

1999

Summary  
Annual  
Report

Energy  
Information  
Technology

## Company Profile

Avista Corp. is an energy, information and technology company whose utility and subsidiary operations focus on delivering superior products and providing innovative solutions to business and residential customers throughout North America.



**Last year, we began a journey to seek out a whole new future.  
Once you see how far we've come, you  
will want to join us for the ride.**



The past year was one of change and repositioning.

Was 1999 the company’s most brilliant year? No. We had to change our strategy on utility acquisition, refocus our energy trading strategy after its losses, accelerate the growth of our start-up companies and begin a stock buy-back program. All of these collectively reduced earnings to \$0.12 per basic share versus the previous year’s total of \$1.28 per share.

Do I remain confident in our strategic direction? Absolutely. Here’s why: Avista Utilities is a solid, stable and reliable energy business. And from that foundation, we’re building equally solid information and technology affiliates.



Our transformation from a traditional utility company won’t happen immediately, of course, but we spent 1999 — the first full year of my tenure here — putting the pieces in place and laying the groundwork for an exciting future. Early in 2000, investors began to see

the value of these strategies with the movement in our stock price.

We’re already seeing the results of our efforts. Our subsidiaries delivered on last year’s promises. Today, more than 40,000 committed customer sites rely on Avista Advantage’s ACIS® (Advantage Customer Internet Site), the industry’s leading business-to-business e-commerce utility portal, to monitor their energy information. Beta testing is underway for Avista Labs’ innovative fuel cell and, in 1999, Avista Communications launched its service in four communities. These Avista enterprises have their feet firmly under them. They are well positioned to compete for leadership in their markets. And their 1999 successes help set Avista Corp.’s long-term growth strategy in motion.

Our core business, Avista Utilities, drives that strategy by providing a strong financial base. Pentzer Corporation, our private investment company, also did its part in 1999, generating \$115 million in cash. Pentzer’s role will shift in the

upcoming year, as we will apply what we’ve learned about acquiring and nurturing mid-sized businesses in our continuing efforts to develop and strengthen innovative technology and information pipelines for Avista Corp.

In last year’s annual report, I discussed my intention to expand our utility service territory through acquisitions. Given the lack of economically attractive acquisition opportunities and the uncertainty of state commission approvals on favorable terms, we’ve decided to concentrate on other growth avenues. And, while our relatively small size has its disadvantages, it also benefits us by enabling us to act quickly when we recognize that a change in direction is necessary.

Which brings me to Avista Energy, our energy marketing and trading subsidiary. It stumbled in 1999. So we’ve modified our approach.

Although Avista Energy generated \$6.7 billion in revenue — far beyond our expectations — the consolidation of players within the energy trading industry and the entrance of the larger Wall Street investment firms into energy trading translated into dwindling margins. In response, we pulled back from trading as we moved into 2000, concentrating more on marketing services to large end-use customers, and transferring the systems and expertise we gained through a strategic acquisition into a more closely defined, higher-margin business. Rather than operating nationally, we’ll focus our efforts in the West where we can back our business with physical assets. We thought we needed a nationwide presence to deliver power to Avista Advantage customers but have found ways to let others do that and handle the risk. The cost of this transition was reflected in a charge in the fourth quarter.

You can read more about our progress and our blueprint for strategic growth in the subsequent pages of this report. I trust you’ll see what I see: a vibrant utility prepared to tolerate the risks inherent in transformation, a number of strategically sound affiliates each with the potential to double the value of the company and perhaps to spin out from the corporation, and talented people committed to increasing shareholder value.

We like the recognition we have received at the beginning of 2000. We like where we’re going, and invite you to come along.

Do I remain confident in our strategic direction?

Absolutely.

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

March 10, 2000

# Information Energy Technology

## Some Important Questions

### What is the long-term business plan for Avista Corp.?

*Our three-year strategy to transform Avista is on track. We begin the second year with a strategically balanced family of affiliates set to grow, an efficient core utility providing stability while they do so and talented people with the intellectual capital to carry out our strategies.*

### What are the risks in executing our plan?

*We must remain focused and exercise good judgment. If we are to thrive in a dynamic marketplace, we need to invest properly in growth and give our subsidiaries the time and money they need to succeed.*

### How will the company's start-ups advance that long-term plan?

*Avista Advantage, Avista Labs and Avista Communications have grown organically out of the talent we've developed in our 110-year history. These subsidiaries are logical extensions of our business, and they take advantage of three significant growth sectors: e-commerce, energy technology and telecommunications.*

### How will these subsidiaries bring value back to Avista Corp. shareholders?

*We're committed to delivering value to the shareholders who've supported us during our transformation, and we are exploring opportunities to unlock the value in our strategic subsidiaries. For example, one approach might be to issue new shares of any of these companies to private investors or to the public before spinning off the remaining shares to Avista Corp. shareholders.*

### What led Avista Corp. to change its energy marketing and trading strategy?

*Early on, national energy marketing and trading showed great promise. But as the industry matured, it became a higher-risk, lower-margin endeavor that outpaced our ability to support it as a national company. As a result, we took action in the fourth quarter to limit our exposure and to exit a significant portion of this business, resulting in a \$27 million after-tax charge.*

### How will a refocused Avista Energy and Avista Power deliver shareholder value?

*Avista Energy will focus on the Western markets we know best, putting less capital at risk. Avista Power's international partnership provides a platform for review and development of independent power projects, and keeps us in the forefront as the industry deregulates.*

### Why hasn't there been more merger and acquisition activity in the Pacific Northwest?

*The low-cost utilities of this region have fewer incentives to join forces than those in other parts of the country. Still, we're keeping our eye out for the right opportunity at the right price.*

#### TECHNOLOGY

- **Avista Advantage**  
Business-to-business  
e-commerce
- **Avista Labs**  
Fuel cells  
(distributed generation)

#### INFORMATION

- **Avista Communications**  
A competitive local  
exchange carrier (CLEC)

#### ENERGY

- **Avista Utilities**  
Efficient, reliable electricity  
and natural gas
- **Avista Power**  
Electric/natural gas  
generation and  
storage assets
- **Avista Energy**  
Asset-backed energy  
marketing and trading



## Financial and Operating Highlights

| <i>(Thousands of Dollars Except Statistics and Per Share Amounts)</i> |                       |                       |                        |
|---|-----------------------|-----------------------|------------------------|
|   | 1999                  | 1998                  | 1997                   |
| <b>Financial Results</b>  |                       |                       |                        |
| Operating revenue   | \$ 7,904,984          | \$ 3,683,984          | \$ 1,302,172           |
| Operating expenses  | 7,873,627             | 3,511,164             | 1,112,708              |
| Operating income  | 31,357 <sup>(1)</sup> | 172,820               | 189,464                |
| Net income  | 26,031                | 78,139                | 114,797 <sup>(2)</sup> |
| Net income available for common stock                                 | 4,639                 | 69,740                | 109,405                |
| Reported earnings per share, basic and diluted                        | 0.12                  | 1.28                  | 1.96                   |
| Earnings per share, diluted   | 0.44 <sup>(3)</sup>   | 1.35 <sup>(3)</sup>   | 1.96                   |
| Dividends paid per share  | 0.48                  | 1.05                  | 1.24                   |
| Book value per share  | 12.95 <sup>(3)</sup>  | 13.67 <sup>(3)</sup>  | 13.38                  |
| Average common shares outstanding                                     | 38,213                | 54,604                | 55,960                 |
| Actual common shares outstanding                                      | 50,730 <sup>(3)</sup> | 55,966 <sup>(3)</sup> | 55,960                 |
| Return on average common equity                                       | 3.3% <sup>(3)</sup>   | 9.9% <sup>(3)</sup>   | 15.0%                  |
| Common stock closing price  | 15.438                | 19.250                | 24.313                 |
| <b>Operating Results</b>  |                       |                       |                        |
| Avista Utilities  |                       |                       |                        |
| Retail electric revenues  | \$ 383,841            | \$ 374,835            | \$ 367,106             |
| Retail KWh sales (in millions)  | 8,142                 | 7,929                 | 7,769                  |
| Retail electric customers at year-end                                 | 309,012               | 305,201               | 301,226                |
| Wholesale electric revenues   | \$ 522,499            | \$ 457,341            | \$ 329,932             |
| Wholesale KWh sales (in millions)                                     | 19,778                | 19,215                | 16,410                 |
| Total natural gas revenues  | \$ 187,484            | \$ 193,138            | \$ 165,782             |
| Total therm sales (in thousands)                                      | 658,902               | 712,689               | 668,780                |
| Total natural gas customers at year-end                               | 269,179               | 262,241               | 251,177                |
| Energy Trading and Marketing  |                       |                       |                        |
| Revenues  | \$ 6,695,671          | \$ 2,408,734          | \$ 247,028             |
| Resource costs  | 6,670,691             | 2,360,110             | 232,389                |
| Net income (loss)   | (60,740)              | 14,116                | 5,346                  |
| KWh sales (in millions)   | 135,099               | 54,430                | 4,540                  |
| Natural gas sales (average BCF/day at year-end)                       | 2.13                  | 1.57                  | 0.65                   |
| Coal Sales (in tons)  | 1,637,851             | -                     | -                      |
| Information and Technology  |                       |                       |                        |
| Revenues  | \$ 4,851              | \$ 1,995              | \$ 1,030               |
| Pentzer and Other   |                       |                       |                        |
| Revenues  | \$ 122,303            | \$ 231,483            | \$ 163,598             |
| <b>Other Financial and Operating Statistics</b>                       |                       |                       |                        |
| Total assets  | \$ 3,713,494          | \$ 3,253,636          | \$ 2,411,785           |
| Net utility plant   | 1,500,837             | 1,470,942             | 1,433,123              |
| Utility capital expenditures  | 86,256                | 92,295                | 87,175                 |
| Total capitalization:   |                       |                       |                        |
| Long-term debt  | 718,203               | 730,022               | 762,185                |
| Preferred trust securities  | 110,000               | 110,000               | 110,000                |
| Preferred stock   | 35,000                | 35,000                | 45,000                 |
| Preferred stock convertible to common                                 | 263,309               | 269,227               | -                      |
| Common equity   | 393,499               | 488,034               | 748,812                |
| Total Capitalization  | \$ 1,520,011          | \$ 1,632,283          | \$ 1,665,997           |

(1) Operating income in 1999 includes one-time asset impairment and restructuring charges of \$42.9 million (before taxes).

(2) Net income in 1997 includes a one-time IRS tax refund of \$41.4 million (after taxes).

(3) Assumes Convertible Preferred Stock has been converted back to common stock.



### Our areas of focus

Energy companies throughout the industry are reconstructing themselves.

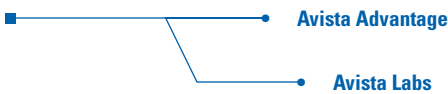
But game plans vary widely. And we think ours sets us apart.

We're capitalizing on what we know, what we've been doing for 110 years, and what we're good at — energy, infrastructure, customer service. Based on those strengths, we've established well-focused subsidiaries with significant competitive advantages within their respective markets.

A sound strategy, rooted in existing expertise, executed with discipline. It just makes sense.



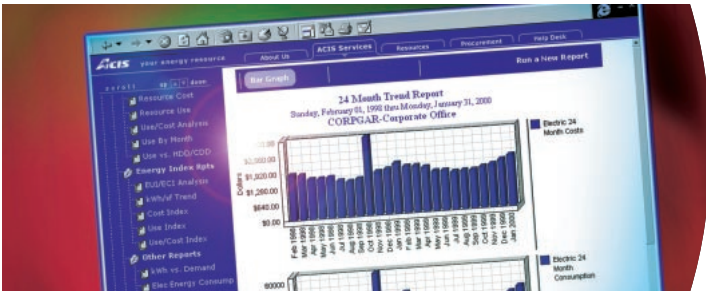
# Technology



Avista Advantage and Avista Labs exemplify Avista Corp.’s technology growth strategy — looking for new ways to apply the expertise we already have.

We understand utility bills. And that knowledge base propelled us into an arena that didn’t even exist three years ago.

Today, Avista Advantage is the leading business-to-business e-commerce provider of utility-payables services, with over 40,000 committed sites in all 50 states plus Canada and Puerto Rico. That’s more than twice as many as any



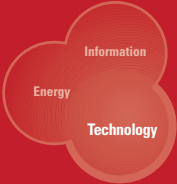
**ACIS is business-to-business e-commerce at its finest. Because Avista Advantage customers receive information about energy and other utilities in real time, they can respond to what they learn quickly. And that saves them money — which is, of course, the whole point.**

competitor. It’s no wonder our service is in demand by some of the best known companies in America. Last year alone, we saved our customers — among them Starbucks, Pier 1 Imports, Time Warner, Home Depot and AT&T — a total of more than \$5.5 million through billing analysis.

Avista Advantage customers gather energy data through the Advantage Customer Internet Site (ACIS®), a proprietary, Internet-based utility bill-

processing, payment and information system for multi-site commercial operations. In 1999, we added a repair and maintenance billing service to our original suite of products: consolidated billing, financial reporting, cost and use reporting, analytical tools, and load profiling. At the request of our customers, we’re developing a telephone bill-processing service for introduction in 2000.

Why has the market embraced ACIS so readily? Perhaps because we help simplify the process — saving time and money. There are more than 14,000 different formats used for electricity, gas and other utility bills. Errors are easy to overlook. Avista Advantage monitors each customer invoice and uses unique, patented

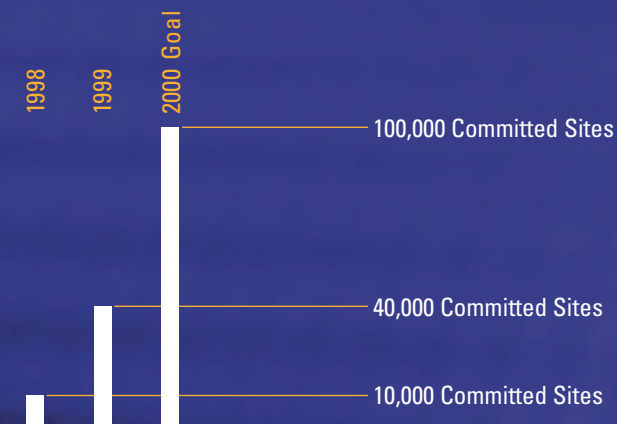


**Starbucks® is one of a growing number of businesses that rely on Avista Advantage to manage and process their utility bills. With thousands of locations across North America, Starbucks depends on Avista Advantage’s expertise to ensure they’re not only on the correct rate schedules but also using energy efficiently in their stores.**

**The bottom line — Avista Advantage saves time and money for the rapidly expanding company. It also allows Starbucks to focus on what they do best — make great coffee.**



Avista  
Advantage  
Growth



Avista Advantage  
is experiencing  
extraordinary growth  
among an increasing  
list of blue chip  
commercial  
customers.

In 1999, Avista Advantage  
added these customers:

- AT&T
- CVS/pharmacy
- Home Depot
- K\*B Toys
- Kinko's
- Pier 1 Imports
- Staples Inc.
- Starbucks
- Time Warner

Avista Labs' fuel cell subrack monitors and optimizes  
the performance of its own cartridges. And the unit's  
modular construction will allow  
customers to replace cartridges on  
the fly without any downtime.



analytics to identify inaccuracies, streamline  
payment, and provide facility managers with  
more than 600 cost-comparison and usage  
reports, as well as improvement ideas.

The number of invoices Avista Advantage  
processes more than tripled in 1999, and the total  
is expected to increase by more than three fold again this year.

The outlook is equally favorable for Avista Labs, our Proton Exchange Membrane  
(PEM) fuel cell development company. Global demand is expected to intensify  
over the next five years. Market estimates run from several thousand to several  
million sites demanding this type of distributed power generation. And our easy-  
to-operate, highly reliable, low-cost solution will fit a broad range of residential  
and commercial applications. We're also well positioned to satisfy opportunities  
in industrial, premium and backup power markets and other developing markets.

As with Avista Advantage, we combined our command of familiar territory —  
in this case, power generation, control and delivery — with a little ingenuity.



Growth in Value of  
Customer Invoices  
Processed by  
Avista Advantage



With the addition of each  
new Avista Advantage  
customer, the value  
associated with the  
monthly invoices  
processed multiplies.

2000 Goals

- Achieve 100,000 committed sites for Avista Advantage
- Process \$150 million per month in invoices at Avista Advantage
- Introduce Avista Advantage telephone bill-processing service
- Integrate UOP's fuel processor into Avista Labs' fuel cell
- Accumulate data from multiple customers' beta testing sites for Avista Labs' fuel cell commercialization

1999 Highlights

- Avista Advantage successfully launched a broad-based repair and maintenance service offering
- Strategic patents secured for Avista Advantage and Avista Labs
- Avista Advantage launched Internet portal
- Avista Labs successfully completed the manufacture of pre-commercial fuel cell beta units



In 1999, Avista Labs announced a joint development arrangement with Chicago-based UOP, an industry leader in fuel technology, to integrate that company's fuel processor into our fuel cell design. The move solidifies a long-term working relationship and represents one of the most critical steps in successful commercialization of Avista Labs' first distributed generation product.

PEM fuel cells, when coupled with a compatible fuel processor, can convert virtually any fuel containing hydrogen into electricity. The by-products are heat and water. Avista Labs' exclusive modular design offers reliability, scalability and serviceability unmatched by competing products.

In 1999, we selected Logan Industries to manufacture, assemble and prepare the first 200 fuel cell units for field testing. We also signed a joint marketing/installation agreement with Black & Veatch, a global engineering and construction company specializing in "single-point infrastructure." The concept promotes environmental quality and economic efficiency by integrating water, electricity, natural gas and telecommunications infrastructure systems in new large-scale developments.



# Information

Avista Communications

Avista Communications provides the dark fiber backbone for this medical metropolitan area network in Spokane, Washington. As the system develops, hospitals like Spokane's Sacred Heart Medical Center will have the ability to consult and collaborate on a patient's care with a network of labs, specialists and primary care providers.

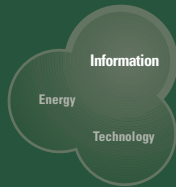


The information and telecommunications industry is moving at full throttle, and in 1999, our information affiliate substantiated its readiness to keep pace and compete.

In its first year of operations, Avista Communications introduced service in four Western communities. Within the next three years, we plan to expand into a total of 30 communities across the Western United States. Assets will increase by \$100 million in the process.

Avista Communications, a facilities-based competitive local exchange carrier (CLEC), provides local dial-tone, data transport, high-speed Internet services and dark fiber networks with a business-to-business focus for commercial customers in Western cities with populations under 500,000.

That target represents our strategic edge over other CLECs. These under-served markets are hungry for sophisticated telecommunications technology, and they're below the radar of the larger providers. Avista Communications installs state-of-the-art fiber-optic networks and advanced switching equipment in cities that fit our model and forges long-haul agreements with companies like Touch America

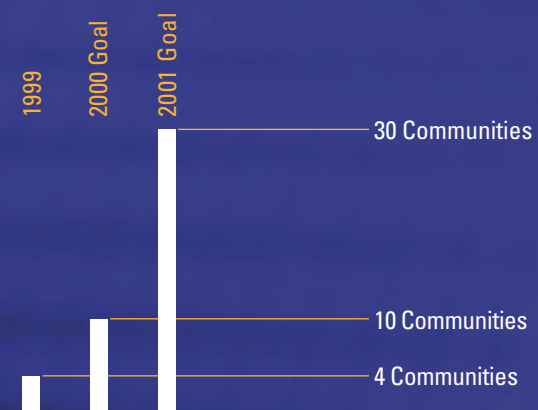


Nowhere is fast, reliable communication more critical than in the news business. So KTVQ in Billings, Montana, turned to Avista Communications. Our advanced fiber-optic network delivers newswire reports, gathers data from field sources, and carries remote-control instructions to transmitters — and that means KTVQ's viewers receive accurate news just as soon as it happens.





## Avista Communications Growth



Avista Communications plans to enter 30 communities in the Western United States in three years.

to provide necessary links to the markets we serve. We've reinforced our technological benefits with decentralized, individually tailored customer service and the expertise of Avista

Communications' senior management team.

We have the ability to design, build, and manage metropolitan area fiber-optic networks, which allows us to consult, lease fiber, and provide fast, reliable, and competitively priced services for our customers. We've already laid more than 22,500 strand miles of fiber.

### 2000 Goals

- Achieve Avista Communications service in a total of 10 communities by the end of 2000
- Seek investment partner to assist in providing capital to support CLEC growth needs

### 1999 Highlights

- Received CLEC status approval in Washington, Idaho, Oregon and Montana from state regulators
- Interconnection agreements to exchange customer traffic approved with US West in Washington, Idaho and Montana
- 22,560 fiber strand miles installed



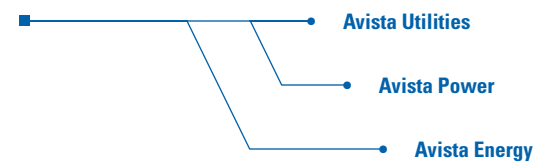
At Avista Communications, dial-tone service is just the beginning. We package voice, data, Internet and fiber

Over the course of 1999, we completed the educational metropolitan area network in Washington and Idaho capable of connecting 120 schools, colleges and universities, and a medical metropolitan area network linking seven major Inland Northwest hospitals and 20 other medical facilities. In addition to the education and medical communities, we're marketing our services to city and state governments, financial services companies, and other organizations in need of broadband data and video transport.

services according to each company's particular circumstances – and because we treat our customers like individuals, no two networks are alike.



## Energy



Avista Corp.'s energy companies turned in the year's most complex story, one involving new revenue channels, unfavorable weather, a narrowing energy marketing and trading industry, and an important global alliance.

Despite warmer-than-normal winter temperatures and higher purchased-power costs, Avista Utilities earned \$142.6 million in net operating income before taxes, reaching its goal for 1999. And while low population growth in our franchise service territory hampers customer growth, we sought to ensure reasonable future

revenue through rate cases in two states. Idaho regulators approved an electric price increase worth \$9.3 million annually, and electric and natural gas filings in Washington request proposed increases of \$26.3 million and \$4.9 million, respectively. We anticipate a decision on this matter by late 2000.

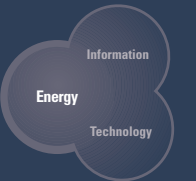
During its 110-year history, Avista Utilities has been recognized for providing unparalleled reliability, low-cost energy,

Even with the price increases (our first base price increase in 12 years), we remain one of the most competitively priced utilities in the United States, and our hydro-generation availability rate of 98 percent leads the industry.

efficient delivery and exceptional customer service. We've won awards in each of these categories.

Our Living License™ on the Clark Fork River in Montana will help sustain that reputation. This collaborative agreement arose from one of the largest hydropower relicensing efforts in the United States, one that earned Avista the National Hydropower Achievement Award for Stewardship of Water Resources. The lessons we learned working with Native American tribes, governmental agencies, conservation associations, property owners and others will guide us as we undertake Federal Energy Regulatory Commission relicensing of other hydro projects.

The company's natural gas supply remains stable as well. We maintain contracts with six suppliers, and a planned 20 percent expansion of our Jackson Prairie storage facility is designed to make our portfolio management even more efficient.



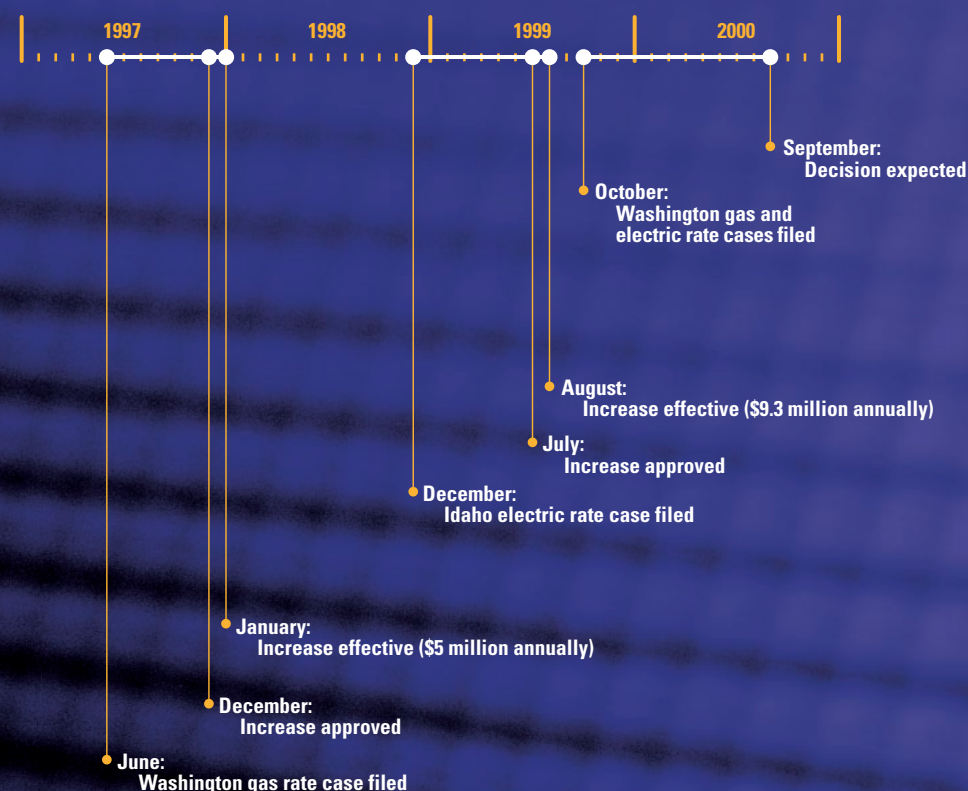
At the Boeing plant in Spokane, work teams are constantly developing innovative ways to improve their products and productivity. Avista Utilities provides the energy for Boeing to manufacture quality air ducts, floor panels and flight deck parts for a family of airplanes that sets the standard for safe air travel.

We're powering the way for companies like Boeing to improve their manufacturing processes and energy efficiency while extending their competitive edge as leaders in the global marketplace.



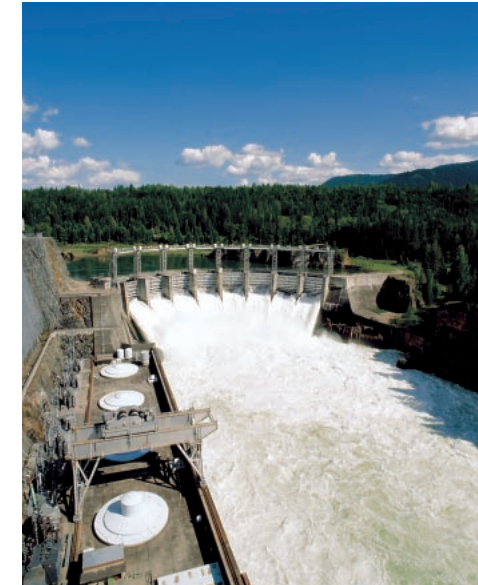
## Energy Price Increases and Filings

Avista Utilities' energy prices are among the lowest in the nation, even with the recent electric and natural gas rate increases. Filing for energy price increases allows Avista to continue providing quality service to its customers and a fair return to investors.



In 1999, regulators in Washington, Idaho and Oregon approved the Gas Benchmark Mechanism, which for the first time allowed the company the opportunity to earn on the purchase of natural gas commodities.

Avista Utilities' hydro operations, such as the Cabinet Gorge Dam, remain a national model for innovative management and efficiency.



Avista Utilities' drive toward increased efficiency also sparked several noteworthy customer service initiatives in 1999. Our geographic information system (GIS) streamlines design of gas projects, and a recently integrated, 24-hour-a-day natural gas and electric call center makes it easier for our customers to do business with us. An expanded menu of product and service offerings leverages the Avista brand and intellectual capital, increasing customer retention while at the same time boosting margins.

The question of margins stood at the center of a difficult and challenging year for Avista Energy. Revenues rose to \$6.7 billion from 1998's \$2.4 billion, far more than we projected, and a strategic acquisition early in 1999 brought sophisticated systems and experienced employees to our energy marketing and trading operation.



Our volumes placed us among the top 10 such companies in the country. But despite those strengths, we suffered losses in several quarters, in large part due to market conditions increasingly characterized by low margins and low liquidity, with new, large financial players entering the market.

There is still potential profit in the industry and we've recast Avista Energy to tap those opportunities. A more detailed discussion of our strategy appears in the question-and-answer section of this report.

One aspect of that strategy — our intention to support energy marketing with physical assets — is already in the works. Avista Power, formed in late 1998 to build or buy power generation and natural gas storage capacity, has one project nearing construction in Rathdrum, Idaho — a 270-megawatt joint venture with Cogentrix Energy. Other projects are in development.

An agreement with STEAG AG, Germany's largest independent power producer, calls for further development of electric generation assets in selected regions of North America. As equal partners, Avista STEAG, LLC, will consider a variety of options, including the acquisition of existing facilities, new project construction, and independent power producers.

## 2000 Goals

- Avista Utilities to successfully present Washington rate cases and receive a favorable decision from regulators
- Avista Utilities to receive final approval for Clark Fork River operating license (Approval was granted in February 2000)

## 1999 Highlights

- Idaho regulators approve electric price increase, adding \$9.3 million annually
- Avista Utilities achieves net operating income goals for 1999
- Living License™ on the Clark Fork River receives the National Hydropower Achievement Award for Stewardship of Water Resources
- Avista Power initiates development of 1,250 megawatts of generation for start-up by the end of 2004
- Avista Power reaches agreement with Germany's STEAG AG



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, 1999 and 1998, 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, 1999. Such consolidated financial statements and our report thereon (which are not presented herein) dated February 4, 2000 (February 16, 2000, as to Note 15), which expressed an unqualified opinion, are included in Appendix A to the proxy statement for the 2000 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, 1999 and 1998, 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, 1999, 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 4, 2000  
(February 16, 2000 as to information  
derived from Note 15 to the  
consolidated financial statements)  
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 2000 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

|   | 1999         | 1998         | 1997         |
|---|--------------|--------------|--------------|
| <i>(For the Years Ended December 31 – Thousands of Dollars)</i> |              |              |              |
| Operating Revenues  | \$ 7,904,984 | \$ 3,683,984 | \$ 1,302,172 |
| Operating Expenses  |              |              |              |
| Resource costs  | 7,417,940    | 3,021,046    | 717,732      |
| Operations and maintenance                                      | 155,176      | 229,620      | 178,526      |
| Administrative and general                                      | 127,958      | 129,771      | 96,611       |
| Depreciation and amortization                                   | 76,474       | 70,547       | 69,893       |
| Taxes other than income taxes                                   | 53,157       | 60,180       | 49,946       |
| Asset impairment and restructuring charges                      | 42,922       | -            | -            |
| Total operating expenses  | 7,873,627    | 3,511,164    | 1,112,708    |
| Income from Operations  | 31,357       | 172,820      | 189,464      |
| Other Income (Expense)  |              |              |              |
| Interest expense  | (65,076)     | (69,077)     | (66,275)     |
| Interest on income tax recovery                                 | -            | -            | 47,338       |
| Net gain on subsidiary transactions                             | 57,531       | 7,937        | 11,218       |
| Other income (deductions) - net                                 | 18,959       | 9,794        | (5,873)      |
| Total other income (expense) - net                              | 11,414       | (51,346)     | (13,592)     |
| Income Before Income Taxes                                      | 42,771       | 121,474      | 175,872      |
| Income Taxes  | 16,740       | 43,335       | 61,075       |
| Net Income  | 26,031       | 78,139       | 114,797      |
| Deduct - Preferred stock dividend requirements                  | 21,392       | 8,399        | 5,392        |
| Income Available for Common Stock                               | \$ 4,639     | \$ 69,740    | \$ 109,405   |
| Average common shares outstanding, basic (thousands)            | 38,213       | 54,604       | 55,960       |
| Average common shares outstanding, diluted (thousands)          | 53,627       | 55,966       | 55,960       |
| Earnings Per Share of Common Stock, Basic                       | \$ 0.12      | \$ 1.28      | \$ 1.96      |
| Earnings Per Share of Common Stock, Diluted                     | \$ 0.12      | \$ 1.28      | \$ 1.96      |
| Dividends paid per common share                                 | \$ 0.48      | \$ 1.05      | \$ 1.24      |
| Net Income  | \$ 26,031    | \$ 78,139    | \$ 114,797   |
| Other Comprehensive Income, Net of Tax                          |              |              |              |
| Foreign currency translation adjustment                         | 376          | (366)        | -            |
| Unrealized investment loss - net                                | (201)        | (2,052)      | (3,627)      |
| Other Comprehensive Income (Loss)                               | 175          | (2,418)      | (3,627)      |
| Comprehensive Income  | \$ 26,206    | \$ 75,721    | \$ 111,170   |
| Retained Earnings, January 1                                    | \$ 120,445   | \$ 171,776   | \$ 131,301   |
| Net Income  | 26,031       | 78,139       | 114,797      |
| Dividends Declared  |              |              |              |
| Preferred stock   | (21,402)     | (7,639)      | (5,339)      |
| Common stock  | (18,301)     | (56,898)     | (69,390)     |
| Transfer to Preferred Stock, Series L                           | -            | (64,844)     | -            |
| Stock Repurchase  | (19,315)     | -            | -            |
| Restricted Stock Options  | (84)         | (419)        | -            |
| ESOP Dividend Tax Savings                                       | 147          | 330          | 407          |
| Retained Earnings, December 31                                  | \$ 87,521    | \$ 120,445   | \$ 171,776   |

Condensed Consolidated Balance Sheets

| <i>(At December 31 – Thousands of Dollars)</i>                    | 1999         | 1998         |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Current energy commodity assets                                   | \$ 585,913   | \$ 335,224   |
| Other current assets  | 628,156      | 633,372      |
| Total utility plant - net   | 1,500,837    | 1,470,942    |
| Investment in exchange power - net                                | 54,123       | 62,577       |
| Non-utility properties and investments - net                      | 137,213      | 206,773      |
| Non-current energy commodity assets                               | 491,799      | 236,644      |
| Other property and investments - net                              | 31,051       | 26,016       |
| Regulatory assets for deferred income tax                         | 166,456      | 171,037      |
| Conservation programs   | 44,444       | 49,114       |
| Other deferred debits   | 73,502       | 61,937       |
|   |              |              |
| Total   | \$ 3,713,494 | \$ 3,253,636 |
| <b>Liabilities and Capitalization</b>                             |              |              |
| Current energy commodity liabilities                              | \$ 594,065   | \$ 330,957   |
| Other current liabilities   | 592,914      | 533,236      |
| Non-current energy commodity liabilities                          | 441,372      | 207,948      |
| Deferred revenues   | 132,975      | 145,124      |
| Deferred income taxes   | 377,049      | 357,702      |
| Non-current liabilities and other deferred credits                | 55,108       | 46,386       |
| Capitalization:   |              |              |
| Long-term debt  | 718,203      | 730,022      |
| Preferred trust securities  | 110,000      | 110,000      |
| Preferred stock   | 35,000       | 35,000       |
| Convertible preferred stock                                       | 263,309      | 269,227      |
| Common stock - net (35,648,239 and 40,453,729 shares outstanding) | 306,144      | 367,930      |
| Retained earnings - net   | 87,355       | 120,104      |
| Total capitalization  | 1,520,011    | 1,632,283    |
|   |              |              |
| Total   | \$ 3,713,494 | \$ 3,253,636 |

Condensed Consolidated Statements of Cash Flows

| <i>(Increase (Decrease) in Cash and Cash Equivalents<br/>For the Years Ended December 31 – Thousands of Dollars)</i> | 1999             | 1998             | 1997             |
|--|------------------|------------------|------------------|
| <b>Operating Activities:</b>   |                  |                  |                  |
| Net income   | \$ 26,031        | \$ 78,139        | \$ 114,797       |
| Non-cash items included in net income:   |                  |                  |                  |
| Depreciation and amortization  | 76,474           | 70,547           | 69,893           |
| Impairment of goodwill   | 33,622           | -                | -                |
| Other  | (49,309)         | (706)            | 18,940           |
| Effect of changes in working capital components  | 24,358           | (23,477)         | 21,154           |
| Monetization of contract   | -                | 143,400          | -                |
| <b>Net Cash Provided by Operating Activities</b>   | <b>111,176</b>   | <b>267,903</b>   | <b>224,784</b>   |
|  |                  |                  |                  |
| <b>Investing Activities:</b>   |                  |                  |                  |
| Construction expenditures (excluding AFUDC-equity funds)   | (87,160)         | (92,942)         | (89,016)         |
| Assets acquired and investments in subsidiaries  | (51,729)         | (52,780)         | (43,308)         |
| Proceeds from sale of subsidiary investments   | 148,851          | 16,385           | 11,606           |
| Other  | (37,163)         | 12,346           | (15,461)         |
| <b>Net Cash Used in Investing Activities</b>   | <b>(27,201)</b>  | <b>(116,991)</b> | <b>(136,179)</b> |
|  |                  |                  |                  |
| <b>Financing Activities:</b>   |                  |                  |                  |
| Increase (decrease) in short-term borrowings   | 110,522          | (108,500)        | 23,500           |
| Increase (decrease) in long-term debt  | (94,998)         | 70,000           | (31,500)         |
| Redemption of preferred stock  | (5,918)          | (10,000)         | (70,000)         |
| Proceeds from issuance of preferred trust securities   | -                | -                | 110,000          |
| Repurchase of common stock   | (81,985)         | (1,475)          | -                |
| Payment of dividends   | (39,757)         | (64,548)         | (75,329)         |
| Other  | (4,634)          | 5,854            | (22,894)         |
| <b>Net Cash Used in Financing Activities</b>   | <b>(116,770)</b> | <b>(108,669)</b> | <b>(66,223)</b>  |
|  |                  |                  |                  |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>  | <b>(32,795)</b>  | <b>42,243</b>    | <b>22,382</b>    |
|  |                  |                  |                  |
| <b>Cash and Cash Equivalents, January 1</b>  | <b>72,836</b>    | <b>30,593</b>    | <b>8,211</b>     |
|  |                  |                  |                  |
| <b>Cash and Cash Equivalents, December 31</b>  | <b>\$ 40,041</b> | <b>\$ 72,836</b> | <b>\$ 30,593</b> |



Financial Summary

The following is a brief discussion and analysis of financial condition and results of operations for 1999. For a more detailed analysis, please refer to Appendix A to the 2000 proxy statement.

**Results of Operations** – Overall reported basic earnings per share for 1999 were \$0.12, compared to \$1.28 in 1998. In December 1998, the company exchanged shares of its common stock for shares of Convertible Preferred Stock. Excluding the effects of this transaction, earnings per share would have been \$0.44 in 1999, compared to \$1.35 in 1998. The primary reason for the decrease was a \$60.7 million after-tax loss recorded by the Energy Trading and Marketing line of business, due to restructuring charges and operational losses at Avista Energy. The losses were partially offset by transactional gains recorded by Pentzer from the sales of portfolio companies. Avista Utilities contributed \$1.00 to basic earnings per share in 1999, compared to \$0.88 in 1998. Energy Trading and Marketing recorded a loss of \$1.59 per basic share in 1999, compared to a contribution of \$0.26 in 1998. Information and Technology income was a loss of \$0.27 to basic earnings per share in 1999, compared to a loss of \$0.06 in 1998. Income from Pentzer and the other subsidiaries contributed \$0.98 to basic earnings per share in 1999, compared to \$0.20 in 1998.

**Avista Utilities** – Income from Avista Utilities decreased \$9.8 million in 1999 from 1998, primarily due to the \$13.4 million increase in preferred dividends associated with the Convertible Preferred Stock. Wholesale electric revenues increased \$65.2 million, primarily due to prices 11% greater and sales volumes 3% higher in 1999 than 1998. Retail electric revenues increased \$9.0 million due to customer growth and slightly cooler weather in 1999. Purchased-power prices were 13% higher than in 1998 and volumes increased 2%, which resulted in a \$72.9 million increase in purchased-power expense. Natural gas revenues decreased \$5.7 million primarily due to lower non-retail sales, which also caused purchased gas costs to decrease, partially offset by increased retail sales due to customer growth and increased customer usage as a result of cooler weather.

**Energy Trading and Marketing** – Energy Trading and Marketing recorded a loss of \$60.7 million in 1999, due primarily to a \$27.3 million after-tax charge recorded by Avista Energy related to the restructuring of the business, and operational losses of \$32.1 million, after taxes, due to warmer than normal weather, soft energy markets and a lack of volatility within those markets. In 2000, Avista Energy is redirecting its focus away from national energy trading toward a more regionally based energy marketing and trading effort in the West backed by physical assets. Avista Power recorded a loss in 1999 due to start-up costs. Energy Trading and Marketing’s revenues totaled \$6.7 billion in 1999 compared to \$2.4 billion in 1998.

**Information and Technology** – This line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Net income for 1999 was a loss of \$10.2 million, reflecting start-up costs at all of the companies, compared to a loss of \$3.4 million in 1998. At the end of 1999, Avista Corp. owned approximately 71% of Avista Communications.

**Pentzer and other** – Net income from this line of business for 1999 was \$37.5 million, which was a \$26.3 million increase over 1998. Pentzer recorded transactional gains totaling \$35.9 million in 1999, compared to \$4.3 million during 1998, primarily from the sales of portfolio companies in both years. Non-transactional earnings from the ongoing operations of portfolio companies decreased \$6.2 million from 1998, also due to the sales of the portfolio companies.

**Other** – In May 1999, the company’s Board of Directors authorized a common stock repurchase program. As of December 31, 1999, the company had repurchased approximately 4.8 million common shares and 322,500 shares of Return-Enhanced Convertible Securities (equivalent to 32,250 shares of Convertible Preferred Stock, Series L). The combined repurchases of these two securities represent 9% of outstanding common stock and common stock equivalents.

During 1999, \$108.7 million of long-term debt, with interest rates between 3.60% and 8.02%, was issued, while \$208.3 million of long-term debt, with interest rates between 5.95% and 8.88%, matured or was redeemed.

The company’s total common equity decreased \$94.5 million to \$393.5 million at the end of 1999, primarily due to the stock repurchase plan. Assuming the convertible preferred stock had been converted back to common stock, the company’s consolidated capital structure at December 31, 1999 would have been 47% debt, 10% preferred securities and 43% common equity, compared to 45% debt, 9% preferred securities and 46% common equity at year-end 1998.

Avista Corp.  
Directors



David A. Clack (1988)  
Principal  
Olympic Capital Partners  
Spokane, Washington (1, 3, 4, 5)



Sarah M.R. (Sally) Jewell (1997)  
Executive Vice President  
Washington Mutual Bank  
Seattle, Washington (2)



John F. Kelly (1997)  
Chairman, President and  
Chief Executive Officer  
Alaska Air Group  
Seattle, Washington (4)



Jessie J. Knight, Jr. (1999)  
President and Chief Executive Officer  
The San Diego Regional  
Chamber of Commerce  
San Diego, California (2)



T. M. Matthews (1998)  
Chairman of the Board, President  
and Chief Executive Officer  
Avista Corp.  
Spokane, Washington (1, 3)



Eugene W. Meyer (1990)  
Financial Consultant  
Hilton Head Island, South Carolina (1, 2, 3)



Bobby Schmidt (1997)  
President  
Schmidt Trading, Inc.  
Hilton Head Island, South Carolina (2)



Larry A. Stanley (1991)  
Chief Executive Officer  
Empire Bolt and Screw, Inc.  
Spokane, Washington (1, 3, 4, 5)



R. John Taylor (1985)  
Chairman and Chief Executive Officer  
AIA Services Corporation  
Lewiston, Idaho (1, 2, 3)



Daniel J. Zaloudek (1998)  
President and Chief Executive Officer  
IMEDIA, Inc.  
Tulsa, Oklahoma (4)

NOTE: Year indicates date of election to Board of Directors  
COMMITTEES: (1) Executive Committee, (2) Audit & Finance Committee, (3) Corporate Governance Committee, (4) Compensation & Organization Committee, (5) Environmental & Safety Committee

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
- David A. Brukardt  
Vice President – Investor Relations
- Christy M. Burmeister-Smith  
Vice President and Controller
- 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
- Roger D. Woodworth  
Vice President – Corporate Development

Avista Corp.  
Affiliate Officers

- Avista Advantage**  
Gerry D. Crooks  
President
- Avista Communications**  
Gregory D. Green  
President
- Avista Energy**  
Gary G. Ely  
President
- Avista Labs**  
Kim D. Zentz  
President
- Avista Power**  
Lloyd H. Meyers  
President
- Avista Utilities**  
Edward H. Turner  
President
- Pentzer Corporation**  
Richard A. Davis  
President

Corporate Headquarters

Avista Corp.  
1411 East Mission Avenue  
Spokane, Washington 99202

Avista Corp. on the Internet

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

Transfer Agent

The Bank of New York is the company’s stock transfer, dividend payment and reinvestment plan agent. Answers to many 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  
P.O. Box 11258  
Church Street Station  
New York, New York 10286-1258  
Phone: 1-800-642-7365  
e-mail: [shareowner-svcs@bankofny.com](mailto:shareowner-svcs@bankofny.com)

Investor Information

A copy of the company’s financial reports, including the reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission, will be provided, without charge, on request to:

Avista Corp.  
Investor Relations  
P.O. Box 3727  
Spokane, Washington 99220-3727  
Phone: (509) 495-2753

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 11, 2000, at the downtown Spokane DoubleTree Hotel, 322 North Spokane Falls Court.

Exchange Listings

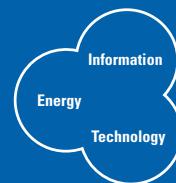
Ticker Symbol: AVA  
New York Stock Exchange  
Pacific Stock Exchange

Corporate  
Information

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 1999.

The 1999 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.





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