy in the region caused by mild weather and low natural gas prices which made production of natural gas-fired generation more economical, as well as by more competition in the market.
- Other revenues increased \$25 million or 64% due to increases in deferred regulatory revenue of \$13 million, rental revenue of \$8 million and wheeling revenue of \$4 million.

Operating expenses increased \$106 million or 6%.

- Fuel expense increased \$32 million or 7% due to a 6% increase in thermal generation resulting from increased customer demand, a 14% reduction in hydroelectric generation and a 5% reduction in volume of purchased power.
- Purchased power expense increased \$36 million or 13% while kWh volume purchased declined 5%. The increased expense was due to a decrease in BPA exchange benefits of \$15 million, a price increase relating to a BPA peaking purchase contract of \$8 million, price increases on other firm purchase contracts of \$8 million and secondary purchase price increases of \$5 million.

BPA increased its rates effective October 1, 1993. Electric Operations' capacity and wheeling expenses and exchange benefits were affected by that increase.

- Other operations expense increased \$8 million or 3% primarily due to \$7 million of increased wheeling expense, resulting from higher volumes wheeled, and \$2 million of increased distribution system expense.
- Depreciation and amortization expense increased \$21 million or 8% primarily due to additional plant in service.

Earnings contribution increased \$18 million or 5%.

- Income from operations increased \$35 million or 4%. Decreased BPA exchange benefits increased retail revenues and purchased power expense \$15 million each, with no effect on income from operations.
- Interest expense decreased \$9 million or 3% primarily due to an \$11 million decrease relating to refinancing long-term debt during 1993 at lower interest rates and \$8 million of adjustments relating to contract settlements. The decreases were offset in part by the \$10 million effect of higher levels of short-term debt outstanding at higher interest rates.
- Other income increased \$14 million primarily due to gains in 1994 of \$9 million on the sale of a portion of surplus sulfur dioxide emission allowances and \$6 million on the sale of electric properties in Sandpoint, Idaho, partially offset by a gain in 1993 of \$5 million on a sale of property.
- Income tax expense increased \$41 million or 23% primarily due to the \$20 million effect of higher taxable income, an \$11 million increase in adjustments to prior year estimates and \$10 million of various tax adjustments.

Telecommunications

Pacific Telecom, Inc. ("Pacific Telecom") provides voice, data, enhanced and other services through facilities associated with local exchange operations in 11 states. Until August 7, 1995, when Alascom was sold to AT&T Corp. ("AT&T"), Pacific Telecom also provided intrastate and interstate long lines services in Alaska. Pacific Telecom also owns, manages, or holds interests in cellular operations and properties, predominantly concentrated in the Midwest, and owns, operates and sells capacity on the North Pacific Cable ("NPC"), which connects the United States and Japan.

Pacific Telecom's revenues for 1995 were derived 62% from local exchange carriers ("LECs"), 30% from long lines, 5% from cellular operations and 3% from cable and backhaul capacity sales and related cable services.

Factors Influencing Earnings

Pricing for telecommunications services is subject to varying degrees of regulation and competitive market effects, in part dependent upon the specific provisions of individual state jurisdictional requirements. Long-term profitability is influenced by, among other factors, governmental policies (both state and federal), technological developments, efficiency of operations, cost of capital and competitive factors.

Competition

The telecommunications industry is characterized by increasing competition. The Telecommunications Act of 1996, enacted into law on February 8, 1996 ("Telecommunications Act"), removes legal barriers to entry in the provision of many telecommunications services and is intended to promote the development of competitive service within the industry. While Pacific Telecom's LECs have experienced minimal competition with respect to basic services, primarily due to the suburban or rural nature of their service areas, competition experienced by these LECs may increase in the future. Alternative or competitive access providers have historically competed against certain of Pacific Telecom's LECs in the past. Competitive LECs, including those using wireless technologies, are likely to emerge in the telecommunications industry in the future as a result of technological advances and changes in regulatory policy, although their emergence in the areas served by Pacific Telecom is likely to extend over a longer period of time than in more urban areas.

The continuing federal auctions of spectrum for personal communications and other services pose the prospect of increased competition for Pacific Telecom's cellular operations. Price, quality of service and technical capabilities are significant competitive factors in wireless communications, although Pacific Telecom's cellular operations currently benefit from market presence and an existing network.

Over the past several years, Pacific Telecom's strategy has been to concentrate its investment and operations in its primary business of providing local exchange and exchange access services to rural consumers. This strategy has been implemented through a migration of capital investment away from noncore activities (usually through disposition activities) and into LEC properties (usually through acquisitions). The intent of this strategy has been to maximize the benefits

of operational and other efficiencies and capabilities, resulting in high quality service to rural areas provided by state-of-the-art facilities. Regulatory, market and other competitive changes in the telecommunications industry may affect the manner in which this strategy is executed or the benefits obtainable from the strategy in the future.

Pacific Telecom owns 80% of the NPC and is involved in the operation, maintenance and sale of capacity. Approximately 55% of the NPC's capacity has been sold—2%, 2%, 1%, 4%, 10% and 36% sold in 1995 through 1990, respectively. The NPC competes for customers with AT&T's trans-Pacific cables. However, AT&T has stated that all capacity on its existing in-service cable system has been subscribed. The southern route of a new AT&T cable system went into service in December 1995 and the northern route of that system is expected to be completed by late 1996. The NPC is priced competitively with those cable systems. The NPC also competes with available capacity on international communication satellites. Pacific Telecom continues to market the remaining cable capacity and believes that the \$61 million inventory value of the cable system at December 31, 1995 will be recovered.

The NPC experienced outages in February, May and October 1995. Two of the outages were caused by failure of components covered under existing contractual warranty provisions. NPC's warranty provision requires the contractor to pay for incurred marine operations charges and to replace spares and materials used during the repair.

Universal Service Fund ("USF") Support

The USF compensates companies whose nontraffic sensitive loop costs per subscriber are greater than an established threshold over the national average. Due to the suburban and rural nature of their operations, a number of Pacific Telecom's LECs receive this support, as the cost of providing local service in rural areas generally exceeds the national average.

The Federal Communications Commission ("FCC") placed a cap on USF growth, commencing at the beginning of 1994, which effectively indexes the growth in the size of the fund to the rate of growth of the nation's access lines (working local loops). Prior to the enactment of the Telecommunications Act, the FCC had ordered an extension of the fund and the indexed cap mechanisms through the first six months of 1996. The Telecommunications Act specifically addresses universal service issues, requiring a federal-state joint board to examine both the substance of universal service and the mechanisms for providing universal service support and to make recommendations to the FCC within nine months of the enactment date. The FCC is statutorily required to review and determine all universal service matters in a single proceeding, to be concluded no later than 15 months after the date of the Telecommunications Act. The FCC has announced a proposed schedule of proceedings to accomplish these tasks in the time period specified by the Telecommunications Act.

The Telecommunications Act recognizes the need for universal service as a matter of legislative policy and statute. Further, the Telecommunications Act requires specific and predictable mechanisms for delivering universal service

support, and expressly provides that only eligible telecommunications carriers are entitled to receive universal service support funding. Pacific Telecom intends to seek designation as an eligible telecommunications carrier wherever appropriate, but does not expect any determination of that status for some time, pending the conclusion of the joint board and FCC processes described above. Revenues derived from the existing USF were \$46 million in 1995 and \$30 million in 1994 and 1993, and are expected to increase with the full year operation in 1996 of the acquisitions in Colorado, Washington and Oregon.

Continuation of the current indexed cap on USF may have a negative impact on Pacific Telecom's revenues, but that impact is not expected to be material. The form and effects of changes to universal service support, if any, under the new Telecommunications Act are unknown at present. The current USF mechanism functions by transferring certain defined

costs from the intrastate to the interstate jurisdiction for cost recovery. Any change in this mechanism could permit some costs to be recovered from intrastate sources, depending upon state regulatory policies, the competitive condition of specific intrastate markets and other factors.

Other Information

See Note 2 to Consolidated Financial Statements for information regarding Holdings' acquisition of the 13% publicly held minority interest of Pacific Telecom.

See Note 2 to Consolidated Financial Statements for information regarding the sale of Alascom. The Company recognized an after-tax gain of approximately \$37 million from the sale, based on its 87% ownership interest of Pacific Telecom when the sale occurred. Excluding the results of Alascom, the 5-year compound annual growth rate for income from operations would be 7%.

Telecommunications

Millions of dollars

For the year	1995	1994	1993	1992	1991	1990	1995 to 1994 Percentage Comparison	5-Year Compound Annual Growth
Revenues								
Local network service	\$ 120.5	\$ 96.9	\$ 81.8	\$ 74.1	\$ 68.4	\$ 57.7	24%	16%
Network access service	223.7	168.5	183.9	174.9	168.2	147.4	33	9
Long distance network service	150.1	272.0	262.5	275.4	286.1	253.8	(45)	(10)
Private line service	34.3	58.2	63.8	70.4	66.0	60.1	(41)	(11)
Sales of cable capacity	3.4	4.6	4.9	10.8	30.9	83.2	(26)	(47)
Cellular and other	116.6	104.8	105.2	92.6	100.4	80.7	11	8
Total	648.6	705.0	702.1	698.2	720.0	682.9	(8)	(1)
Expenses								
Depreciation and amortization	111.9	104.5	110.0	114.1	117.3	101.9	7	2
Operations, maintenance and other	371.4	435.8	451.3	445.5	443.1	426.8	(15)	(3)
Total	483.3	540.3	561.3	559.6	560.4	528.7	(11)	(2)
Income from Operations	165.3	164.7	140.8	138.6	159.6	154.2	—	1
Interest expense	42.3	34.8	44.3	52.1	54.9	39.5	22	1
Other (income) expense—net	(63.6)	7.7	14.3	(13.2)	(15.7)	(22.8)	*	23
Income tax expense	47.0	40.8	23.8	32.5	30.9	42.1	15	2
Income from Continuing Operations ^(a)	139.6	81.4	58.4	67.2	89.5	95.4	71	8
Minority interest and other	36.6	10.9	7.5	9.9	12.9	18.8	*	14
Earnings Contribution from Continuing Operations^(a)	\$ 103.0	\$ 70.5	\$ 50.9	\$ 57.3	\$ 76.6	\$ 76.6	46	6
Identifiable assets	\$ 1,599	\$ 1,378	\$ 1,413	\$ 1,540	\$ 1,702	\$ 1,732	16	(2)
Capital spending	\$ 498	\$ 153	\$ 126	\$ 140	\$ 236	\$ 475	*	1
Number of employees	2,233	2,762	2,834	2,891	3,050	3,412	(19)	(8)
Telephone access lines (Thousands)	530	418	399	379	357	340	27	9

* Not a meaningful number.

^(a) Does not reflect elimination of interest on intercompany borrowing arrangements and includes income taxes on a separate-company basis.

The table below contains summarized income statement data for Alascom and the effects of the sale of Alascom in August 1995, which included a \$66 million gain realized by Pacific Telecom from the sale, the write off of \$20 million of goodwill relating to Alascom and \$9 million of minority interest associated with the sale. The table below does not include interest allocations made by Pacific Telecom in these periods.

Millions of dollars/For the year	1995	1994	1993
Revenues			
Long distance network service	\$ 148.8	\$ 271.4	\$ 261.3
Private line service	34.3	58.2	56.5
Other	10.0	13.9	20.0
Total	193.1	343.5	337.8
Expenses	156.2	262.8	278.3
Income from Operations	36.9	80.7	59.5
Other (income) expense-net	(65.9)	(2.3)	2.5
Income taxes	14.0	31.4	18.5
Net Income	88.8	51.6	38.5
Minority interest and other	32.3	7.7	6.0
Earnings Contribution	\$ 56.5	\$ 43.9	\$ 32.5

The discussion below comparing 1995 to 1994 is presented excluding the effects of the Alascom gain and Alascom's earnings contributions, which are summarized in the table above.

1995 Compared to 1994

Revenues increased \$94 million or 26%.

- Local network service revenues (local telephone services to residential and business customers) increased \$24 million or 24% primarily due to \$16 million of revenue from assets acquired in Colorado, Oregon and Washington, the \$4 million effect of internal access line growth and a \$3 million increase in extended area and enhanced services.
- Network access service revenues (fees charged to long distance interexchange carriers using the local exchange network to access their customers) increased \$55 million or 33% due to \$43 million of revenues from assets acquired, \$7 million from revised LEC revenue estimates for prior years and \$2 million of increased USF support.
- Cellular and other revenues increased \$16 million or 17% primarily due to the \$10 million effect of cellular customer growth, \$3 million of revenues from assets acquired and a \$3 million increase in cable maintenance and restoration revenues due to cable outages.

Operating expenses increased \$50 million or 18%.

- Operations expense increased \$9 million or 13% primarily due to an increase of \$8 million from assets acquired and \$5 million from growth in cellular operations.

- Maintenance expense increased \$12 million or 16% primarily due to increases of \$7 million from assets acquired, \$2 million from other LEC maintenance activities, \$2 million from growth in access lines and network upgrades and \$2 million due to growth in cellular operations.
- Administrative and general expense increased \$5 million or 11% primarily due to assets acquired.
- Depreciation expense increased \$22 million or 32% primarily due to \$16 million from assets acquired and \$3 million from increased depreciable plant balances at LECs.

Earnings contribution increased \$20 million or 75%.

- Income from operations increased \$44 million or 53% primarily due to a \$25 million increase from assets acquired. Excluding the effects of asset acquisitions, income from operations increased \$19 million or 23%.
- Interest expense increased \$8 million or 23% due to the \$6 million effect of increased borrowings used to fund assets acquired and \$2 million relating to the IRS settlement.
- Other expense decreased \$8 million due to the effect of higher overhead and finance costs in 1994.
- Income tax expense increased \$24 million due to higher taxable income and reduction of tax benefits relating to amortization of investment tax credits and excess deferred taxes. The gain on the sale of Alascom was recorded without income tax expense because the tax basis in Alascom was greater than the selling price. This caused Pacific Telecom's effective tax rate to decline.

1994 Compared to 1993

Revenues increased \$3 million.

- Local network service revenues increased \$15 million or 18% due to \$9 million of revenue from enhanced and extended calling area service and the \$5 million effect of a 5% access line growth.
- Network access service revenues decreased \$15 million or 8% primarily due to a \$6 million decrease as a result of the shift to extended calling area services in LECs, the \$5 million effect of a decrease in operating expenses used in setting interstate access rates and lower revenue adjustments of \$4 million.
- Long distance network service revenues increased \$10 million or 4% due to interstate revenues of \$19 million relating to the settlement of all open revenue studies and a \$3 million improvement in intrastate revenue relating to increased billed minutes. These increases were offset in part by a \$6 million decrease in revenue recovery for interstate access expense as a result of the exit of Anchorage Telephone Utility ("ATU") from the National Exchange Carrier Association ("NECA") traffic sensitive pools, the \$5 million revenue effect of other recoverable expense reductions and the \$3 million effect of a reduced rate base.
- Private line service revenues decreased \$6 million or 9% primarily due to Pacific Telecom's exit of certain noncore businesses.

- Cellular and other revenues were virtually unchanged. Increased revenues of \$10 million due to growth in cellular operations were offset by other revenue declines. The declines were primarily due to \$3 million of revenue in 1993 from service in Saudi Arabia, a \$2 million decline in long lines equipment resale revenue and a \$2 million decline in LEC billing and collection revenue.

Operating expenses decreased \$21 million or 4%.

- Operations expense decreased \$2 million or 1%. Access expense decreased \$3 million due to a \$6 million decrease in intrastate access expense relating to the exit of ATU from NECA traffic sensitive pools, partially offset by the \$4 million effect of increased facility costs and higher common carrier network usage. Leased circuit expense decreased \$4 million primarily due to the sale of noncore businesses. The decreases were offset in part by \$4 million of increased expense due to cellular customer growth.
- Maintenance expense decreased \$4 million or 4% primarily due to the effect of a \$3 million one-time charge in 1993 relating to service provided in Saudi Arabia.
- Administrative and general expense decreased \$10 million or 11% primarily due to \$8 million of reduced corporate support and employee benefit expense and \$2 million relating to noncore businesses that were sold.
- Depreciation and amortization expense decreased \$6 million or 5% due to the \$6 million effect of a reduction in rates allowed for LECs in Alaska and a \$3 million reduction relating to noncore businesses that were sold, offset in part by the \$3 million effect of increased LEC plant in service.

Earnings contribution increased \$20 million or 39%.

- Income from operations increased \$24 million or 17%.
- Interest expense decreased \$10 million or 22% due to the \$15 million effect of lower debt levels, partially offset by the \$5 million effect of higher interest rates.
- Other expense decreased \$7 million primarily due to decreased valuation adjustments for noncore businesses in 1994.
- Income tax expense increased \$17 million or 71% primarily due to higher taxable income and a higher effective tax rate.

Other

Other includes three main businesses, as well as the activities of PacifiCorp Holdings, Inc. ("Holdings"). PacifiCorp Financial Services, Inc. ("PFS") has tax-advantaged investments in affordable housing and has leasing operations that consist principally of leveraged aircraft leases. Pacific Generation Company ("PGC") has ownership interests in the independent power production and cogeneration businesses. Powercor Australia Limited ("Powercor"), an electricity distributor in

Australia, was purchased on December 12, 1995 and the results of operations of Powercor have been included in the earnings contribution for 19 days. See Note 2 to Consolidated Financial Statements for information regarding the acquisition of Powercor.

Millions of dollars/December 31,	Identifiable Assets		
	1995	1994	1993
PFS	\$ 697	\$ 731	\$ 1,116
PGC	116	113	122
Powercor	1,751	—	—
Holdings & other	253	252	251
Total	\$ 2,817	\$ 1,096	\$ 1,489

Millions of dollars/For the year	Earnings Contribution		
	1995	1994	1993
PFS	\$ 30.4	\$ 3.0	\$ (3.1)
PGC	5.6	8.5	6.5
Powercor	.7	—	—
Tax settlement	32.2	—	—
Holdings & other	18.0	6.5	6.8
Total	\$ 86.9	\$ 18.0	\$ 10.2

1995 Compared to 1994

The earnings contribution of other businesses increased \$69 million primarily due to the \$32 million of tax adjustment relating to the settlement with the IRS described on page 25 and a \$27 million increase in the earnings contribution of PFS. The increase for PFS was primarily due to the after-tax effects of valuation and impairment charges of \$19 million included in the 1994 results and increased gains of \$4 million in 1995 from sales of finance and real estate assets. The contribution of PGC declined \$3 million primarily due to increased development activities and expenditures relating to acquisition activities. Charitable contributions by Holdings decreased \$8 million from 1994 and income tax expense decreased \$5 million.

1994 Compared to 1993

The earnings contribution of other businesses increased \$8 million, or 76%, to \$18 million in 1994. PFS' earnings increased \$6 million primarily due to gains associated with sales of certain assets. Revenues and expenses for PFS decreased due to lower levels of finance assets and lower valuation adjustments in 1994. Earnings from PGC increased \$2 million. Interest revenues from the note received in connection with the sale of NERCO increased \$12 million and interest expense for Holdings decreased \$6 million. These positive results were partially offset by increased income tax expense for Holdings of \$11 million and a \$10 million charitable donation expense in 1994.

PFS

PFS has been selling and liquidating real estate properties, computer leasing and manufacturing operations and investment and asset-based lending portfolios. PFS expects to retain only its tax-advantaged investments in leveraged lease assets (primarily aircraft) and affordable housing projects, which represent \$472 million of its assets. PFS plans to pursue new investment opportunities in affordable housing as long as there are tax incentives associated with such investments.

Powercor

Powercor is an electricity distributor serving approximately 540,000 customers in suburban Melbourne and the western and central regions of the State of Victoria in southeast Australia. Powercor is one of five electricity distribution businesses formed by the State of Victoria, each comprising a geographically based, regulated distribution network and a retail function that supplies a combination of franchise customers on a geographic basis and nonfranchise or contestable customers on a competitive basis. Powercor's distribution area covers approximately 57,915 square miles. This region is the largest franchise area in Victoria, representing approximately 64% of the total area of Victoria. The Powercor distribution area accounts for over 1,450,000 people (approximately 32% of Victoria's population).

The Powercor acquisition is expected to positively impact earnings in 1997 and will enable the Company to gain experience in an incentive-based regulatory environment, which should prepare the Company for the increasingly deregulated and competitive markets in the United States. In addition, the Company plans to employ its wholesale marketing expertise in the developing power markets in Australia. The acquisition also positions the Company to take advantage of future opportunities in international markets, including those that are expected to arise in connection with the privatization of Victoria's generating stations during 1996 and the potential privatization of the electric utility business in other Australian states.

Powercor was a part of Victoria's integrated electricity business and has operated as a separate entity only since May 1994. Although a significant portion of Powercor's future results will be based on tariffs that are established through 2000, the absence of an operating history for Powercor creates uncertainties as to its contribution in 1996 and subsequent periods. Additional uncertainties exist because Powercor's franchise customers will progressively become able to choose alternative energy suppliers over the period to January 1, 2001. In addition, operations in a foreign country can present currency exchange, inflation, convertibility and repatriation risks. Holdings has mitigated some of these risks in part through use of an acquisition loan denominated in Australian dollars and certain currency exchange agreements.

PGC

PGC is engaged in the independent power production and cogeneration business, principally in the United States. PGC has interests in 12 power generation projects representing 808 MW of generation capacity. The facilities employ a variety of generation processes, including solid waste, biomass, coal, natural gas, hydro and wind technologies.

The independent power production and cogeneration businesses conducted by PGC involve numerous risks relating to the acquisition, development, construction and operation of power production facilities. These risks include supply interruptions, work stoppages, labor disputes, weather interferences, unforeseen engineering, environmental and geological problems, unanticipated cost overruns and breakdown or failure of equipment or processes.

Business Expansion

Holdings is expanding its nonregulated businesses that are engaged in wholesale marketing and aggregating of electricity, fuels management, utilities services and retail energy services. On January 30, 1996, Holdings and Big Rivers Electric Corporation ("Big Rivers"), a generation and transmission cooperative based in Henderson, Kentucky, signed a letter of intent providing for PacifiCorp Kentucky Energy Company ("PKE"), a wholly owned subsidiary of Holdings, to operate and manage Big Rivers' power plants under a 25-year operating agreement.

Under the terms of the proposed transaction, Big Rivers would retain ownership of its assets and continue to operate its transmission system in western Kentucky. PKE would be required to make payments of \$30 million per year during the term of the operating agreement, which obligation would be guaranteed by Holdings. PKE would sell power to Big Rivers under a long-term contract and the surplus output from the 1,740 megawatts of generation assets owned by Big Rivers would be marketed.

Consummation of the proposed transaction is subject to conditions, including negotiation of definitive agreements, approval by Big Rivers' creditors of a restructuring of its debt, termination or renegotiation of all fuel contracts to bring prices in line with current market conditions, and certain state and federal regulatory approvals. Definitive agreements are subject to approval by the boards of directors of Holdings and Big Rivers, as well as the boards of the member cooperatives of Big Rivers. The parties currently expect to receive the required approvals by December 31, 1996.

The Company believes that the Big Rivers transaction will add to shareholder value, provide a base in the eastern power markets from which the Company can implement a national power marketing strategy and allow it to capitalize on its capabilities in low-cost plant operation and fuel management. The Company expects to consider additional opportunities for the acquisition or construction of strategic generating assets in the eastern United States.

The information in the table below and elsewhere in this report includes forward-looking statements that involve a number of risks and uncertainties, including the matters identified under "Electric Operations," "Telecommunications" and "Other" as factors that may influence the financial performance and earnings of the Company and its subsidiaries. Financial forecasts involve estimates as to the future which, notwithstanding the fact that they are presented with numeric specificity, may or may not prove to be accurate. This information reflects numerous assumptions as to industry

performances, general business and economic conditions, regulatory and legal requirements, taxes and other matters, many of which are beyond the control of the Company. Similarly, this information assumes certain future business decisions which are subject to change. Among other things, the forecasted acquisition information assumes the ability of the Company's subsidiaries to consummate future acquisitions that have not been identified. There can be no assurance that the results predicted will be realized. Actual results will vary from those represented by the forecasts, and those variations may be material.

Liquidity and Capital Resources

Millions of dollars

For the year	1993	Actual 1994	1995	1996	Forecasted 1997	1998
Net Cash Flow from Continuing Operations						
Electric Operations	\$ 764	\$ 747	\$ 700			
Telecommunications	180	141	152			
Other	93	74	60			
Total	1,037	962	912			
Cash Dividends Paid	366	345	346			
Net	\$ 671	\$ 617	\$ 566	\$725-775	\$750-800	\$750-800
Construction						
Electric Operations	\$ 636	\$ 638	\$ 455	\$ 451	\$ 475	\$ 493
Telecommunications	103	148	122	114	147	145
Powercor	—	—	2	69	71	74
Other	3	3	—	56	10	11
Total	742	789	579	690	703	723
Acquisitions and Investments						
Electric Operations	1	—	—	240 ^(a)	—	—
Telecommunications	23	5	376	263 ^(b)	165	—
Powercor	—	—	1,589	—	—	—
Other	41	10	175	83	29	—
Total Capital Spending	\$ 807	\$ 804	\$ 2,719	\$ 1,276	\$ 897	\$ 723
Maturities of Long-Term Debt and Capital Lease Obligations						
Electric Operations	\$ 62	\$ 76	\$ 51	\$ 183	\$ 210	\$ 199
Telecommunications	32	17	15	5	16	29
Other	273	61	29	18	19	13
Total	\$ 367	\$ 154	\$ 95	\$ 206	\$ 245	\$ 241
Other Refinancings	\$ 864	\$ 295	\$ 191			

^(a)In 1995, Electric Operations exercised its option to purchase a 50% interest in a 474 megawatt, natural gas-fired generating plant in Herniston, Oregon, estimated to cost \$174 million. Electric Operations also plans to participate in two wind generation projects, estimated to cost \$66 million.

^(b)Pacific Telecom entered into an agreement to purchase certain US WEST Communications, Inc. assets in Minnesota for \$103 million.

Electric Operations

Electric Operations uses several tools to plan for future growth. The planning process starts with the Electric Operations' least-cost plan, which is periodically reviewed. Electric Operations' three-year financial forecast is derived, in part, from the least-cost plan. These plans define how Electric Operations intends to acquire efficient, cost-effective energy resources for its customers and achieve its financial and operating goals.

For the period 1996 to 2000, annual retail megawatt-hour sales are expected to increase at an average rate of about 2% per year. In 1996, Electric Operations currently plans to acquire new demand-side resources that are expected to conserve about 23 average megawatts. Electric Operations' plan relies on no single energy source to meet customers' needs. Electric Operations has identified a variety of resource alternatives to manage supply and demand, such as purchases of existing power plants, improvements in equipment and operations at its own generating facilities, power purchase agreements and demand-side resources. Demand-side options include customer efficiency programs to reduce existing energy use and to make new customer usage more efficient.

Construction

During 1995, Electric Operations invested in construction consisting of production, \$106 million; transmission, \$17 million; distribution, \$244 million; and other, \$88 million.

Electric Operations' estimated construction expenditures for 1996 through 1998 are set forth below.

Millions of dollars/For the year	1996	1997	1998
Production	\$ 97	\$ 97	\$ 110
Transmission	38	47	45
Distribution	185	209	210
Other	131	122	128
Total	\$ 451	\$ 475	\$ 493

Included in the table above are Electric Operations' estimates of the capital costs of acquiring demand-side resources. Electric Operations is implementing demand-side programs to improve the energy efficiency of residences, commercial buildings and industrial facilities—both new and existing.

Acquisitions

In 1993, Electric Operations signed a contract to purchase the entire output from the Hermiston Generating Project located near Hermiston, Oregon. This 474 megawatt natural gas cogeneration project is being developed by U.S. Generating Company ("U.S. Generating"). In November 1994, U.S. Generating commenced construction of the plant. In 1995, Electric Operations exercised its option to purchase, subject to certain conditions, a 50% ownership interest in this project for approximately \$174 million. The payment is also contingent upon commercial operation of the plant, which is expected to occur in July 1996.

Electric Operations also plans to participate in two wind projects located in Washington and Wyoming, estimated to cost \$66 million.

Capital Resources

Electric Operations expects to support its capital and maturing debt requirements primarily through internally generated cash flows and issuances of additional debt. Sales of preferred stock and common stock will also be considered. See "Financing Activities" on page 39.

Telecommunications

During 1995, Pacific Telecom continued to implement its strategy of expanding its local telephone exchange businesses in rural and suburban markets. The year 1995 was a year of transition as Pacific Telecom exited its long distance business in Alaska and redeployed its capital into acquisitions of local exchange properties.

Acquisitions

During 1995, Pacific Telecom purchased local exchange properties from US WEST Communications, Inc. ("USWC") in Colorado, Oregon and Washington. Assets serving approximately 90,000 access lines were purchased for \$376 million. Pacific Telecom signed an agreement with USWC in December 1995 to acquire additional local exchange properties in Minnesota. These properties in Minnesota serve approximately 26,600 access lines and will cost \$103 million. This transaction is expected to close in 1996.

Pacific Telecom continues to seek expansion of its local exchange operations and cellular interests through the acquisition of additional LECs and assets and cellular properties that complement its existing properties and operations. For LECs, Pacific Telecom seeks to realize economies of scale through these acquisitions, particularly where the properties are near Pacific Telecom's current operations or are of sufficient size to support moving into a new geographic area. For cellular, Pacific Telecom may increase its ownership interests in certain cellular properties in order to achieve ownership control and to consolidate Pacific Telecom's cellular service areas into larger contiguous units for operating and network efficiencies. This plan may be accomplished through the exchange of existing cellular interests and/or future acquisitions.

Disposition

In August 1995, Pacific Telecom sold Alascom to AT&T for cash proceeds of \$366 million, consisting of a \$75 million transition payment in July 1994, an October 1994 down payment of \$30 million and a \$261 million payment received at closing.

Construction

During 1995, Pacific Telecom's construction expenditures consisted of \$106 million for local exchange operations, \$7 million for long lines, \$7 million for cellular operations and \$2 million for other. These expenditures related mainly to network upgrades and growth in Pacific Telecom's operations.

Construction expenditures for 1996 through 1998 are estimated to be as follows:

Millions of dollars/For the year	1996	1997	1998
Local exchange	\$ 102	\$ 136	\$ 136
Cellular	8	7	5
Other	4	4	4
Total	<u>\$ 114</u>	<u>\$ 147</u>	<u>\$ 145</u>

Capital Resources

Pacific Telecom funded the acquisitions of local exchange properties with proceeds from the sale of Alascom and borrowings under its Series B medium-term note program. Pacific Telecom expects to fund the pending acquisition in Minnesota and any future acquisitions through a combination of internally generated funds and external debt and expects to fund its construction expenditures primarily through internally generated cash. Pacific Telecom established a Series C medium-term note program in January 1996.

Other

Acquisitions

On December 12, 1995, Holdings purchased Powercor, an electricity distributor in Australia, from the State of Victoria for approximately \$1.6 billion in cash. The acquisition of Powercor was financed with borrowings of \$896 million in Australia under a \$984 million credit facility and with an equity contribution from Holdings which was initially financed with short-term debt in the United States. Holdings is not obligated with respect to the Australian borrowings, which were made by a subsidiary of Holdings.

During 1995, Holdings purchased the minority shares of Pacific Telecom. Shareholders tendering shares were paid a total of \$131 million, or \$30 per share, and an accrued liability of \$28 million was established to cover estimated amounts payable to dissenters.

During 1995, PFS invested \$44 million in affordable housing projects. In 1996 and 1997, PFS plans to invest \$32 million and \$23 million, respectively, in affordable housing projects. In addition, PFS expects to be involved in the construction of affordable housing projects with costs of \$18 million in 1996 and \$10 million in 1997.

PGC estimates it will invest \$31 million in independent power projects in 1996.

Construction

Construction expenditures for Powercor are estimated to be \$69 million in 1996, \$71 million in 1997 and \$74 million in 1998. These expenditures are related mainly to distribution facilities. Powercor expects to fund its construction expenditures primarily through internally generated cash.

Dispositions

During 1995, PFS reduced its identifiable assets by \$34 million. Proceeds from sales of its assets were used to reduce debt.

Capital Resources

The Company's other businesses expect to fund scheduled debt maturities and financing commitments through cash flows from operations, issuances of additional debt and, to a lesser extent, through further asset sales by PFS.

Operating Activities

Consolidated operating needs, dividends and construction expenditures are primarily funded from cash provided by operations. Cash provided by continuing operations less dividends paid provided 98%, 78% and 90% of construction expenditures in 1995, 1994 and 1993, respectively. Consolidated cash flows provided by operating activities declined \$50 million in 1995 primarily due to the tax settlement with the IRS.

Financing Activities

Common Stock

Open market purchases of the Company's common stock were used throughout 1995 for the Dividend Reinvestment and Employee Savings and Stock Ownership Plans. The Company periodically evaluates the advantages of common share issuances in the context of its current capital structure, financing needs and market price and the Company began to issue common stock under these plans in February 1996. In addition, the Company completed a public offering of 9.7 million shares of common stock in March 1996 for net proceeds of \$197 million.

The Company paid common stock dividends of \$307 million in 1995 and \$305 million in 1994.

Short-Term and Long-Term Debt, Including Current Maturities

Consolidated debt increased \$1.9 billion in 1995. The acquisition of Powercor was financed with \$1.6 billion of debt, \$896 million was financed in Australia and \$700 million was borrowed in the United States. The Company's debt increased \$460 million primarily due to increased commercial paper and bank line borrowings of \$247 million and issuances of \$176 million of junior subordinated debentures due 2025 through 2035 with average interest rates of 8.4%, \$100 million of 6½% First Mortgage and Collateral Trust Bonds due June 1, 2007 and \$52 million of environmental improvement bonds due 2025. Proceeds were used to retire \$56 million of previously issued first mortgage bonds, with interest rates ranging from 7% to 7¾% and maturities from 1998 to 2002, and to retire \$44 million of maturing debt. The Company exchanged \$56 million of the junior subordinated debentures for 2,233,037 shares of \$1.98 No Par Serial Preferred Stock, Series 1992. Holdings debt increased \$401 million due to issuance of commercial paper and short-term bank line borrowings. Pacific Telecom debt increased \$141 million due to borrowings under revolving credit agreements and issuances of medium-term notes. At December 31, 1995, the consolidated variable rate debt totaled \$2.8 billion.

At December 31, 1995, the Company had \$730 million of first mortgage bonds and common stock registered for sale with the Securities and Exchange Commission, including \$400 million remaining from the Company's Series G medium-term note program. Of the amount registered, \$200 million of Series G notes were sold in January 1996 and \$197 million of common stock was sold in March 1996.

Holdings has executed various agreements that support certain obligations of PFS, under which Holdings has agreed to maintain ownership of not less than 80% of the voting shares of PFS; provide equity contributions to PFS to maintain its tangible net worth at not less than \$10 million; and provide liquidity support.

Policy

To insure access to capital markets and to produce a competitive cost of capital, the Company attempts to maintain an appropriate mix of debt and equity in its consolidated capital structure. In order to maintain its target debt rating of "A", the Company has a target debt to capitalization guideline range of 48% to 54%. As a result of the Powercor acquisition, the Company's consolidated debt was 60% of consolidated capitalization at December 31, 1995. The Company sold additional shares of common stock in early 1996 to improve the equity portion of its capital structure. Within its debt structure, the Company has attempted to match the life of its borrowed liabilities with its assets and to manage its exposure to fluctuating interest rates.

Derivatives

The Company has used derivative financial instruments to increase the predictability of cash flow, reduce net income exposure to changing interest rates, reduce the overall cost of borrowing and adjust its liability portfolio to better align with its asset portfolio. In addition, the Company has recently begun to employ derivative products to manage risks associated with electricity sales and purchases.

In 1994, the Company adopted a derivative policy recognizing derivative financial instruments as an integral part of its risk management system. This policy establishes the involvement of the Board of Directors and senior management in periodic reviews of the use of derivative transactions and market positions and periodic assessments of compliance with the policy. The policy also includes credit criteria for counterparties and formal requirements for documentation. The derivative policy was updated early in 1996 to include a risk management program for hedging and trading transactions in electricity futures and other electricity related financial products.

The Company uses interest rate swaps to adjust the characteristics of its liability portfolio by hedging portions of its interest expense allowing the Company to establish a mix of fixed or variable interest rates on its outstanding debt. Currency swaps are used to hedge against fluctuations in the Australian dollar and the Japanese yen. At December 31, 1995, the Companies had interest rate swaps on debt with an aggregate notional amount of \$220 million and currency swaps totaling \$350 million. During 1995, Holdings entered into three foreign currency swaps with an aggregate notional amount of \$300 million to hedge a portion of Holdings investment in its Australian subsidiary.

As the electric industry becomes less regulated and the price of electricity is influenced more by market conditions rather than price regulation, utilities and customers will be subject to market price fluctuations. The Company anticipates engaging in hedging and trading transactions in electricity futures and other electricity related financial products as the Company and its customers attempt to reduce risks associated with price fluctuations in the electricity market.

Limits

The Company's Articles of Incorporation limit the amount of unsecured debt outstanding to the equivalent of 30% of total defined equity and secured debt. Under this provision, approximately \$770 million principal amount of additional unsecured debt could have been outstanding at December 31, 1995.

Issuance of the Company's mortgage bonds or preferred stock is limited by earnings coverage and fundable property provisions of the Company's mortgage indentures and its Articles of Incorporation. Under these provisions and at current interest rates, approximately \$2.4 billion of additional mortgage bonds or \$3.4 billion of preferred stock could have been issued at December 31, 1995. However, certain of the Company's credit facilities would have limited additional long-term borrowings to approximately \$190 million at December 31, 1995. In January 1996, the Company's credit facilities were amended and approximately \$940 million of long-term borrowings were available.

Under the Company's principal credit agreement, it is an event of default if any person or group acquires 35% or more of the Company's common shares or if, during any period of 14 consecutive months, individuals who were directors of the Company on the first day of such period (and any new directors whose election or nomination was approved by such individuals and directors) cease to constitute a majority of the Board of Directors. For additional information regarding bank credit agreements, lines of credit and other short-term borrowing arrangements, see Note 3 to Consolidated Financial Statements.

Inflation

Due to the capital intensive nature of the Company's core businesses, inflation may have a significant impact on replacement of property, acquisition and development activities and final mine reclamation. The effects of inflation on the Company's utility businesses are not significant to ongoing operations. While the rate-making process gives no recognition to the current cost of replacing plant, past practices have allowed the Company to recover and earn on the increased cost of its net investment when replacement of facilities actually occurs. To what extent this practice will continue in the changing regulatory environment cannot be predicted.

Quarterly Financial Data (Unaudited)

Millions of dollars, except per share amounts/Quarter ended	March 31	June 30	September 30	December 31
1995				
Revenues	\$ 854.2	\$ 807.9	\$ 849.7	\$ 889.1
Income from operations	264.4	217.6	284.4	281.4
Net income	114.8	93.5	164.0 ^(a)	127.7
Earnings on common stock	104.7	83.3	158.9 ^(a)	119.4
Earnings per common share	.37	.29	.56 ^(a)	.42
Common dividends paid per share	.27	.27	.27	.27
Common dividends declared per share	.27	.27	.27	.27
Common stock price per share (NYSE)				
High	19¼	19%	19½	21%
Low	18	18½	17½	18%
1994				
Revenues	\$ 865.3	\$ 836.1	\$ 915.0	\$ 890.1
Income from operations	259.4	210.3	271.9	280.7
Net income	120.5	89.3	131.8	126.4
Earnings on common stock	110.8	79.3	121.8	116.4
Earnings per common share	.39	.28	.43	.41
Common dividends paid per share	.27	.27	.27	.27
Common dividends declared per share	.27	.27	.27	.27
Common stock price per share (NYSE)				
High	19½	18%	18%	19%
Low	17¼	16	15%	16½

^(a) The third quarter results of operations includes a gain of \$37 million or \$.13 per share relating to the sale of Alascom.

A significant portion of the operations are of a seasonal nature.

Previously reported quarterly information has been revised to reflect certain reclassifications. These reclassifications had no effect on previously reported consolidated net income.

Report of Management

The management of PacifiCorp is responsible for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

The Company's financial statements were audited by Deloitte & Touche LLP, independent public accountants. Management made available to Deloitte & Touche LLP all the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings.

Management of the Company established and maintains an internal control structure that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The Company maintains an internal auditing program that independently assesses the effectiveness of the internal control structure and recommends possible improvements. Deloitte & Touche LLP also considered the internal control structure in connection with their audit. Management considers the internal auditors' and Deloitte & Touche LLP's recommendations concerning the Company's internal control structure and takes cost-effective actions to respond appropriately to these recommendations.

The Company's "Guide to Business Conduct" is distributed to employees throughout the Company to provide a basis for ethical standards and conduct. The guide addresses, among other things, potential conflicts of interests and compliance with laws, including those relating to financial disclosure and the confidentiality of proprietary information.

The Audit Committee of the Board of Directors is comprised solely of outside directors. It meets at least quarterly with management, Deloitte & Touche LLP, internal auditors and counsel to review the work of each and ensure the Committee's responsibilities are being properly discharged. Deloitte & Touche LLP and internal auditors have free access to the Committee, without management present, to discuss their audit work and their evaluations of the adequacy of the internal control structure and the quality of financial reporting.

Independent Auditors' Report

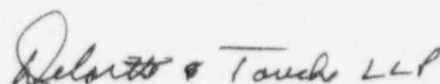
To the Board of Directors and
Shareholders of PacifiCorp:

We have audited the accompanying consolidated balance sheets of PacifiCorp and subsidiaries as of December 31, 1995 and 1994, and the related statements of consolidated income and retained earnings and of consolidated 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 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 financial statements present fairly, in all material respects, the consolidated financial position of PacifiCorp and subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 12 to the consolidated financial statements, effective January 1, 1993, the Company changed its method of accounting for income taxes and other postretirement benefits.



Deloitte & Touche LLP

Portland, Oregon

February 13, 1996

Statements of Consolidated Income and Retained Earnings

Millions of dollars, except per share amounts

For the year	1995	1994	1993
Revenues	\$ 3,400.9	\$ 3,506.5	\$ 3,405.4
Expenses			
Operations	1,261.7	1,400.3	1,369.9
Maintenance	281.0	292.3	294.2
Administrative and general	246.2	244.6	247.4
Depreciation and amortization	444.0	424.3	404.8
Taxes, other than income taxes	120.2	122.7	119.9
Total	2,353.1	2,484.2	2,436.2
Income from Operations	1,047.8	1,022.3	969.2
Interest Expense and Other			
Interest expense	378.7	334.5	376.9
Interest capitalized	(15.1)	(14.5)	(13.9)
Minority interest and other	(59.6)	(15.5)	(3.9)
Total	304.0	304.5	359.1
Income from continuing operations before income taxes	743.8	717.8	610.1
Income taxes	238.8	249.8	187.4
Income from Continuing Operations before Cumulative Effect of Change in Accounting Principle	505.0	468.0	422.7
Discontinued operations less applicable income tax expense of \$26.0	—	—	52.4
Cumulative effect on prior years of change in accounting for income taxes	—	—	4.0
Net Income	505.0	468.0	479.1
Retained Earnings, January 1	474.3	351.3	210.4
Cash dividends declared			
Preferred stock	(38.4)	(39.6)	(39.5)
Common stock per share of \$1.08	(308.5)	(305.4)	(298.7)
Retained Earnings, December 31	\$ 632.4	\$ 474.3	\$ 351.3
Earnings on Common Stock (Net income less preferred dividend requirement)	\$ 466.3	\$ 428.3	\$ 439.8
Average number of common shares outstanding (Thousands)	284,272	282,912	274,551
Earnings per Common Share			
Continuing operations	\$ 1.64	\$ 1.51	\$ 1.40
Discontinued operations	—	—	.19
Cumulative effect on prior years of change in accounting for income taxes	—	—	.01
Total	\$ 1.64	\$ 1.51	\$ 1.60

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Balance Sheets

Assets

Millions of dollars/December 31	1995	1994
Property, Plant and Equipment		
Electric utility		
Production	\$ 4,420.0	\$ 4,390.2
Transmission	2,042.5	1,974.6
Distribution	2,829.9	2,628.9
Other	1,655.7	1,583.5
Electric utility	10,948.1	10,577.2
Electricity distributor	1,286.5	—
Telecommunications	1,592.9	1,572.7
Other	65.0	64.9
Accumulated depreciation and amortization	(4,280.5)	(4,136.9)
Net	9,612.0	8,077.9
Construction work in progress	340.3	368.3
Total Property, Plant and Equipment—Net	9,952.3	8,446.2
Current Assets		
Cash and cash equivalents	22.2	23.3
Accounts receivable less allowance for doubtful accounts: 1995/\$7.4 and 1994/\$9.4	545.0	442.7
Materials, supplies and fuel stock at average cost	212.1	193.2
Inventory	62.8	66.3
Other	70.1	89.9
Total Current Assets	912.2	815.4
Other Assets		
Investments in and advances to affiliated companies	187.9	189.9
Intangible assets—net	743.2	237.2
Regulatory assets—net	1,060.3	1,081.2
Finance note receivable	217.5	220.7
Finance assets	453.7	481.9
Real estate investments	179.8	166.5
Deferred charges and other	308.3	206.6
Total Other Assets	3,150.7	2,584.0
Total Assets	\$14,015.2	\$11,845.6

(See accompanying Notes to Consolidated Financial Statements)

Capitalization and Liabilities

Millions of dollars/December 31

1995

1994

Common Equity

Common shareholders' capital

shares authorized 750,000,000;

shares outstanding: 1995/284,276,709

and 1994/284,251,024

\$ 3,012.9 \$ 3,010.6

Retained earnings

632.4 474.3

Guarantees of Employee Stock Ownership

Plan borrowings

(12.2) (25.1)

Total Common Equity

3,633.1 3,459.8

Preferred Stock

311.5 367.4

Preferred Stock Subject to Mandatory Redemption

219.0 219.0

Long-Term Debt and Capital Lease Obligations

4,968.2 3,768.2

Current Liabilities

Long-term debt and capital lease obligations

currently maturing

206.1 95.8

Notes payable and commercial paper

1,021.1 454.7

Accounts payable

345.3 338.4

Taxes, interest and dividends payable

256.4 253.3

Customer deposits and other

176.0 126.8

Total Current Liabilities

2,004.9 1,269.0

Deferred Credits

Income taxes

1,910.1 1,822.6

Investment tax credits

159.2 190.1

Other

786.2 641.6

Total Deferred Credits

2,855.5 2,654.3

Minority Interest

23.0 107.9

Commitments and Contingencies (See Notes 8 and 9)

Total Capitalization and Liabilities

\$14,015.2 \$11,845.6

(See accompanying Notes to Consolidated Financial Statements)

Statements of Consolidated Cash Flows

Millions of dollars

For the year	1995	1994	1993
Cash Flows from Operating Activities			
Income from continuing operations	\$ 505.0	\$ 468.0	\$ 422.7
Adjustments to reconcile income from continuing operations to net cash provided by operating activities			
Depreciation and amortization	466.2	472.5	468.3
Deferred income taxes and investment tax credits--net	62.5	(7.5)	113.5
Minority interest and other	(28.6)	23.6	22.9
Accounts receivable and prepayments	(71.5)	5.4	52.9
Materials, supplies, fuel stock and inventory	(8.6)	11.8	26.1
Accounts payable and accrued liabilities	(13.0)	(11.7)	(69.0)
Net Cash Provided by Operating Activities	912.0	962.1	1,037.4
Cash Flows from Investing Activities			
Construction	(578.6)	(788.7)	(741.5)
Operating companies and assets acquired	(2,002.1)	(5.9)	(18.8)
Investments in and advances to affiliated companies--net	(7.0)	(9.5)	(46.8)
Purchase of minority interest of Pacific Telecom	(131.4)	—	—
Proceeds from sales of assets	377.0	381.6	602.8
Proceeds from sales of finance assets and principal payments	36.6	109.1	168.3
Purchase of finance assets	(1.2)	(7.8)	(57.7)
Investment in finance note	—	—	(225.0)
Other	(26.2)	(18.9)	55.6
Net Cash Used in Investing Activities	(2,332.9)	(340.1)	(263.1)
Cash Flows from Financing Activities			
Changes in short-term debt	581.5	(98.7)	(8.6)
Proceeds from long-term debt	1,530.8	246.6	628.9
Proceeds from issuance of common stock	.4	57.2	197.4
Dividends paid	(346.5)	(344.8)	(366.7)
Repayments of long-term debt and capital lease obligations	(285.8)	(448.5)	(1,230.9)
Redemptions of capital stock	(2.6)	—	(50.0)
Other	(58.0)	(41.7)	(33.4)
Net Cash Provided by (Used in) Financing Activities	1,419.8	(629.9)	(793.3)
Decrease in Cash and Cash Equivalents	(1.1)	(7.9)	(19.0)
Cash and Cash Equivalents at Beginning of Year	23.3	31.2	50.2
Cash and Cash Equivalents at End of Year	\$ 22.2	\$ 23.3	\$ 31.2
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for			
Interest (net of amount capitalized)	\$ 407.7	\$ 399.4	\$ 435.6
Income taxes	185.5	225.6	145.5
Noncash financing activities			
8.55% Junior subordinated debentures exchanged for 2,233,037 shares of \$1.98 no par serial preferred stock	55.9	—	—

(See accompanying Notes to Consolidated Financial Statements)

Notes to Consolidated Financial Statements

Years ended December 31, 1995, 1994 and 1993

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of PacifiCorp (the "Company") include its integrated electric utility operating divisions of Pacific Power and Utah Power and its wholly owned and majority owned subsidiaries. Major subsidiaries, all of which are wholly owned, are: PacifiCorp Holdings, Inc. ("Holdings"), which holds all of the Company's nonintegrated electric utility investments, including Pacific Telecom, Inc., a telecommunications operation (formerly 87% owned, see Note 7); Powercor Australia Limited, an Australian electricity distributor; and PacifiCorp Financial Services, Inc., a financial services business. Together these businesses are referred to herein as the Companies. Significant intercompany transactions and balances have been eliminated.

Investments in and advances to affiliated companies represent investments in unconsolidated affiliated companies carried on the equity basis, which approximates the Company's equity in their underlying net book value.

Use of Estimates

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 assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Regulation

Accounting for the utility businesses conforms with generally accepted accounting principles as applied to regulated public utilities and as prescribed by agencies and the commissions of the various locations in which the utility businesses operate.

Accounting for the Effects of Regulation

The Company prepares its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulation." Accounting under SFAS 71 is appropriate as long as: rates are established by or subject to approval by independent, third-party regulators; rates are designed to recover the specific enterprise's cost-of-service; and in view of demand for service, it is reasonable to assume that rates set at levels that will recover costs can be charged to and collected from customers. In applying SFAS 71, the Company must give consideration to changes in the level of demand or

competition during the cost recovery period. In accordance with SFAS 71, the Company's utility operations capitalize certain costs in accordance with regulatory authority whereby those costs will be expensed and recovered in future periods. Regulatory assets-net at December 31, 1995 and 1994 included the following:

Millions of dollars/December 31	1995	1994
Deferred taxes-net	\$ 687.1	\$ 707.1
Deferred pension costs	116.8	148.3
Demand-side resource costs	110.0	84.6
Unamortized net losses		
on reacquired debt	71.8	78.2
Unrecovered Trojan Plant		
and regulatory study costs	28.4	29.0
Various other costs	46.2	34.0
Total	\$1,060.3	\$1,081.2

If the Company, at some point in the future, determines that all or a portion of the utility operations no longer meets the criteria for continued application of SFAS 71, the Company would be required to adopt the provisions of SFAS 101, "Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71." Adoption of SFAS 101 would require the Company to write off the regulatory assets and liabilities relating to those operations not meeting SFAS 71 requirements.

Cash and Cash Equivalents

For the purposes of these financial statements, the Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Foreign Currency Translation

Financial statements for foreign subsidiaries are translated into United States dollars at year-end exchange rates as to assets and liabilities and weighted average exchange rates as to revenues and expenses. If material, the resulting translation adjustments would be recorded in common equity.

Property, Plant and Equipment

Property, plant and equipment are stated at original cost of contracted services, direct labor and material, interest capitalized during construction and indirect charges for engineering, supervision and similar overhead items. The cost of depreciable utility properties retired, including the cost of removal, less salvage, is charged to accumulated depreciation.

Depreciation and Amortization

At December 31, 1995, the average depreciable life of property, plant and equipment by category was: Electric utility—Production, 41 years; Transmission, 42 years; Distribution, 30 years; Other, 18 years; Telecommunications, 15 years; and Electricity distributor, 21 years.

Depreciation and amortization is generally computed by the straight-line method over the estimated useful lives of the related assets. Provisions for depreciation (excluding amortization of capital leases) in the utility businesses were 3.5%, 3.4% and 3.5% of average depreciable assets in 1995, 1994 and 1993, respectively.

Inventory Valuation

Inventories are generally valued at the lower of average cost or market.

Intangible Assets

Intangible assets consist of: estimates of license and other intangible costs relating to the electricity distributor in Australia (\$312 million and \$30 million, respectively, in 1995); franchises of local exchange and cellular companies (\$398 million in 1995 and \$263 million in 1994); and excess cost over net assets of businesses acquired (\$43 million in 1995 and \$19 million in 1994). These costs are offset by accumulated amortization (\$40 million in 1995 and \$45 million in 1994). Intangible assets are generally being amortized over 40 years.

The Company will recognize impairments related to intangible assets if the market value of the investment or the investment's ability to return cash to the Company through operations or through sale do not equal or exceed the carrying value of the investment, including related intangible assets.

Finance Assets

Finance assets consist of finance receivables, leveraged leases and operating leases and are not significant to the Company in terms of revenue, net income or assets. The Company's leasing operations consist principally of leveraged aircraft leases. Investments in finance assets are net of allowances for credit losses and accumulated impairment charges of \$71 million and \$68 million at December 31, 1995 and 1994, respectively.

Derivatives

Gains and losses on hedges of existing assets and liabilities are included in the carrying amounts of those assets or liabilities and are recognized in income as part of those carrying amounts. Gains and losses related to hedges of anticipated transactions and firm commitments are deferred and are recognized in income when the transaction occurs.

Interest Capitalized

Costs of debt and equity funds applicable to electric and telecommunication utility properties are capitalized during construction. Generally, the composite capitalization rates were 6.2% for 1995, 4.7% for 1994 and 5.1% for 1993.

Income Taxes

Effective January 1, 1993, the Company adopted SFAS 109, "Accounting for Income Taxes." This statement requires use of the liability method of accounting for deferred income taxes. Deferred tax liabilities and assets reflect the expected future tax consequences, based on enacted tax law, of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts. The cumulative effect of adoption of SFAS 109 resulted in an increase in consolidated net income in 1993 of \$4 million, or \$0.01 per share.

Investment tax credits for regulated operations are deferred and amortized to income over the average estimated lives of the properties. All other investment tax credits are recognized when utilized.

Revenue Recognition

The Company accrues estimated unbilled revenues for electric services provided after cycle billing to month-end.

Pacific Telecom, Inc. ("Pacific Telecom") participates with other telephone companies in access revenue pools for certain interstate and intrastate revenues, which are initially recorded based on estimates.

Reclassification

Certain amounts from prior years have been reclassified to conform with the 1995 method of presentation. These reclassifications had no effect on previously reported consolidated net income.

New Accounting Standard

Effective January 1, 1996, the Company adopted SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company does not expect the adoption of this standard in 1996 to have a material effect on its consolidated financial statements.

Note 2. Acquisitions and Dispositions

On December 12, 1995, Holdings purchased Powercor Australia Limited ("Powercor"), an electricity distributor in Australia, for \$1.6 billion in cash and approximately \$50 million of liabilities assumed. Powercor's service territory includes a portion of suburban Melbourne and the western and central regions of the State of Victoria and has approximately 540,000 customers.

The acquisition has been accounted for as a purchase and the results of operations of Powercor have been included in the consolidated financial statements since December 12, 1995.

The unaudited pro forma consolidated information as set forth below has been prepared by the Company based upon assumptions deemed proper by it and a preliminary allocation of the purchase price paid as though it had occurred on January 1, 1994. The unaudited pro forma consolidated results of operations are shown for illustrative purposes only and are not necessarily indicative of the future results of operations of the Company, or of the results of operations of the Company that would have actually occurred had the transaction been in effect as of the periods presented. Pro forma adjustments to the Company's results of operations include: interest expense relating to the preacquisition activities was removed and interest expense relating to the acquisition debt was included; depreciation of fixed assets acquired was based on their estimated fair value; and amortization on a straight-line basis over a 40-year life of intangible assets relating to the purchase was included.

Millions of dollars, except per share, unaudited
For the year

	1995	1994
Revenues	\$3,942.1	\$4,067.4
Net income	498.2	453.6
Earnings on common stock	459.5	413.9
Earnings per common share	1.62	1.46

On September 27, 1995, holders of a majority of the 5.3 million shares of outstanding common stock held by minority shareholders of Pacific Telecom voted in favor of the merger of a wholly owned subsidiary of Holdings into Pacific Telecom. Shareholders tendering shares pursuant to the merger were paid a total of \$131 million, or \$30 per share, and an accrued liability of \$28 million was established to cover estimated amounts payable to dissenters.

During 1995, Pacific Telecom purchased certain rural telephone exchange assets in Colorado, Washington and Oregon for approximately \$376 million.

On August 7, 1995, Pacific Telecom closed the sale of the stock of Alascom, Inc. ("Alascom") to AT&T Corp. ("AT&T"), in a transaction providing \$366 million in proceeds. Under terms of the agreement, AT&T paid \$291 million in cash for the Alascom stock and for settlement of all past cost study issues. AT&T agreed to allow Pacific Telecom to retain the \$75 million transition payment made by AT&T to Alascom in July 1994. AT&T made a down payment of \$30 million to Pacific Telecom upon signing the stock purchase agreement in October 1994. The remaining \$261 million was paid when the transaction closed. The Company recognized an after-tax gain of \$37 million from the sale of Alascom.

Summarized income statement data for Alascom are as follows:

Millions of dollars	7 months ended July 31,	For the year	
	1995	1994	1993
Revenues	\$193.1	\$343.5	\$337.8
Income from operations	36.9	80.7	59.5

Note 3. Short-Term Debt and Borrowing Arrangements

The Companies' short-term debt and borrowing arrangements are as follows:

Millions of dollars	December 31		For the year	
	Balance	Average Interest Rate ^(a)	Average Outstanding	Average Interest Rate ^(b)
1995				
PacifiCorp	\$479.9	5.9%	\$407.2	5.9%
Subsidiaries	541.2	6.1	180.0	6.2
1994				
PacifiCorp	\$433.0	6.0%	\$372.8	4.5%
Subsidiaries	21.7	7.5	95.0	4.6
1993				
PacifiCorp	\$263.6	3.4%	\$213.4	3.3%
Subsidiaries	289.9	4.2	474.3	3.9

^(a) Computed by dividing the total interest on principal amounts outstanding at the end of the period by the weighted daily principal amounts outstanding.

^(b) Computed by dividing the total interest expense for the period by the average daily principal amount outstanding for the period.

At December 31, 1995, PacifiCorp's commercial paper and bank line borrowings were supported by a \$500 million revolving credit agreement. At December 31, 1995, subsidiaries had committed bank revolving credit agreements totaling \$1.8 billion.

The Companies have the intent and ability to support short-term borrowings through various revolving credit agreements on a long-term basis. At December 31, 1995, PacifiCorp had \$200 million and subsidiaries had \$971 million of short-term debt classified as long-term. Consolidated commitment fees were approximately \$2 million in 1995, \$3 million in 1994 and \$4 million in 1993.

Note 4. Common and Preferred Stock

Thousands of shares Millions of dollars	Shares Common Stock	Shares Preferred Stock	Common Shareholders' Capital
At January 1, 1993	270,579	10,533	\$2,755.2
Sales through Dividend Reinvestment and Stock Purchase Plan	2,947	—	56.2
Sales through Employees' Stock Plans	853	—	15.9
Sales to public	6,642	—	128.3
Redemptions and repurchases	—	(1)	(2.2)
At December 31, 1993	281,021	10,532	2,953.4
Sales through Dividend Reinvestment and Stock Purchase Plan	2,194	—	38.0
Sales through Employees' Stock Plans	1,036	—	19.2
At December 31, 1994	284,251	10,532	3,010.6
Sales through Employees' Stock Plans	26	—	.4
Junior subordinated debentures exchanged for preferred stock	—	(2,233)	1.9
At December 31, 1995	284,277	8,299	\$3,012.9

At December 31, 1995, there were 29,777,350 authorized but unissued shares of common stock reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan and the Employee Savings and Stock Ownership Plans and for sales to the public. Eligible employees under the employee plans may direct their pretax elective contributions into the purchase of the Company's common stock. The Company makes matching contributions, equal to a percentage of employee contributions, which are invested in the Company's common stock. Employee contributions eligible for matching contributions are limited to 6% of compensation.

Generally, preferred stock is redeemable at stipulated prices plus accrued dividends, subject to certain restrictions. Upon involuntary liquidation, all preferred stock is entitled to stated value or a specified preference amount per share plus accrued dividends.

Mandatory redemption requirements at stated value plus accrued dividends on No Par Serial Preferred Stock are as follows: beginning in 1997, 15,000 shares of the \$7.12 series are redeemable annually; the \$7.70 series is redeemable in its entirety on August 15, 2001; and 37,500 shares of the \$7.48 series are redeemable on each June 15 from 2002 through 2006, with all shares outstanding on June 15, 2007 redeemable on that date. Mandatory redemption requirements for 1993 through 1996 on the \$7.12 series were satisfied by the purchase of 60,000 shares at a discount in December 1992. If the Company is in default in its obligation to make any future redemptions on the \$7.12 series or the \$7.48 series, it may not pay cash dividends on common stock.

Preferred Stock Outstanding
Thousands of shares/Millions of dollars

December 31 Series	1995 Shares	1995 Amount	1994 Shares	1994 Amount
Subject to Mandatory Redemption				
No Par Serial Preferred, 16,000 Shares Authorized				
\$7.12 (\$100 stated value)	440	\$ 44.0	440	\$ 44.0
7.70	1,000	100.0	1,000	100.0
7.48	750	75.0	750	75.0
Total		\$ 219.0		\$ 219.0
Not Subject to Mandatory Redemption				
\$1.16 (\$25 stated value)	193	\$ 4.8	193	\$ 4.8
1.18	420	10.5	420	10.5
1.28	381	9.5	381	9.5
1.76	394	9.8	394	9.8
1.98	502	12.6	502	12.6
2.13	666	16.7	666	16.7
1.98, Series 1992	2,767	69.1	5,000	125.0
Auction Rate (\$100,000 stated value) ^(a)	1	100.0	1	100.0
Serial Preferred \$100 Stated Value Per Share, 3,500 Shares Authorized				
4.52%	2	.2	2	.2
4.56	85	8.5	85	8.5
4.72	70	7.0	70	7.0
5.00	42	4.2	42	4.2
5.40	66	6.6	66	6.6
6.00	6	.6	6	.6
7.00	18	1.8	18	1.8
7.96	135	13.5	135	13.5
8.92	69	6.9	69	6.9
9.08	165	16.5	165	16.5
5% Preferred, \$100 Stated Value, 127 Shares Authorized and Outstanding	127	12.7	127	12.7
Total		\$ 311.5		\$ 367.4

^(a) Dividend rates at December 31, 1995 on 500 shares each of Series A and Series C were 4.7% and 4.6%, respectively.

Note 5. Long-Term Debt and Capital Lease Obligations

The Company's long-term debt and capital lease obligations were as follows:

Millions of dollars/December 31

	1995	1994
PacifiCorp		
First mortgage and collateral trust bonds		
Maturing 1996 through 2000/4.5%-9.5% ^(a)	\$ 987.5	\$ 1,038.2
Maturing 2001 through 2005/6%-10%	644.3	689.5
Maturing 2006 through 2010/6.6%-8.3%	157.6	59.0
Maturing 2011 through 2015/7.3%-9.2%	238.1	240.4
Maturing 2016 through 2020/8.5%-8.6%	35.9	36.4
Maturing 2021 through 2024/6.7%-8.6%	361.5	361.5
Guaranty of pollution control revenue bonds		
5.6%-5.7% due 2021 through 2023 ^(b)	71.2	71.2
Variable rate due 2013 through 2024 ^{(b)(c)}	216.5	216.5
Variable rate due 2005 through 2025 ^(c)	456.6	404.9
Funds held by trustees	(12.4)	—
8.4%-8.6% Junior subordinated debentures due 2025 through 2035	175.8	—
Commercial paper and uncommitted bank lines ^{(d)(e)}	200.0	—
Leveraged ESOP loan guaranty	—	4.6
Unamortized premium and discount	6.6	9.1
Capital lease obligations	24.7	19.5
Total	3,563.9	3,150.8
Less current maturities	176.8	45.1
Total	3,387.1	3,105.7
Subsidiaries		
2%-11.8% First mortgage notes and bonds maturing through 2028	143.2	159.1
6.4%-12% Notes due through 2007	59.8	68.9
Australian bank bill borrowings ^{(d)(e)}	896.2	—
Commercial paper and uncommitted bank lines ^{(c)(e)}	75.0	75.0
Variable rate notes due through 2007 ^(c)	42.0	57.6
7.3%-9.4% Medium-term notes due through 2006	223.5	184.5
4.5%-11% Nonrecourse debt due through 2031	155.9	139.7
Leveraged ESOP loan guaranty	12.2	20.5
Capital lease obligations	2.6	7.9
Total	1,610.4	713.2
Less current maturities	29.3	50.7
Total	1,581.1	662.5
Total	\$ 4,968.2	\$ 3,768.2

^(a) Includes \$50 million of 9.4% bonds issued to secure obligations under an equivalent 10-year yen loan. A currency swap converted the fixed rate yen liability to a floating rate U.S. dollar liability based on six-month LIBOR plus .02% (interest rate 6.8% at December 31, 1995).

^(b) Secured by pledged first mortgage and collateral trust bonds generally at the same interest rates, maturity dates and redemption provisions as the secured pollution control revenue bonds.

^(c) Interest rates fluctuate based on various rates, primarily on certificate of deposit rates, interbank borrowing rates, prime rates or other short-term market rates.

^(d) Interest rates fluctuate based on Australian Bank Bill Acceptance Rate. The loan agreement requires that within 90 days of initial drawdown at least 50% of the borrowing must be hedged against variations in interest rates for an average life of 3.5 years. In January and February 1996, approximately \$450 million has been hedged at an average rate of 7.7% and for an average life of 4.3 years.

^(e) The Companies have the ability to support short-term borrowings and current debt being refinanced on a long-term basis through revolving lines of credit and, therefore, based upon management's intent, have classified \$1.2 billion of short-term debt as long-term debt.

Approximately \$7 billion of the assets of the Companies secure long-term debt and capital lease obligations. First mortgage and collateral trust bonds of the Company may be issued in amounts limited by property, earnings and other provisions of the mortgage indentures.

The junior subordinated debentures are unsecured obligations of the Company and are subordinated to the Company's first mortgage bonds, pollution control revenue bonds, commercial paper, capital lease obligations and any future senior indebtedness.

Holdings guarantees certain debt of the Leveraged ESOP Trust established under the K Plus Plan. The debt was used to acquire the Company's common stock. Common equity has been reduced and long-term debt has been increased by the amount of the debt guaranteed. Remaining unallocated common shares held in trust total 559,543 at December 31, 1995.

Nonrecourse long-term notes are secured by assignment of related finance receivables, asset security interests and cash flows from operating leases. The noteholders have no additional recourse to the Companies.

The annual maturities of long-term debt, capital lease obligations and redeemable preferred stock outstanding are \$206 million, \$245 million, \$241 million, \$399 million and \$1.1 billion in 1996 through 2000, respectively.

Note 6. Financial Instruments and Risk Management

The Company seeks to reduce net income and cash flow exposure to changing interest and currency exchange rates and commodity price risks through the use of derivative financial instruments. The Company's participation in derivative transactions involves instruments that have a close correlation with its portfolio of liabilities, thereby managing its risk. Derivatives have been designed for hedging purposes and not held or issued for speculative purposes.

Notional Amounts and Credit Exposure of Derivatives—The notional amounts of derivatives summarized below do not represent amounts exchanged and, therefore, are not a measure of the exposure of the Company through its use of derivatives. The amounts exchanged are calculated on the basis of the notional amounts and other terms of the derivatives, which relate to interest rates, exchange rates or other indexes.

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings. The Company's credit policy provides that counterparties satisfy minimum credit ratings. The credit exposure of interest rate, foreign exchange and forward contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

Interest Rate Risk Management—The Company enters into interest rate swaps in managing its interest rate risk. The following table indicates the notional amount of interest rate swaps used at December 31, 1995 and 1994 and their interest rate ranges at December 31, 1995. Swap contracts have between two and five years remaining.

Millions of dollars/December 31	1995	1994	Interest Rates
Electric Operations	\$ 150.0	\$ 150.0	6.9%–8.9%
Other	69.9	86.8	5.7%–8.6%
Total	\$ 219.9	\$ 236.8	5.7%–8.9%

The Company uses interest rate swaps to adjust the characteristics of its liability portfolio by hedging portions of its interest expense, allowing the Company to establish a mix of fixed or variable interest rates on its outstanding debt.

Through February 1996, PacifiCorp Australia LLC entered into 12 interest rate swaps with an aggregate notional amount of \$450 million. These swap arrangements effectively fix interest rates on the Australian bank debt used to acquire Powercor at rates ranging from 7.4%–7.9%. Terms of these arrangements have an average life of 4.3 years. Also in February 1996, Holdings entered into interest rate hedges having an aggregate notional amount of \$200 million to hedge interest rate fluctuations relating to anticipated debt issuances.

Foreign Exchange Risk Management—At December 31, 1995, the Company held four foreign currency exchange agreements, one of which provides for the exchange of \$50 million for 7.4 billion yen to meet a 1997 yen-denominated obligation of an equivalent amount. In December 1995, Holdings entered into three currency swaps, that terminate in 2002, with an aggregate notional amount of \$300 million to hedge a portion of Holdings' exposure to fluctuations in the Australian dollar relating to its investment in its Australian subsidiary.

Electricity Price Risk Management—Holdings' Australian subsidiary, Powercor, has entered into forward contracts structured to hedge exposure to electricity price risk on anticipated transactions or firm commitments. Under these forward contracts, Powercor receives or makes payment based on a differential between a contracted price and the actual spot market price of electricity. At December 31, 1995, Powercor had 21 forward contracts with electricity generation companies to exchange payments calculated on notional quantities amounting to approximately 38,000,000 mWh through December 31, 2000. At December 31, 1995, the Powercor average fixed price was \$26.59 per mWh compared to an average spot market price of \$28.08 per mWh.

Note 7. Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, payables, accrued liabilities and short-term borrowings approximates fair value because of the short-term maturity of these instruments. The fair value of the finance note receivable approximates its carrying value at December 31, 1995.

The fair value of redeemable preferred stock, based upon bid prices from an investment bank, is estimated to be \$240 million, or 110% of the carrying value of \$219 million at December 31, 1995 and \$219 million, or 100% of the carrying value at December 31, 1994.

The fair value of long-term debt has been estimated by discounting projected future cash flows, using the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same maturities. Current maturities of long-term debt were included and leveraged ESOP loan guarantees and capital lease obligations were excluded. The fair value of the Company's long-term debt is estimated to be \$5.4 billion, or 105% of the carrying value of \$5.1 billion, and \$3.7 billion, or 97% of the carrying value of \$3.8 billion, at December 31, 1995 and 1994, respectively.

The fair value of interest rate and currency swaps and forward electricity price contracts is the estimated amount the Company would pay to terminate the agreements, taking into account current interest and currency exchange rates, electricity market prices and the current creditworthiness of the agreement counterparties. The estimated termination cost would have been \$37 million and \$27 million at December 31, 1995 and 1994, respectively.

Note 8. Leases

The Companies lease certain properties under leases with various expiration dates and renewal options. Rentals on lease renewals are subject to negotiation. Certain leases provide for options to purchase at fair market value. The Companies are also committed to pay all taxes, expenses of operation (other than depreciation) and maintenance applicable to the leased property.

Net rent expense for the years ended December 31, 1995, 1994 and 1993 was \$50 million, \$59 million and \$60 million, respectively.

Future minimum lease payments under noncancellable operating leases are \$21 million, \$13 million, \$12 million, \$6 million and \$4 million for 1996 through 2000, respectively.

Note 9. Commitments and Contingencies

Construction and Other

Construction and acquisitions are estimated at \$1.3 billion for 1996. As a part of these programs, substantial commitments have been made.

Several Superfund sites have been identified where the Company has been or may be designated as a potentially responsible party. Future costs associated with the disposition of these matters are not expected to be material to the Company's consolidated financial statements.

The Company and its subsidiaries are parties to various legal claims, actions and complaints, certain of which involve material amounts. Although the Company is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, management currently believes that disposition of these matters will not have a materially adverse effect on the Company's consolidated financial statements.

Jointly Owned Plants

At December 31, 1995, Electric Operations' participation in jointly owned plants was as follows:

Millions of dollars	Electric Operations' Share	Plant in Service	Accumulated Depreciation	Construction Work in Progress
Centralia	47.5%	\$ 177.8	\$ 104.2	\$ 3.9
Jim Bridger				
Units 1, 2, 3 and 4	66.7	782.5	299.6	5.0
Trojan ^(a)	2.5	—	—	—
Colstrip Units 3 and 4	10.0	201.8	58.0	1.8
Hunter Unit 1	93.8	259.0	94.1	1.3
Hunter Unit 2	60.3	186.9	62.1	1.0
Wyodak	80.0	303.0	88.5	1.0
Craig Station				
Units 1 and 2	19.3	147.0 ^(b)	53.8	3.2
Hayden Station Unit 1	24.5	16.9 ^(b)	11.8	.2
Hayden Station Unit 2	12.6	16.9 ^(b)	8.6	.3

^(a) Plant, inventory, fuel and decommissioning costs totaling \$28 million relating to the Trojan Plant, were included in regulatory assets-net at December 31, 1995. Recovery of these costs is pending approval of certain regulatory commissions.

^(b) Excludes unallocated acquisition adjustments of \$124 million.

Under the joint agreements, each participating utility is responsible for financing its share of construction, operating and leasing costs. Electric Operations' portion is recorded in its applicable operations, maintenance and tax accounts.

Substantial amounts of power are purchased from several hydroelectric projects under long-term arrangements with public utility districts. These purchases are made on a "cost-of-service" basis for a stated percentage of project output and for a like percentage of project annual costs (operating expenses and debt service). These costs are included in operations expense. Electric Operations is required to pay its portion of the debt service, whether or not any power is produced. The arrangements provide for nonwithdrawable power and the majority also provide for additional power.

withdrawable by the districts upon one to five years' notice. For 1995, such purchases approximated 3.4% of energy requirements; an additional 14% was obtained through other purchase and net interchange arrangements.

At December 31, 1995, Electric Operations' share of long-term arrangements with public utility districts was as follows:

Generating Facility	Year Contract Expires	Capacity (kW)	Percentage of Output	Annual Costs ^(a)
Wanapum	2009	155,444	18.7%	\$ 5.0
Priest Rapids	2005	109,602	13.9	4.0
Rocky Reach	2011	64,297	5.3	2.1
Wells	2018	59,617	7.7	2.0
Total		388,960		\$ 13.1

^(a) Annual costs, in millions of dollars, include debt service of \$8 million.

The Company has a 4% interest in the Intermountain Power Project ("Project"), located in central Utah. The Company and the City of Los Angeles have agreed that the City will purchase capacity and energy from Company plants equal to the Company's 4% entitlement of the Project at a price equivalent to 4% of the expenses and debt service of the Project.

Note 10. Income Taxes

The Company's effective combined federal and state income tax rate from continuing operations was 32% in 1995, 35% in 1994 and 31% in 1993. The difference between taxes calculated as if the statutory federal tax rate of 35% was applied to income from continuing operations before income taxes and the recorded tax expense is reconciled as follows:

Millions of dollars/For the year	1995	1994	1993
Computed Federal Income Taxes	\$ 260.3	\$ 251.2	\$ 213.5
Reduction (Increase) in Tax Resulting From			
Depreciation differences (flow-through basis)	(9.7)	(8.4)	(9.4)
Investment tax credits	12.3	15.5	15.1
Excess of tax over book basis	24.4	1.4	—
Audit settlement	16.8	—	—
Affordable housing credits	8.4	8.2	8.7
Other items capitalized and miscellaneous differences	(4.8)	(.7)	19.1
Total	47.4	16.0	33.5
Federal Income Tax	212.9	235.2	180.0
State Income Tax, Net of Federal Income Tax Benefit	25.9	14.6	7.4
Total Income Tax Expense	\$ 238.8	\$ 249.8	\$ 187.4

The provision for income taxes is summarized as follows:

Millions of dollars/For the year	1995	1994	1993
Current			
Federal	\$ 152.2	\$ 222.7	\$ 70.3
State	23.1	34.6	3.6
Foreign	1.0	—	—
Total	176.3	257.3	73.9
Deferred			
Federal	56.5	17.8	120.9
State	17.3	(9.8)	7.7
Foreign	1.0	—	—
Total	74.8	8.0	128.6
Investment Tax Credits	(12.3)	(15.5)	(15.1)
Total Income Tax Expense	\$ 238.8	\$ 249.8	\$ 187.4

The tax effects of significant items comprising the Company's net deferred tax liability are as follows:

Millions of dollars/December 31	1995	1994
Deferred Tax Liabilities		
Property, plant and equipment	\$1,213.1	\$1,134.1
Regulatory asset	756.8	797.8
Other deferred liabilities	52.5	41.5
Deferred Tax Assets		
Regulatory liability	(69.7)	(90.7)
Book reserves not deductible for tax	(42.6)	(60.1)
Net Deferred Tax Liability	\$1,910.1	\$1,822.6

During 1995, the Company and the Internal Revenue Service (the "IRS") agreed on a settlement of all issues related to the IRS examination of the Company's federal income tax returns for the years 1983 through 1988, including matters relating to the Company's abandonment of its 10% interest in Washington Public Power Supply System Unit No. 3.

The Company's 1989 and 1990 federal income tax returns are currently under examination by the IRS.

Financial Services acquires housing projects that qualify for the low-income housing credit established as part of the Tax Reform Act of 1986 to provide an incentive for the development and preservation of privately owned affordable rental housing. Annual tax benefits scheduled to be received from these projects are expected to be \$10 million, \$10 million, \$9 million, \$8 million and \$4 million for 1996 through 2000, respectively.

Note 11. Retirement Plans

The Companies have pension plans covering substantially all of their employees. Benefits under plans in the United States are generally based on the employee's years of service and average monthly pay in the 60 consecutive months of highest pay out of the last 120 months, with adjustments to reflect benefits estimated to be received from Social Security. Pension costs are funded annually by no more than the maximum amount of pension expense which can be deducted for

federal income tax purposes. Unfunded prior service costs are amortized over the remaining service period of employees expected to receive benefits. At December 31, 1995, plan assets were primarily invested in common stocks, bonds and U.S. government obligations.

All permanent employees of Powercor engaged prior to October 4, 1994, are members of Divisions B or C of the Superannuation Fund ("Fund") which provides defined benefits in the form of pensions (Division B) or lump sums (Division C). Both defined benefit Funds are closed to new members. Division B members contribute at 6% of superannuation salary, and Division C members can contribute at 0, 3, or 6%. During 1995, contributions were made to the Fund at the rate of 10% for the defined benefit. The net periodic cost from the date of acquisition to December 31, 1995 is assumed to be zero.

Net pension cost is summarized as follows:

Millions of dollars/For the year	1995	1994	1993
Service cost—benefits earned	\$ 24.4	\$ 26.4	\$ 19.2
Interest cost on projected benefit obligation	80.1	74.1	70.8
Actual (gain) loss on plan assets	(153.5)	4.9	(89.5)
Net amortization and deferral	100.5	(59.7)	44.0
Regulatory deferral ^(a)	29.4	.7	3.4
Net Pension Cost	\$ 80.9	\$ 46.4	\$ 47.9

^(a) Electric Operations has received accounting orders from its primary and certain other regulatory authorities to defer the difference between pension cost as determined in accordance with SFAS 87 and 88 and that determined for funding purposes. See "Accounting for the Effects of Regulation" in Note 1.

The funded status, net pension liability and significant assumptions are as follows:

Millions of dollars/December 31	1995	1994
Actuarial present value of benefit obligations		
Vested benefit obligation	\$1,033.9	\$ 779.1
Accumulated benefit obligation	1,090.1	820.6
Projected benefit obligation	1,262.1	943.7
Plan assets at fair value	895.6	673.3
Projected benefit obligation in excess of plan assets	(366.5)	(270.4)
Unrecognized prior service cost	9.8	6.5
Unrecognized net (gain) loss	104.0	(.2)
Unrecognized net obligation	89.5	94.7
Minimum liability adjustment	(65.2)	(11.6)
Net Pension Liability	\$ (228.4)	\$ (181.0)
Discount rate	7.25%	8.5%
Expected long-term rate of return on assets	8.5-9%	8.75-9%
Rate of increase in compensation levels	5-6%	5.5%

Electric Operations offered early retirement incentive programs in 1987 and 1990. Included in the table above is the present value of all future termination benefits provided of \$61 million. Electric Operations received regulatory accounting orders to defer early retirement costs as a regulatory asset to be amortized through the year 2020. See "Accounting for the Effects of Regulation" in Note 1.

Note 12. Other Postretirement Benefits

Electric Operations and Telecommunications provide health care and life insurance benefits through various plans for their eligible retirees on a basis substantially similar to those who are active employees. Effective January 1, 1993, the Company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The cost of postretirement benefits are now accrued over the active service period of employees. The transition obligation, which represents the previously unrecognized prior service cost, was \$319 million at January 1, 1993, and is being amortized over a period of 20 years. For those employees already retired at January 1, 1993, the Company will continue to fund postretirement benefit expense on a pay-as-you-go basis. For those employees retiring after January 1, 1993, the Company will fund postretirement benefit expense through a combination of funding vehicles. The Company funded \$40 million and \$29 million of postretirement benefit expense during 1995 and 1994, respectively. These funds are invested in common stocks, bonds and U.S. government obligations.

The net periodic postretirement benefit cost is summarized as follows:

Millions of dollars/For the year	1995	1994	1993
Service cost—benefits earned	\$ 8.3	\$ 9.5	\$ 7.6
Interest cost on accumulated postretirement benefit obligation	32.6	30.7	28.8
Amortization of transition obligation	15.7	16.3	16.0
Regulatory deferral	(4.5)	(5.2)	(5.6)
Net asset gain (loss) during the period deferred for future recognition	3.7	(4.4)	—
Actual return on plan assets	(10.7)	.3	(.2)
Net Periodic Postretirement Benefit Cost	\$ 45.1	\$ 47.2	\$ 46.6

The accumulated postretirement benefit obligation ("APBO") was as follows:

Millions of dollars/December 31	1995	1994
Retirees and dependents	\$ 267.7	\$ 237.1
Fully eligible active plan participants	23.5	20.1
Other active plan participants	174.5	125.9
APBO	465.7	383.1
Plan assets at fair value	117.4	68.8
APBO in excess of plan assets	348.3	314.3
Unrecognized prior service cost	.6	.7
Unrecognized transition obligation	(266.7)	(286.8)
Unrecognized net gain (loss)	(50.1)	3.8
Accrued Postretirement Benefit Obligation	\$ 32.1	\$ 32.0
Discount rate	7.25%	8.5%
Estimated long-term rate of return on assets	8.75-9%	8.5-9%
Initial health care cost trend rate—under 65	11%	11%
Initial health care cost trend rate—over 65	10%	10%
Ultimate health care cost trend rate	4.5%	5.5%

The assumed health care cost trend rates gradually decrease over eight years. The health care cost trend rate assumptions have a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by one percentage point would have increased the APBO as of December 31, 1995 by \$32 million, and the annual net periodic postretirement benefit costs by \$3 million.

Note 13. Discontinued Operations

A gain of \$52 million and proceeds of \$195 million were recorded in 1993 relating to the sale of an international communications subsidiary.

Note 14. Business Segments

Millions of Dollars	Consolidated	Electric Operations	Telecommunications	Australian Electricity Distributor	Other ^(a)
Year ended December 31, 1995					
Revenues	\$ 3,401	\$ 2,616	\$ 649	\$ 26	\$ 110
Income from operations	1,048	801	165	5	77
Depreciation and amortization	444	320	112	3	9
Capital spending	2,719	455	498	1,591	175
Identifiable assets	14,015	9,599	1,599	1,751	1,066
Year ended December 31, 1994					
Revenues	\$ 3,507	\$ 2,648	\$ 705	\$ —	\$ 154
Income from operations	1,022	819	165	—	38
Depreciation and amortization	424	302	104	—	18
Capital spending	804	638	153	—	13
Identifiable assets	11,846	9,372	1,378	—	1,096
Year ended December 31, 1993					
Revenues	\$ 3,405	\$ 2,507	\$ 702	\$ —	\$ 196
Income from operations	969	784	141	—	44
Depreciation and amortization	405	281	110	—	14
Capital spending	807	637	126	—	44
Identifiable assets	11,957	9,055	1,413	—	1,489

^(a) Includes the operations of finance, real estate, manufacturing and agriculture activities of Financial Services and independent power production, as well as the activities of Holdings.

PacifiCorp Officers

Frederick W. Buckman, 50
President and Chief
Executive Officer
1994 *(Year joined the company)*

Richard T. O'Brien, 41
Senior Vice President and
Chief Financial Officer
1983

Paul G. Lorenzini, 53
Senior Vice President,
Engineering and Capital Projects
1987

Verl R. Topham, 61
Senior Vice President and
General Counsel
1972

David P. Hoffman, 51
Vice President, Strategic Planning and
Business Process Services
1994

Thomas J. Imeson, 45
Vice President, Public Affairs
and Communications
1985

Robert F. Lanz, 53
Vice President and
Chief Investment Officer
1973

Sally A. Nofziger, 59
Vice President and
Corporate Secretary
1962

Paul N. Pechersky, 55
Vice President and
Chief Information Officer
1995

Michael J. Pittman, 43
Vice President,
Human Resources
1979

Jacqueline S. Bell, 54
Controller
1980

William E. Peressini, 39
Treasurer
1985

H. Arnold Wagner, 56
Controller, Electric Operations
1975

Generation Business Unit

John A. Bohling, 52
Senior Vice President,
Generation
1966

William C. Brauer, 57
Vice President,
Electric Production
1975

Ernest E. Wessman, 48
Vice President, Power Supply Operations,
Strategic Planning and Administration
1979

Retail Business Unit

John E. Mooney, 59
Senior Vice President, Retail
1960

Shelley R. Faigle, 44
Senior Vice President,
Customer and Energy Services
1973

Thomas W. Forsgren, 53
Vice President, Retail Support
and Business Development
1970

Thomas A. Lockhart, 60
Vice President, Strategic Customer
Market Segment
1985

Edwin J. O'Mara, 40
Vice President, Strategic
Marketing and Planning
1994

Richard D. Westerberg, 46
Vice President, Customer Operations
1978

Wholesale Transactions and Transmission Business Unit

Dennis P. Steinberg, 49
Senior Vice President,
Wholesale Transactions
and Transmission
1978

Brian D. Sickels, 50
Vice President, Power Systems
1984

Subsidiary Operations

PacifiCorp Holdings, Inc.

Michael C. Henderson, 49
President and Chief
Executive Officer
Vice President, PacifiCorp
1991

Pacific Telecom, Inc.

Charles E. Robinson, 62
Chairman, President and
Chief Executive Officer
1960

James H. Huesgen, 46
Executive Vice President and
Chief Financial Officer
1983

Diana E. Snowden, 48
Senior Vice President, Local Exchange
Company Operations
1986

Donn T. Wonnell, 49
Vice President, Regulatory Affairs
and Corporate Secretary
1991

PacifiCorp Financial Services, Inc.

Craig N. Longfield, 50
Senior Vice President and
Chief Operating Officer
1989

Powercor Australia Limited

Daniel L. Spalding, 42
Chairman and
Chief Executive Officer
Senior Vice President, PacifiCorp
1981

Pacific Generation Company

John T. Miller, 50
President and Chief
Executive Officer
1987

PacifiCorp Energy, Inc.

J. Brett Harvey, 45
President
Vice President, Fuels, PacifiCorp
1986

PacifiCorp Power Marketing, Inc.

Donald N. Furman, 39
President
1994

PacifiCorp Board of Directors



Matthew A. Brown, 44
Executive Vice President
Western Digital Corp.
Irvine, California
1993 (Elected to the Board)



Frederick W. Beckman, 50
President and Chief Executive Officer
PacifiCorp
Portland, Oregon
1994



C. Todd Cawthon, 59
Executive Vice President and General Counsel
The Western Union Company
San Antonio, Texas
1991



William A. Dyer, 50
Executive Vice President and General Counsel
The Church of Jesus Christ of Latter-day Saints
Salt Lake City, Utah
1992



John C. Hampton, 70
Chairman and Chief Executive Officer
Hampton Resources, Inc.
Portland, Oregon
1993 (Elected from Board, Energy Division)



Nelson E. Hays, 55
Executive Vice President and General Counsel
The Western Union Company
San Antonio, Texas
1992



Keith R. McKinnon, 52
Chairman
PacifiCorp
Portland, Oregon
1990



Robert G. Miller, 51
Chairman and Chief Executive Officer
Ford Motor, Inc.
Portland, Oregon
1994



David R. Stephens, 51
Senior Vice President and General Counsel
PacifiCorp
Salt Lake City, Utah
1994



Don M. Wheeler, 57
Chairman and Chief Executive Officer
Wheeler Machinery Company
Salt Lake City, Utah
1989



Nancy Wigganbaum, 48
President
Maryhurst College
Maryhurst, Oregon
1986



Peter I. Wold, 48
Partner
Wold Oil & Gas Company
Casper, Wyoming
1995

PacifiCorp Board of Directors



Kathryn A. Bauer, 44
Executive Vice President
Western Digital Corp.
Irvine, California
1994 (Elected to the Board)



Frederick W. Buckman, 50
President and Chief Executive Officer
PacifiCorp
Portland, Oregon
1994



C. Todd Connor, 66
President and Chief Executive Officer
The Mortgage Company
Los Altos, California
1991



Richard C. Edley, 80
Member of Presiding Bishopric
The Church of Jesus Christ of Latter-day Saints
Salt Lake City, Utah
1987



John C. Hampton, 70
Chairman and Chief Executive Officer
Hampton Resources, Inc.
Portland, Oregon
1983 (Elected from Board effective 1/1/96)



Nolan E. Korman, 81
Insurance Advisor
Korman & Associates, Inc.
Roy, Utah
1991



Keith E. McKenna, 53
Chairman
PacifiCorp
Portland, Oregon
1990



Robert G. Miller, 51
Chairman and Chief Executive Officer
Fred Meyer, Inc.
Portland, Oregon
1994



Mel R. Tipton, 61
Senior Vice President and General Counsel
PacifiCorp
Salt Lake City, Utah
1994



Don M. Wheeler, 67
Chairman and Chief Executive Officer
Wheeler Machinery Company
Salt Lake City, Utah
1989



Nancy Wilgenbusch, 48
President
Marylhurst College
Marylhurst, Oregon
1986



Peter A. Wood, 55
Partner
Wood Oil & Gas Company
Casper, Wyoming
1995

Investor Information

Stock exchange listings

PacifiCorp's common stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol PPW.

In addition, the company has three series of securities which are listed and traded on the New York Stock Exchange.

Issue	Symbol
\$1.98 No Par Serial Preferred Stock, Series 1992	PPW E
8.375% Quarterly Income Debt Securities	PCQ
8.55% Quarterly Income Debt Securities	PCX

Daily quotes on the common stock and other listed securities can be obtained by checking the New York Stock Exchange composite transactions listed in local newspapers.

The company's first mortgage bonds and most preferred stock series are infrequently traded in the over-the-counter market.

Public information

Financial analysts, stockbrokers, interested investors and financial media desiring information about PacifiCorp should contact Scott Hibbs in Investor Relations, (503) 731-2123.

Shareholder services & information

Shareholder Services may be reached from all U.S. long distance call locations at (800) 233-5453. Portland-area callers should use 731-2002. The toll-free telephone number is answered between 7:00 a.m. and 5:00 p.m. Pacific time Monday-Thursday, and 7:00 a.m. to 4:00 p.m. on Friday. Shareholder Services will assist you with:

- Stock transfer and name change requirements
- Address changes
- Replacement of dividend checks
- Duplicate Form 1099 and Form W-9 tax certification forms
- Notices of lost or destroyed stock certificates
- Dividend Reinvestment Plan statement history and information regarding the plan
- Safekeeping of certificates
- Other questions concerning PacifiCorp stock ownership.

Shareholders' written correspondence may be submitted to:

PacifiCorp Shareholder Services
700 N.E. Multnomah Street, Suite 700
Portland, Oregon 97232-4107

Transfer agent

PacifiCorp maintains shareholder records and acts as Transfer Agent and Registrar for the company's common and preferred stock issues.

Dividend reinvestment & stock purchase

PacifiCorp's dividend reinvestment plan is a convenient way for shareholders to increase their investment in the company.

Under the plan, quarterly dividends from common and preferred shares (all or a portion) may be automatically applied toward purchase of additional shares of common stock. In addition, cash contributions of up to \$25,000 per quarter can be made. Participants wishing to terminate dividend reinvestment may sell their plan shares through the company provided their account balance is less than 100 shares. A small commission fee is charged when applicable.

Existing shareholders can open a dividend reinvestment account with either dividends from existing shares or with an initial cash contribution. For a prospectus, enrollment card or other information, call or write the Shareholder Services department.

Bondholder information

Inquiries concerning lost bonds, interest payments, changes of address and other matters relating to ownership should be directed to:

Chemical Bank
Corporate Trust Services-Communications
1201 Main Street-17 OMP
Dallas, Texas 75202
General inquiries: 1-800-648-8380
Form 1099 and tax inquiries: 1-800-298-6805

Annual meeting

The 1996 Annual Meeting of PacifiCorp Shareholders will be:

Wednesday, May 8, 1996
1:30 p.m. Pacific Daylight Time
Red Lion Lloyd Center
1000 N.E. Multnomah Street
Portland, Oregon

Form 10-K

A copy of the company's 1995 10-K, filed with the Securities and Exchange Commission, may be obtained by contacting Investor Relations at the corporate headquarters address.

Dividend payment

Dividends on the company's common and preferred stock in 1996 are expected to be paid on or about:

February 15 May 15 August 15 November 15

Corporate Addresses

PacifiCorp

Corporate Headquarters

700 N.E. Multnomah Street, Suite 1600
Portland, OR 97232-4116
(503) 731-2000

Pacific Power

920 S.W. Sixth Avenue
Portland, OR 97204-1236
(503) 464-5000

Utah Power

201 South Main Street, Suite 2300
Salt Lake City, UT 84140-0023
(801) 220-2000

Pacific Telecom, Inc.

805 Broadway
P.O. Box 9901
Vancouver, WA 98668-9901
(360) 905-5800

PacifiCorp Financial Services, Inc.

825 N.E. Multnomah Street, Suite 775
Portland, OR 97232-2152
(503) 797-7200

Pacific Generation Company

500 N.E. Multnomah Street, Suite 900
Portland, OR 97232-2039
(503) 797-7550

Powercor Australia Limited

Head Office

Level 3, 77 Southbank Boulevard
Southbank, Victoria, Australia
03-9679-4444 (within Australia)
011-613-9679-4444 (from U.S.)

Mailing Address

Locked Bag 14090MCMC
Melbourne, 8001, Victoria, Australia

Internet Address

<http://www.pacifiCorp.com>

Counsel

Stoel Rives LLP

Independent Auditors

Deloitte & Touche LLP



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