



A W H O L E N E W F U T U R E

ELECTRICITY

NATURAL GAS

GENERATION

TECHNOLOGY

COMMUNICATIONS

INVESTMENTS

1998 SUMMARY

ANNUAL REPORT

COMPANY PROFILE

Avista Corp. is a diversified energy business with utility and subsidiary operations throughout North America.

The state-regulated side of Avista Corp. – Avista Utilities – serves 300,000 electric and 260,000 natural gas customers in Washington, Idaho, Oregon, and California.

Avista Capital owns all the company's other energy and non-energy businesses, including Avista Energy, Avista Energy Canada, Avista Power, Avista Advantage, Avista Fiber, Avista Communications, Avista Labs, Avista Development, and Pentzer Corporation.

A BRAND NEW POINT OF VIEW

Look around. Really look.

That's how we spent the last year. And we liked what we saw: a secure, well-managed, reliable company with breakthrough potential.

We also recognized a distinct challenge. The time had come to take a more aggressive approach to business, to capitalize on new opportunities, to push further, move faster,

think more broadly. We've built a solid foundation. Now we're ready to expand into a larger marketplace.

But we're not growing for growth's sake. We're more disciplined than that. The people at Avista Corp. think strategically, striving for profitability and a clearer understanding of what it takes to win in a relentlessly competitive industry.

FINANCIAL AND
OPERATING HIGHLIGHTS

(Thousands of Dollars Except Statistics and Per Share Amounts)	1998	1997	1996
Financial Results			
Operating revenues	\$3,683,984	\$1,302,172	\$ 944,957
Operating expenses	3,511,164	1,112,708	758,036
Operating income	172,820	189,464	186,921
Net income	78,139	114,797	83,453
Net income available for common stock	69,740	109,405	75,475
Reported earnings per share, basic and diluted	1.28	1.96	1.35
Earnings per share	1.35*	–	–
Dividends paid per share	1.05	1.24	1.24
Book value per share	13.67*	13.38	12.70
Average common shares outstanding	54,604	55,960	55,960
Actual common shares outstanding	55,858*	–	–
Return on average common equity	9.9%*	15.0%	10.6%
Common stock closing price	19.250	24.313	18.625
Operating Results			
Energy Delivery			
Retail electric revenues	\$ 216,545	\$ 214,750	\$ 209,117
Retail KWh sales (in thousands)	7,944	7,783	7,771
Retail electric customers at year end	305,201	301,226	296,449
Total natural gas revenues	\$ 193,138	\$ 165,782	\$ 171,311
Total therm sales (in thousands)	712,689	668,780	661,371
Retail natural gas customers at year end	262,241	251,177	237,651
Generation and Resources			
Revenues	\$ 639,529	\$ 511,133	\$ 418,566
KWh sales (in thousands)	19,215	16,410	11,175
National Energy Trading and Marketing			
Revenues	\$2,409,920	\$ 247,646	\$ 116
KWh sales (in millions)	54,430	4,540	–
Natural gas sales (average BCF/day at year end)	1.57	0.65	–
Non-energy			
Revenues	\$ 232,292	\$ 164,010	\$ 145,847
Other Financial and Operating Statistics			
Total assets	\$3,236,206	\$ 2,411,785	\$2,177,298
Net utility plant	1,470,942	1,433,123	1,397,876
Utility capital expenditures	92,296	87,175	88,821
Total capitalization:			
Long-term debt	730,022	762,185	764,526
Preferred trust securities	110,000	110,000	–
Preferred stock	35,000	45,000	115,000
Preferred stock convertible to common	269,227	–	–
Common equity	488,034	748,812	710,736
Total	\$1,632,283	\$1,665,997	\$1,590,262

*Assumes Convertible Preferred Stock has been converted back to common stock.

A WIDE-OPEN
FRONTIER

By recasting Avista Corp. as a diversified energy company with a North American outlook, we’re creating a future without limits. Our employees have room to turn their ideas into viable business opportunities. We’re exploring ways to grow, not in small increments, but by large leaps – in physical assets,

number of customers, and, ultimately, shareholder value.

The effect: bold ambitions and the energy to see them realized.

In the end, Avista Corp. will redefine what it means to be an energy company, according to our strategies, our abilities, our objectives. We find the prospect invigorating.

leadership

LETTER TO INVESTORS



T. M. Matthews
Chairman of the Board, President,
and Chief Executive Officer

There are energy companies larger than Avista Corp. But nowhere will you find a more enterprising group of people. Or a firmer foundation from which to climb.

The imagination and experience resident in this company will surely drive us far beyond any horizon we can perceive today.

That's why I believe we'll succeed in a national marketplace. And that's what brought me to Avista Corp. in 1998.

I'm convinced that every line of business we're in has unrealized potential. And if Avista Corp. is to survive against the escalating competition of the energy industry, we need to grow – substantially and quickly. Specifically, we're aiming for an aggressive 8 to 10 percent in annual earnings growth and a \$4 billion to \$5 billion stock market capitalization in five years, up from our current level of about \$1 billion.

Our new name – which replaced Washington Water Power as of January 1, 1999 – symbolizes our transformation from a regional utility to a national, diversified energy company with a far-reaching, forward-thinking business philosophy. The new identity builds on those attributes our stakeholders have come to expect over our 110-year history: great employees, shareholder value, integrity, reliability, and superior products and services.

Each business unit now carries the Avista Corp. brand into the marketplace, and each is accountable for furthering our corporate growth initiatives, both immediately and long-term.

FINANCIAL PERFORMANCE

Unfortunately, our 1998 performance did not match our ambitious growth objectives. Revenues reached \$3.7 billion, an all-time high, but our stock price declined by nearly 20 percent. While disappointing, the decline was not wholly unexpected

given the significant changes in our business this past year – new name, new management, and new direction. Earnings in 1998 were \$1.35 per share (after giving effect to our preferred share conversion as if it occurred at the beginning of the year, as compared with the reported earnings per share of \$1.28). This compares with earnings from ongoing operations of \$1.47 per share in 1997.

While our 1998 results were affected by a business repositioning and inventory adjustments at one of Pentzer Corporation's operating companies, weather was the year's major story. Warmer-than-normal temperatures in our franchise service area at both the beginning and end of the year – our biggest revenue producing periods – lowered our gross margins, particularly within the company's overall electric business. Additionally, streamflows on our hydroelectric generating system were only about half of last year's record levels. As a result, we had to buy power from others, which increased purchased power and fuel costs by more than \$170 million.

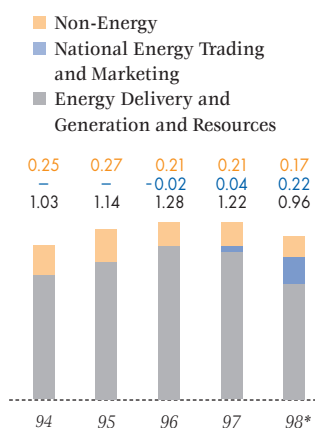
PATHWAYS TO GROWTH

Despite these weather-related setbacks, we view our utility operations, together with our other infrastructure businesses, as one of three major pathways for growth. In 1998, our Avista Utilities business segment added 4,000 electric and 11,000 natural gas customers, and we're shooting for another 2 percent and 4 percent, respectively, in 1999. We're also focusing on customer satisfaction and retention, economic development in our existing markets, and new service territories attained through expansion or acquisition. We're building on strength here; industry surveys consistently rank Avista Utilities among the most efficient providers in the country, and we earn "best in the business" marks for cost-effective delivery and customer service.

But we're not expanding quickly enough within our franchise service territory. We need a critical mass of about a million customers – up from our current 550,000 – and more services to offer them. So, besides pursuing acquisitions, we're extending our brand into markets outside our traditional service area through our data and telecommunications subsidiaries, Avista Fiber and Avista Communications. I expect positive performance – in the two-to-three-year range – from these start-ups, and when other opportunities arise in the communities they serve, we'll have a presence and a customer base from which to build.

ONGOING EARNINGS PER SHARE

(In Dollars per Share)



* Assumes common stock conversion to preferred occurred in January 1998.

Avista Corp.'s second pathway for profitable growth – our national players – includes Avista Energy, which provided 1998 revenues topping \$2.4 billion. During the second quarter, when unseasonably hot temperatures and power plant outages spurred a dramatic rise in power prices in the East and Midwest, we still generated net gains while many in the industry experienced significant losses. The year's total sales placed Avista Energy among the top 10 electricity and natural gas marketing companies in the country. In its first full year of operation, this line of business earned \$0.22 per share – up from \$0.04 in 1997 – and a 15 percent return on equity. We're confident we can achieve at least that rate in 1999.

Our impressive performance on the national stage springs from 30 years' experience in western commercial energy markets, disciplined risk management practices, and a team of people with intimate, exhaustive knowledge of energy infrastructure systems.

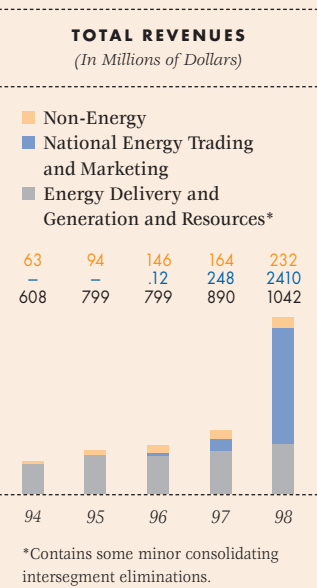
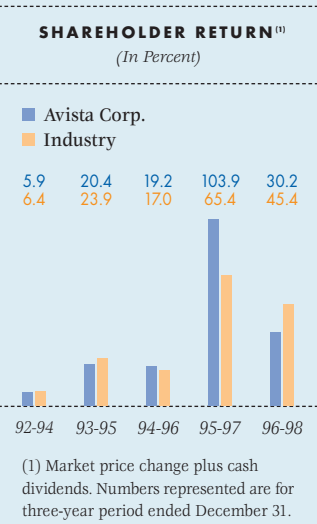
And we're pushing ourselves even further. Avista Energy achieved coast-to-coast coverage with its purchase of Boston-based Vitol Gas & Electric. The combined commercial energy volumes of the two companies should put us in the top five in 1999. We'll gain access to more customers which translates into market knowledge, and by applying that knowledge, we'll continue to build on long-term customer relationships.

Control of strategic physical assets is equally critical to the success of our commercial energy business. The formation of Avista Power allows us to pursue this business initiative. The new subsidiary will build or buy electric generation assets in strategically advantageous markets throughout North America. We've reached an agreement with Cogentrix Energy, Inc. to jointly build and/or buy interest in natural gas-fired electric generation plants in the Pacific Northwest. Construction on the first project, a 270 megawatt facility in Rathdrum, Idaho, will commence upon completion of financing and we expect to begin operation late in 2001. Our acquisition of Coast Pacific Management, Inc. of Vancouver provides closer access to British Columbia's gas producers in addition to Canadian natural gas industrial markets.

Avista Advantage also has a key role to play in raising our brand profile nationwide. This affiliate extended Avista Corp.'s reach into all 50 states in 1998. Its pioneering Internet-based billing and energy information system provides a valuable service today and gives Avista Corp. immediate credibility with multi-site commercial customers when retail electric markets open in the future.

Our remaining affiliate companies comprise the final growth pathway. They ensure Avista Corp.'s profitability into the future.

Our technology development business unit, Avista Labs, is an industry leader in the development of distributed generation. We have multiple patents pending on this company's fuel cell technology and, in 1998, Avista Labs won a \$2 million award from the U.S. Department of Commerce to integrate a fuel processor into our innovative, modular design. That effort represents the last step in delivering economical fuel cell technology to the residential and commercial distributed generation market.



Pentzer Corporation, our private investment firm, diversifies risk and provides Avista Corp. with cross-selling opportunities for our products and services within a number of sectors such as graphics, store fixtures, and manufacturing. Primarily driven by Pentzer, our non-energy businesses contributed \$0.17 per share to ongoing earnings, as compared with \$0.21 per share in 1997.

WHAT IT TAKES

Reaching our aggressive growth targets will require an infusion of capital, and we expect to invest at least \$1.5 billion in the company over the next four years. We're considering a number of methods for raising those funds without compromising our credit rating, among them our already-implemented dividend restructuring plan which will provide more than \$30 million annually.

Achieving the sizable tasks I've laid out above also requires endurance, passion, intelligence. The people at Avista Corp. demonstrate all three to me, every day. I've asked them to move more vigorously than they've ever done before into places they've never gone before. I'm grateful for their enthusiastic response. I also appreciate your confidence in them and in this company; I believe it's well-deserved. In fact, the editorial staff of McGraw-Hill's *Electrical World Business* magazine chose Avista Corp. to receive one of five 1998 James H. McGraw Awards for business excellence.

This letter has given me the chance to talk a little about what you can expect from each business unit in the years ahead. I invite you to learn more about their accomplishments and objectives in subsequent pages of the annual report. I'd like to finish by telling you what you can expect of me.

I'm committed to Avista Corp.'s growth in profitability and shareholder value. I don't buy assets unless they deliver returns greater than the cost of capital, and I favor informed action over endless analysis. I believe in diversity, and I intend to recruit, develop, and promote talented individuals who reflect the national and global marketplace. I ask our employees to support their communities with time, talent, and money. And I expect everyone, including me, to subscribe to a core set of principles: trustworthiness at a personal level; trust at the interpersonal level; empowerment at the managerial level; and alignment of these principles at the organizational level.

We're creating a company – and a future – with limitless possibility. Thanks for joining us on the journey. I think you'll find it rewarding.

T.M. Matthews
T.M. Matthews
Chairman of the Board, President,
and Chief Executive Officer

March 17, 1999

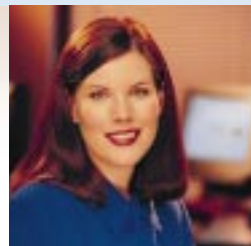
AVISTA CORP. OVERVIEW

When we changed our name to Avista Corp., we created a cohesive identity for all our activities across local, regional, and national markets. We've structured our organization to do the same.

Every business unit within Avista Corp. – whether state-regulated within the Avista Utilities operations or under our Avista Capital subsidiary – reflects the corporation's values, supports the Avista Corp. brand, and contributes to the company's overall strategic objectives.

But, perhaps more significantly, each business unit capitalizes on the strengths we've developed in our 110-year history: we understand the energy industry, we know how to build and operate reliable infrastructure, and we grasp the importance of assembling a team of intelligent, progressive risk-takers.

Our command of those three arenas – energy, infrastructure, and leadership – leads Avista Corp. naturally into enterprises as distinct as Pentzer Corporation, our private investment firm, and our telecommunications start-up, Avista Communications. These diverse ventures connect to form a focused, disciplined company primed to create its own opportunities for growth.



diverse

AVISTA UTILITIES

The corporation's state-regulated utility activities – which include energy generation, transmission, and distribution in five western states – operate under the Avista Utilities umbrella.

WASHINGTON WATER POWER DIVISION

This operating division – the continuation of a 110-year tradition – provides service to 300,000 electric and about 170,000 natural gas customers in eastern Washington and northern Idaho.

WP NATURAL GAS DIVISION

Avista Utilities' WP Natural Gas division serves nearly 95,000 customers in parts of Oregon and northeastern California.



AVISTA CAPITAL

The formation of Avista Capital consolidates all the corporation's non-energy businesses and energy-related enterprises not subject to utility pricing regulations into a single, wholly owned subsidiary.

AVISTA ENERGY

Avista Energy is one of the top 10 energy marketers in the country. The company markets electricity, natural gas, and coal commodities to wholesale customers and a growing number of end users. Avista Energy operates throughout the United States and Canada.

AVISTA POWER

Avista Energy's sister firm, Avista Power, was formed to build or buy electric generation and natural gas storage facilities in strategic locations throughout North America. Those assets support Avista Energy's marketing activities.

AVISTA ADVANTAGE

Avista Advantage is the leading provider of Internet-based specialty billing and information services, with thousands of managed commercial sites across the United States. Its customers include a number of Fortune 100 companies.

AVISTA FIBER

Avista Fiber designs, builds, and manages fiber optic networks in Northwest metropolitan areas. The company's products include dark fiber leasing, lit fiber service, infrastructure design, and network consulting.

AVISTA COMMUNICATIONS

A competitive local exchange carrier (CLEC), Avista Communications provides local dial tone, data, and Internet services to commercial accounts in Northwest communities with populations under 250,000.

AVISTA LABS

Avista Labs – Avista Corp.'s technology development firm – is advancing energy technology through commercialization of a unique proton exchange membrane fuel cell which will power thousands of homes, businesses, and commercial buildings.

PENTZER CORPORATION

Pentzer Corporation acquires controlling interest in non-energy, middle-market companies and helps them grow through internal development and strategic acquisitions. Its portfolio includes consumer product promotion, store fixture, and manufacturing companies.

reliable

AVISTA UTILITIES



Our strategies in action: Avista Corp.'s longstanding belief in collaboration opens the door to mutually beneficial advances like our relicensing agreement for our Clark Fork River hydro projects.

HIGHLIGHTS

- Developed a new standard for hydro project relicensing called the "Living License™"
- Received Call Center magazine's 1998 Utility Call Center of the Year award
- Named one of the five most efficient utilities in the U.S. by Public Utilities Fortnightly

GOALS

- Achieve customer growth and net operating income goals
- Secure approval for Idaho and Washington retail price increases
- Continue to improve customer satisfaction ratings

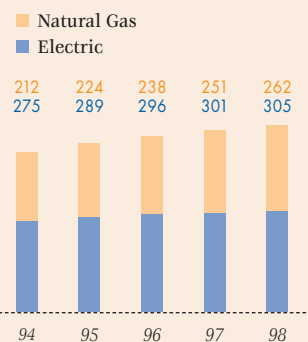
increase should take effect later in 1999. We plan to apply for a retail price increase in Washington, as well.

Another filing – this one with the Federal Energy Regulatory Commission – marks one of the most extraordinary achievements in our history. In early 1999, we submitted our application for relicensing two hydroelectric projects on the Clark Fork River, the final step in the largest collaborative relicensing effort in U.S. history. We worked with Native American tribes, conservation associations, property owners, non-governmental organizations, and local, state, and federal agencies – 39 stakeholder groups in all – to create a "Living License™." All parties agree to work together over the 40- or 50-year life of the license to address issues as they arise. This revolutionary concept quickly emerged as an industry model, and we received the National Hydropower Association's 1999 Hydro Achievement Award for Stewarding Water Resources as a result of this collaborative approach.

The successful relicensing of the Clark Fork projects – which represent 80 percent of our hydro generating capacity – also ensures our continued standing as an exceptional hydro operator with one of the highest hydropower operating efficiency and availability rates in the nation.

Avista Utilities is considered an outstanding company in other arenas, as well. *Public Utilities Fortnightly* recently ranked us among the top five most efficient utilities in the U.S.; another survey placed us first among 34 in lowest-cost customer service and second in low-cost service combined with customer satisfaction. And our WP Natural Gas operating division made its first appearance on *Oregon Business* magazine's list of the 100 best companies to work for in that state.

TOTAL CUSTOMERS
(In Thousands of Customers)



Avista Corp.'s strength is rooted in our core utility businesses: electricity, natural gas, and generation and resources operations. And there's no shortage of innovation – or growth potential – in what some might consider a bastion of tradition.

One of our most progressive moves in 1998 earned us an unexpected honor. Implementation of our sophisticated, new interactive voice response (IVR) system – part of our continuous effort to make it easier for customers to do business with us – proved so successful, *Call Center* magazine named our call center the best of any utility in the country.

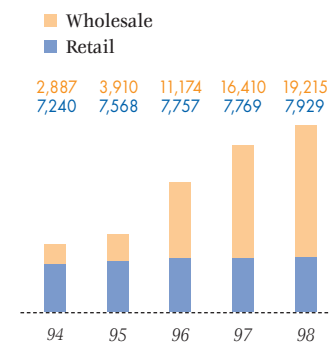
The IVR, coupled with flex-staffing and the use of other technology, reaped substantial savings for our customer service department. That sort of win-win proposition – better service and increased efficiency – is typical of Avista Utilities.

Our agreement with CheckFree Corporation reinforces the point. Avista Utilities is one of the first to offer this Internet-based electronic billing option to residential customers, a convenience for them and a money-saver for us.

In addition to these broadly applied service initiatives, we are executing a retention plan for key customers we've identified as meaningful revenue growth possibilities. Other efforts include increasing our customer base through new construction, conversions from alternate fuels, and reactivation of idle gas services; expanding our gas system by competing for electric space heating loads with neighboring electric utilities; maintaining our already-effective economic development programs; and adjusting the company's pricing strategies to make sure we earn our cost of capital.

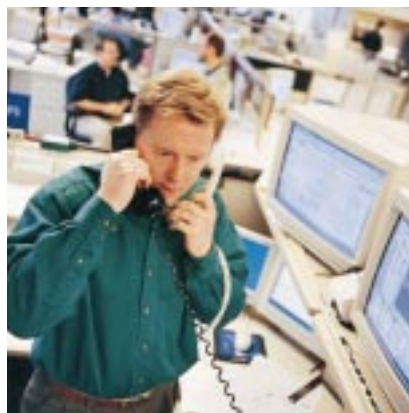
We began implementing the latter by filing for a \$14.2 million electric price increase – the first in more than 12 years. If approved by Idaho regulators, the price

TOTAL KILOWATT-HOUR SALES
(In Millions of Kilowatt-Hours)



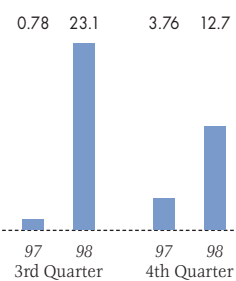
national

AVISTA ENERGY AVISTA POWER



Our strategies in action: Avista Corp. favors the bold. It took us only 18 months to achieve a place among the top 10 national energy marketing businesses in the country.

TOTAL MEGAWATT-HOUR SALES
(In Millions of Megawatt-Hours)



We placed our national commercial energy business at the core of the corporation's growth initiative.

And Avista Energy has demonstrated the wisdom of that decision.

Only 18 months from its inception, our power marketing arm has achieved a position within the top 10 such companies in the country. Electric volumes for 1998 totaled 54.4 million megawatt-hours and natural gas volumes at year-end averaged 1.65 billion cubic feet per day. Our reach is national, with 24-hour system control and dispatch centers in Spokane, Houston, and now Boston, and additional offices throughout North America.

Our purchase of Boston-based Vitol Gas & Electric cements Avista Energy's status as a major national player. The acquisition, completed in early 1999, substantially expands our electric and natural gas presence in the eastern United States and establishes our position in the newly emerging coal marketing business.

We also purchased Coast Pacific Management, Inc., a Canadian natural gas marketing company. With this acquisition, we now provide gas management services for more than 40 percent of the large industrial customers in interior British Columbia and have closer access to Canadian natural gas supplies.

Establishing a thriving national marketing platform is just one element in our management strategy for Avista Energy. We believe long-term relationships yield better margins than a string of quick sales, and we've acted on that conviction by scheduling commercial electric business with existing customers through 2007.

HIGHLIGHTS

- Advanced to top-10 standing among U.S. energy marketers
- Purchased Vitol Gas & Electric, a full-service energy marketer
- Reached agreement with Cogentrix Energy to jointly build generation plants in the Pacific Northwest
- Bought Coast Pacific Management to serve Canadian industrial customers

GOALS

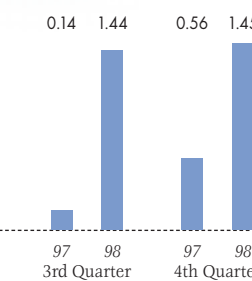
- Profitably expand coast-to-coast commercial energy platform
- Acquire additional companies with assets, customers, and market positions complementary to Avista Energy's
- Secure access to generating capacity and natural gas storage in support of commercial energy strategies

Our national energy business is also strengthened by a number of strategic alliances, including an agreement with Chelan County Public Utility District in Wenatchee, Washington, operator of the nation's second largest non-federal hydropower system. In a unique arrangement consistent with our intention to ally with public utilities, Avista Energy provides real-time scheduling and resource optimization for more than 500 megawatts of the PUD's hydroelectric generating capacity. Further, Avista Energy was recently chosen from a pool of 22 bidders to serve as consultant to Riverside Public Utilities, California's fourth largest municipal utility.

The formation of Avista Power represents the third component of our plan for profitable growth within this business segment. The new affiliate will build or buy power generation facilities and natural gas storage projects, primarily in support of Avista Energy. An agreement with developer Cogentrix Energy, Inc. spurred the first such project, an approximately 270 megawatt facility in Rathdrum, Idaho. The Cogentrix partnership calls for jointly building and/or buying interest in additional natural gas-fired electric generation plants throughout Washington, Idaho, and Oregon.

The successful implementation of our generation and marketing strategies relies, of course, on the expertise of our people. They provide our customers – wholesalers and a growing base of end users – with extensive knowledge of electric and natural gas infrastructure and systems, as well as sound judgment in the areas of resource optimization, risk management, and research and analysis. We owe our impressive record to the knowledge and creativity of Avista Energy's staff.

AVERAGE BCF PER DAY
(In Billions of Cubic Feet per Day)



enterprising

HIGHLIGHTS

- Established Avista Corp.'s presence in all 50 states
- Exceeded 10,000 customer sites and 20,000 bills processed per month

GOALS

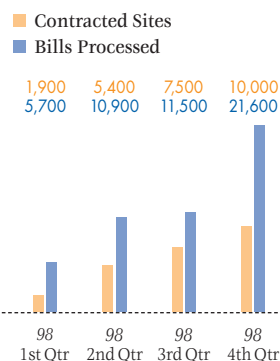
- Launch repair and maintenance billing service
- Achieve customer base of 50,000 sites
- Add Internet service provider and telecommunications functions



Our strategies in action: Avista Advantage uses the Internet to bring its industry-leading technology to commercial customers nationwide – a testament to the entrepreneurial spirit exemplified by our people.

AVISTA ADVANTAGE

SITE AND BILL GROWTH
(In Numbers)



More than 12,500 customer sites in the U.S., Canada, and Puerto Rico gather energy information through the Advantage Customer Internet Site (ACIS®), Avista Advantage's proprietary Internet-based billing and information management system.

Avista Advantage was the first to offer such a service – indeed, we have patents pending on two of our products – and it continues to lead the industry. That success can be traced to two factors: early on, we recognized the movement among large corporations to outsource payables, and we delivered our in-depth understanding of energy services and utility billing to the market quickly. Today, we process bills from more than 4,000 different gas, electric, water, solid waste, and sewer utilities for our commercial customers.

And we've just scratched the surface. Avista Advantage's market represents more than a million sites worldwide, with only 10 percent penetration. We've helped our customers – among them Fortune 100 companies and major hotel chains – realize immediate savings on their utility expenditures, which average \$180 million a year.

ACIS uses technology that was unavailable as recently as two years ago to provide consolidated billing, resource accounting, energy analysis, and load profiling to customers with buildings in multiple locations. Facility managers can access more than 500 comparative cost and usage reports through Avista Advantage's secure Internet site.

We learn almost as much from those customers as they learn from ACIS, and we use that input to develop new functions and product offerings. In 1999, we'll introduce our repair and maintenance billing service, aimed at consolidating bills, monitoring trends, and identifying equipment problems at commercial customer sites.

HIGHLIGHTS

- Purchased majority interest in One Eighty Communications
- Began fiber projects for more than 150 medical and educational facilities

GOALS

- Begin dial tone, data, and Internet services in two Northwest communities
- Complete work on Spokane Metropolitan Area Network fiber project



Our strategies in action: We ask Avista Corp.'s employees to stretch themselves – and the company does the same. Our entry into the telecommunications sector pushes us beyond traditional boundaries.

AVISTA FIBER AVISTA COMMUNICATIONS

Some business ventures just make sense.

In 1998, our tenacious effort to extend our talent and experience into new arenas led us to create Avista Fiber and Avista Communications, two long-range growth vehicles that take advantage of our infrastructure expertise.

Avista Fiber designs, builds, and manages fiber optic networks in metropolitan areas. Currently, the company provides more than 50 multi-site customers with dark fiber leasing, lit fiber service, and network design and consulting. Among its projects are a private dark fiber network for seven major hospitals and 15 to 20 other medical facilities in the Spokane area, and another dark fiber system linking Spokane school districts, community colleges, and universities – more than 120 facilities in all. Avista Fiber's resourceful construction agreements with suppliers and even some competitors yield substantial savings for customers.

During its first year of operation, Avista Fiber has focused on the Inland Northwest market. Future activities will incorporate Avista Communications' service territories.

A competitive local exchange carrier (CLEC), Avista Communications was formed to provide local dial tone, data, and Internet services to commercial accounts in communities with populations under 250,000. These typically under-served cities are anxious for the sophisticated telecommunications technology that incumbent providers have been slow to provide. We will begin service to our initial markets – Billings, Montana, and Lewiston, Idaho – in early 1999, then expand into other areas in the Northwest.

Avista Communications is the result of our purchase of a majority stake in One Eighty Communications, a Northwest CLEC founded by a former NEXTLINK executive. The acquisition was finalized in early 1999.

potential

HIGHLIGHTS

- Awarded \$2 million development grant
- Introduced prototype at 1998 International Fuel Cell Seminar
- Filed multiple patent claims

GOALS

- Prove market acceptance through successful beta installations
- Integrate fuel processor into Avista Labs' design
- Continuous product innovation focused on reliability and affordability

AVISTA LABS



Our strategies in action: Turn employees loose to develop good ideas and the results can revolutionize an industry. Avista Labs' modular fuel cell design is doing just that.

A smart company breaks ground for future growth today.

Avista Labs, a leader in the development of distributed generation, is a good example.

What makes Avista Labs such a strong competitor in this field? Our people have taken a unique approach to proton exchange membrane (PEM) fuel cells. Low cost, reliability, and simplicity are the hallmarks of our design. The fact that we have moved from drawing board to field testing in just two years clearly demonstrates our ability to compete on the basis of both speed and innovation. In 1998, we unveiled our innovative fuel cell generator prototype at the International Fuel Cell Seminar. Significantly, Avista Labs was the only exhibitor to demonstrate a working model.

While our competitors pursue stacked-plate architecture and complex support systems, Avista Labs opted for a simpler structure with lower production and operating costs. Our unique modular design allows flexibility according to customer needs and use of less-expensive materials. Operation at ambient temperature and pressure conditions eliminates all moving parts save a single high-efficiency fan, and the only by-product is pure, drinkable water. We've filed multiple domestic and foreign patent applications directed to our core technologies.

The U.S. Department of Commerce's Advanced Technology Program (ATP) found the project so promising it awarded Avista Labs a \$2 million technology development grant.

Our interest in fuel cells – which can convert virtually any substance containing hydrogen into electricity – is part of a larger goal. Avista Labs is dedicated to making energy more accessible, more reliable, and easier on the environment. We've put fuel cell technology within reach of residential and small commercial customers. Our ultimate mission is to provide customers a portfolio of distributed generation choices.

HIGHLIGHTS

- Sold financial services company, netting \$5.5 million in after-tax gain
- Added four companies to the Store Fixture Solutions Group
- Initiated process for sale of Creative Solutions Group

GOALS

- Produce overall returns greater than 20 percent from portfolio investments
- Generate cash in support of Avista Corp.'s growth strategies
- Provide cross-selling opportunities for other Avista Corp. companies

PENTZER CORPORATION



Our strategies in action: Strong relationships lead to more and better business opportunities – like our interest in this store fixtures company – opening the way for Avista Corp.'s profitable growth.

On the surface, our private investment firm, Pentzer Corporation, may seem an unusual subsidiary for an energy services company. But dig a little deeper, and our strategy becomes clear.

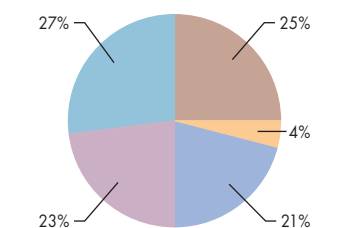
Certain characteristics – like the innovative spirit and management acumen that characterize Avista Corp. – will generate profit regardless of the industry, and through Pentzer we've identified opportunities to produce higher returns from portfolio investments than those earned by our utility operations. We supplement those returns with transactional gains through the sale of holdings, when appropriate, and look for cross-selling possibilities for other Avista Corp. companies.

Pentzer Corporation acquires controlling interest in middle-market companies and helps them grow through internal development. We focus on non-energy businesses with above-average earnings, strong management, and a competitive advantage in niche markets.

Over the course of the year, we sold Systran Financial Services Corporation, generating \$5.5 million in after-tax gain. We also purchased four more companies for the Store Fixture Solutions Group, which stands among the top five revenue producers for this multi-billion-dollar North American industry. Triangle Systems (New York, St. Louis), Universal Showcase (Toronto), Horizon Terra, Inc. (Jeffersonville, Indiana), and Pacific Coast Showcase, Inc. (Puyallup, Washington) join Proco Wood Products of Minneapolis and Miami's Target Woodworks. Pentzer's other holdings include a consumer product promotion group, a manufacturing company, real estate contracts, and short-term investments.

EQUITY INVESTMENT PORTFOLIO (In Percent)

- Store Fixture Solutions Group
- Manufacturing
- Real Estate Investments
- Investments
- Consumer Product Promotion Group



INDEPENDENT
AUDITORS’ REPORT

Avista Corporation
Spokane, Washington

We have audited the consolidated balance sheets and the statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income and retained earnings, and cash flows for each of the three years in the period ended December 31, 1998. Such consolidated financial statements and our report thereon (which are not presented herein) dated January 29, 1999 (February 1, 1999 as to note 21), which expressed an unqualified opinion, are included in Appendix A to the proxy statement for the 1999 annual meeting of shareholders. The accompanying condensed consolidated financial statements are the responsibility of the company’s management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 1998 and 1997, and the related condensed consolidated statements of income, comprehensive income and retained earnings, and cash flows for each of the three years in the period ended December 31, 1998, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

February 1, 1999
Seattle, Washington

MANAGEMENT’S
STATEMENT OF RESPONSIBILITY

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in Appendix A to the proxy statement for the 1999 annual meeting of shareholders. Management of Avista Corporation is responsible for the accuracy and completeness of the information in this summary annual report. The financial and operating information is derived from company records, and includes amounts based on judgment and estimates where necessary. Quality control practices for reporting business information in combination with the company’s internal control procedures provide adequate assurance that the summary annual report fairly and reasonably presents the company’s financial position and operating results.

The board of directors appointed Deloitte & Touche LLP, an independent accounting firm, to audit the consolidated financial statements included in the proxy statement. Their report on the condensed consolidated financial statements appears above.

T.M. Matthews

T. M. Matthews
Chairman of the Board, President,
and Chief Executive Officer

Jon E. Eliassen

Jon E. Eliassen
Senior Vice President
and Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENTS OF INCOME,
COMPREHENSIVE INCOME, AND RETAINED EARNINGS

(For the Years Ended December 31 – Thousands of Dollars)	1998	1997	1996
Operating Revenues	\$3,683,984	\$1,302,172	\$ 944,957
Operating Expenses			
Resource costs	3,021,046	719,905	378,664
Operations and maintenance	229,620	176,354	181,298
Administrative and general	129,771	96,611	76,972
Depreciation and amortization	70,547	69,893	72,097
Taxes other than income taxes	60,180	49,945	49,005
Total operating expenses	3,511,164	1,112,708	758,036
Income from Operations	172,820	189,464	186,921
Other Income (Expense)			
Interest expense	(69,077)	(66,275)	(63,255)
Interest on income tax recovery	-	47,338	-
Net gain on subsidiary transactions	7,937	11,218	23,953
Merger-related expenses	-	-	(15,848)
Other income (deductions) – net	9,794	(5,873)	1,191
Total other income (expense)	(51,346)	(13,592)	(53,959)
Income Before Income Taxes	121,474	175,872	132,962
Income Taxes	43,335	61,075	49,509
Net Income	78,139	114,797	83,453
Deduct – Preferred stock dividend requirements	8,399	5,392	7,978
Income Available for Common Stock	\$ 69,740	\$ 109,405	\$ 75,475
Average common shares outstanding (thousands)	54,604	55,960	55,960
Earnings Per Share of Common Stock, Basic and Diluted	\$ 1.28	\$ 1.96	\$ 1.35
Dividends paid per common share	\$ 1.05	\$ 1.24	\$ 1.24
Net Income	\$ 78,139	\$ 114,797	\$ 83,453
Other Comprehensive Income, Net of Tax			
Foreign currency translation adjustment	(366)	-	-
Unrealized investment loss – net	(2,052)	(3,627)	(13,516)
Other Comprehensive Income (Loss)	(2,418)	(3,627)	(13,516)
Comprehensive Income	\$ 75,721	\$ 111,170	\$ 69,937
Retained Earnings, January 1	\$ 171,776	\$ 131,301	\$ 125,031
Net Income	78,139	114,797	83,453
Dividends Declared			
Preferred stock	(7,639)	(5,339)	(8,213)
Common stock	(56,898)	(69,391)	(69,390)
Transfer to Preferred Stock, Series L	(64,844)	-	-
Restricted stock options	(419)	-	-
ESOP dividend tax savings	330	408	420
Retained Earnings, December 31	\$ 120,445	\$ 171,776	\$ 131,301

CONDENSED CONSOLIDATED BALANCE SHEETS

(At December 31 – Thousands of Dollars)	1998	1997
Assets		
Current energy commodity assets	\$ 335,224	\$ 76,449
Other current assets	633,372	300,394
Total utility plant – net	1,470,942	1,433,123
Investment in exchange power – net	62,577	69,013
Non-utility properties and investments – net	206,773	195,046
Non-current energy commodity assets	236,644	13,103
Other property and investments – net	26,016	20,065
Regulatory assets for deferred income tax	171,037	176,682
Conservation programs	49,114	53,338
Other deferred debits	61,937	74,572
	<u>\$ 3,253,636</u>	<u>\$ 2,411,785</u>
Liabilities and Capitalization		
Current energy commodity liabilities	\$ 330,957	\$ 70,135
Other current liabilities	533,236	269,603
Non-current energy commodity liabilities	207,948	10,556
Deferred revenues	145,124	–
Deferred income taxes	357,702	352,749
Non-current liabilities and other deferred credits	46,386	42,745
Capitalization:		
Long-term debt	730,022	762,185
Preferred trust securities	110,000	110,000
Preferred stock	35,000	45,000
Convertible preferred stock	269,227	–
Common stock – net (40,453,729 and 55,960,360 outstanding shares)	367,930	574,959
Retained earnings	120,104	173,853
	<u>1,632,283</u>	<u>1,665,997</u>
Total capitalization		
	<u>\$ 3,253,636</u>	<u>\$ 2,411,785</u>
Total		

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents For the Years Ended December 31 – Thousands of Dollars	1998	1997	1996
Operating Activities			
Net income	\$ 78,139	\$ 114,797	\$ 83,453
Non-cash items included in net income:			
Depreciation and amortization	70,547	69,893	72,097
Other	(706)	18,940	11,884
Effect of changes in working capital components	(23,477)	21,154	10,129
Monetization of contract	143,400	–	–
Net Cash Provided by Operating Activities	<u>267,903</u>	<u>224,784</u>	<u>177,563</u>
Investing Activities			
Construction expenditures (excluding AFUDC-equity funds)	(92,942)	(89,016)	(91,279)
Assets acquired and investments in subsidiaries	(52,780)	(43,308)	(29,225)
Other	28,731	(3,855)	17,166
Net Cash Used in Investing Activities	<u>(116,991)</u>	<u>(136,179)</u>	<u>(103,338)</u>
Financing Activities			
Increase (decrease) in short-term borrowings	(108,500)	23,500	55,500
Increase (decrease) in long-term debt	70,000	(31,500)	(38,000)
Redemption of preferred stock	(10,000)	(70,000)	(20,000)
Proceeds from issuance of preferred trust securities	–	110,000	–
Sale (repurchase) of common stock	(1,475)	–	216
Payment of dividends	(64,548)	(75,329)	(77,318)
Other	5,854	(22,894)	8,424
Net Cash Used in Financing Activities	<u>(108,669)</u>	<u>(66,223)</u>	<u>(71,178)</u>
Net Increase in Cash and Cash Equivalents	<u>42,243</u>	<u>22,382</u>	<u>3,047</u>
Cash and Cash Equivalents, January 1	<u>30,593</u>	<u>8,211</u>	<u>5,164</u>
Cash and Cash Equivalents, December 31	<u>\$ 72,836</u>	<u>\$ 30,593</u>	<u>\$ 8,211</u>

FINANCIAL SUMMARY

The following is a brief discussion and analysis of financial condition and results of operations for 1998. For a more detailed analysis, please refer to Appendix A to the 1999 proxy statement.

Results of Operations – Overall reported earnings per share for 1998 were \$1.28, compared to \$1.96 in 1997. The primary factors causing the decrease from 1997 were an income tax recovery, net of associated items, which increased 1997 earnings per share by \$0.49, and decreased operating income from the Generation and Resources line of business in 1998. In addition, in December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of Convertible Preferred Stock, which had a dilutive impact of \$0.07 per share on reported earnings. If these shares had been exchanged at the beginning of the year, basic and diluted earnings per share for 1998 would have been \$1.39 and \$1.35, respectively. The 1997 results include the impact of \$41.4 million, after tax, of an income tax recovery, which was partially offset by accruals and non-recurring adjustments. Ongoing utility (Energy Delivery and Generation and Resources) income contributed \$0.88 to earnings per share in 1998, compared to \$1.22 in 1997. National Energy Trading and Marketing income contributed \$0.22 to earnings per share in 1998, compared to \$0.04 in 1997. Non-energy income contributed \$0.18 to earnings per share in 1998, compared to \$0.21 in 1997.

Energy Delivery – Income from Energy Delivery operations increased \$3.2 million in 1998 over 1997, primarily due to increased operating income from the natural gas business, which had higher revenues in 1998. Natural gas revenues increased \$27.4 million in 1998 over 1997, primarily due to a combination of 4.4% customer growth, increased natural gas prices approved by the Washington Utilities and Transportation Commission, effective in January 1998, and an increase in non-retail sales.

Generation and Resources – Income from Generation and Resources' operations decreased \$38.4 million, or 59%, in 1998 from 1997, primarily due to hydroelectric generation 21% lower than 1997, which resulted in increased purchased power costs due to both increased prices and volumes. Revenues from short-term sales increased \$163.2 million, while long-term revenues decreased \$35.8 million. Total sales volumes increased 17% in 1998 over 1997. Short-term sales volumes increased 3.4 million mwhs, or 28%, while long-term sales decreased 0.6 million mwhs. Purchased power costs increased \$160.4 million in 1998 due to the increased sales volumes and prices 30% higher than 1997.

National Energy Trading and Marketing – National Energy Trading and Marketing includes the results of Avista Energy, the national energy marketing subsidiary, and Avista Advantage, the energy services subsidiary. Although both companies began incurring start-up costs during 1996, Avista Energy only became operational in July 1997 and began trading operations in August 1997. National Energy Trading and Marketing's income increased \$9.6 million in 1998 over 1997, due primarily to increased power marketing and trading activities and a full year of operations at Avista Energy. This increase was partially offset by a loss from the energy services business, due to customers and revenue streams that did not materialize as expected and a longer than anticipated sales cycle. National Energy Trading and Marketing's revenues totaled \$2.4 billion in 1998 compared to \$247.6 million in 1997.

Non-energy – Non-energy net income for 1998 was \$9.8 million, which was a \$1.8 million decrease from 1997. The decrease primarily resulted from lower transactional gains recorded by Pentzer in 1998. The 1998 transactional gains were \$4.3 million, primarily from the sale of a portfolio company, compared to transactional gains totaling \$7.3 million during 1997, from the sale of stock in Itron and the sale of a portfolio company. Non-transactional earnings from the ongoing operations of portfolio companies increased \$2.2 million in 1998.

Other – In August 1998, the Company announced a dividend restructuring plan which reduced the annual dividend payment from \$1.24 to \$0.48 per share, a reduction of 61%, beginning with the fourth quarter 1998 dividend payment. As part of this restructuring, common stockholders were allowed to exchange shares of common stock for shares of Convertible Preferred Stock with a dividend payment equal to the previous \$1.24 for a three-year period. A total of 15,404,595 shares of common stock were exchanged for the new series of Convertible Preferred Stock.

During 1998, \$84.0 million of long-term debt, with interest rates between 5.99% and 6.88%, was issued, while \$14.0 million of long-term debt, with interest rates between 9.17% and 9.58%, matured or was redeemed. The Company redeemed the remaining \$10 million of Preferred Stock, Series I.

The Company's total common equity decreased \$260.8 million to \$488.0 million at the end of 1998, primarily due to the exchange of shares of common stock for shares of Convertible Preferred Stock. The Company's consolidated capital structure at December 31, 1998, was 45% debt, 25% preferred securities (including the Preferred Trust Securities), and 30% common equity as compared to 46% debt, 9% preferred securities (including the Preferred Trust Securities), and 45% common equity at year-end 1997.

OFFICERS AND DIRECTORS

AVISTA CORP. OFFICERS

- T. M. Matthews
Chairman of the Board, President, and
Chief Executive Officer
- Gary G. Ely
Executive Vice President
- Jon E. Eliassen
Senior Vice President and Chief Financial Officer
- David J. Meyer
Senior Vice President and General Counsel
- Robert D. Fukai
Vice President – External Relations
- JoAnn G. Matthiesen
Vice President – Human Resources and Support Services
- Ronald R. Peterson
Vice President and Treasurer
- Terry L. Syms
Vice President and Corporate Secretary
- Edward H. Turner
Vice President and General Manager – Energy Delivery
- Roger D. Woodworth
Vice President – Corporate Development

AVISTA CORP. AFFILIATE OFFICERS

- AVISTA ADVANTAGE
Gerry D. Crooks
President and Chief Operating Officer
- AVISTA COMMUNICATIONS
Gregory D. Green
President and Chief Executive Officer
- AVISTA ENERGY
Neil E. Kelley
Chairman of the Board
- Michael R. Kutsch
President
- AVISTA FIBER
Warren K. Miller
President
- AVISTA LABS
Kim D. Zentz
President
- AVISTA POWER
Lloyd H. Meyers
President
- PENTZER CORPORATION
Richard A. Davis
President and Chief Executive Officer

AVISTA CORP. DIRECTORS

- David A. Clack
Principal, Olympic Capital Partners
Spokane, Washington
Director since 1988
- Sarah M. R. (Sally) Jewell
Executive Vice President, Washington Mutual Bank
Seattle, Washington
Director since 1997
- John F. Kelly
Chairman, President, and Chief Executive Officer
Alaska Air Group
Seattle, Washington
Director since 1997
- T. M. Matthews
Chairman of the Board, President, and
Chief Executive Officer, Avista Corp.
Director since 1998
- Eugene W. Meyer
Financial consultant
Hilton Head Island, South Carolina
Director since 1990
- Bobby Schmidt
President, Schmidt Trading Company
Hilton Head Island, South Carolina
Director since 1997
- Larry A. Stanley
Chief Executive Officer, Empire Bolt and Screw, Inc.
Spokane, Washington
Director since 1991
- R. John Taylor
Chairman and Chief Executive Officer
AIA Services Corporation
Lewiston, Idaho
Director since 1985
- Daniel J. Zaloudek
President and Chief Executive Officer, IMEDIA, Inc.
Tulsa, Oklahoma
Director since 1998

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

Avista Corp.
1411 East Mission Avenue
Spokane, Washington 99202
(509) 489-0500

AVISTA CORP. ON THE INTERNET

Financial results, live stock quotes, news releases, documents filed with the Securities and Exchange Commission, and information on the company's products and services are available 24 hours a day via Avista Corp.'s home page on the Internet. The address is <http://www.avistacorp.com>

ANNUAL MEETING OF SHAREHOLDERS

Shareholders are invited to attend the company's annual meeting to be held at 10:00 a.m. PDT on Thursday, May 13, 1999, at the downtown Spokane Doubletree Hotel, 322 North Spokane Falls Court.

SHAREHOLDER INFORMATION

The Bank of New York is the company's Stock Transfer, Dividend Payment, and Reinvestment Plan Agent. Answers to many of your shareholder questions and requests for forms are available by visiting The Bank of New York's website at <http://stock.bankofny.com>. Inquiries should be directed to:

The Bank of New York
Shareholder Relations Department – 11E
P.O. Box 11258
Church Street Station
New York, New York 10286-1258
Phone: 1-800-642-7365
e-mail: shareowner-svcs@bankofny.com

Avista Corp.'s Shareholder Relations staff is available to respond to your inquiries regarding the overall operations of the company and other questions you may have. Inquiries should be directed to:

Avista Corp.
Shareholder Relations
P.O. Box 3647
Spokane, Washington 99220-3647
Phone: 1-800-222-4931 or (509) 495-4203
Fax: (509) 495-8851
e-mail: kharkness@avistacorp.com

INVESTMENT COMMUNITY INQUIRIES

Security analysts, brokers, institutional investors, and other members of the investment community should contact:

Diane C. Thoren, Assistant Treasurer
Phone: (509) 495-4331
Fax: (509) 495-4879
e-mail: dthoren@avistacorp.com

DIVIDEND REINVESTMENT PLAN

Our company offers a dividend reinvestment and stock purchase plan. The plan allows investors to purchase Avista Corp. common stock with their dividends and/or optional cash payments. The plan also allows for the deposit of certificate shares for safekeeping. To obtain a copy of the plan, please contact the company's Shareholder Relations Department or The Bank of New York.

OTHER FINANCIAL REPORTS

A copy of the company's other financial reports, including the reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission, will be provided, without charge, upon written request addressed to Diane C. Thoren, Assistant Treasurer.

EXCHANGE LISTINGS

Ticker Symbol: AVA
New York Stock Exchange
Pacific Stock Exchange

NEWSPAPER LISTINGS

Common Stock: **Avista**
Convertible Preferred Stock Series L: **Avista pfl**
TOPrS: **Avista pfa**

ANTICIPATED COMMON STOCK
DIVIDEND ACTION

Ex-Dividend	Record	Payable
2/19	2/23	3/15
5/21	5/25	6/15
8/20	8/24	9/15
11/19	11/23	12/15

This annual report contains forward-looking statements regarding the company's current expectations. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from the expectations. These risks and uncertainties include, in addition to those discussed herein, all factors discussed in the company's Annual Report on Form 10-K for the year 1998.

The 1998 annual report is provided for investors. It is not intended for use in connection with any sale or purchase of, or any solicitation of offers to buy or sell, securities.