

Financial Performance

TVA is a wholly-owned corporation of the United States Government whose primary objective is to generate prosperity for the people of the Tennessee Valley by supplying low-cost, reliable power, supporting a thriving river system, and stimulating economic growth. To uphold this important mission, TVA continues to make the decisions necessary to assure sound financial performance both now and in the future.



FY2000 Financial Performance

TVA reported sound financial results for FY2000. Operating revenues were \$6.8 billion, up 3 percent from 1999 due primarily to seasonal improvements in energy sales. Although operating expenses increased 2 percent, reflecting higher fuel and purchased power expense, overall favorable financial results allowed TVA to record an accelerated amortization charge of \$121 million and still report positive net income of \$24 million.

Financial Highlights—Power Program

At September 30 or for the years ending September 30, as appropriate (in millions)

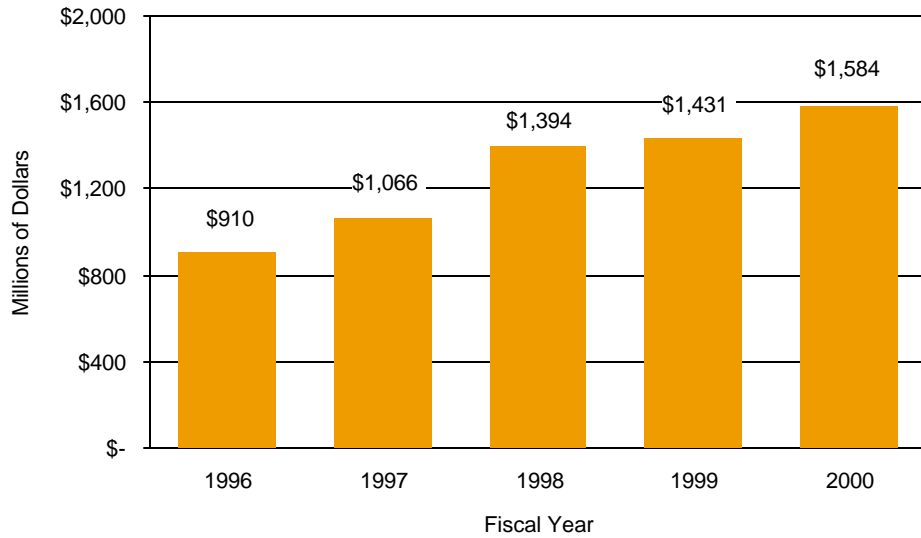
	<u>2000</u>	<u>1999</u>
Operating Revenues	\$ 6,762	\$ 6,595
Operating Expenses	<u>(5,019)</u>	<u>(4,926)</u>
Operating Income	1,743	1,669
Other Income, Net	17	10
Interest Expense, Net	(1,736)	(1,777)
Cumulative Effect of Change in Accounting Principle	<u>--</u>	<u>217</u>
Net Income	<u>\$ 24</u>	<u>\$ 119</u>
 Total Assets	 <u>\$ 33,181</u>	 <u>\$ 33,386</u>
Discount Notes	\$ 1,274	\$ 982
Long-term Debt, including current maturities	<u>24,711</u>	<u>25,394</u>
Total Indebtedness	<u>\$ 25,985</u>	<u>\$ 26,376</u>



Cash Flows

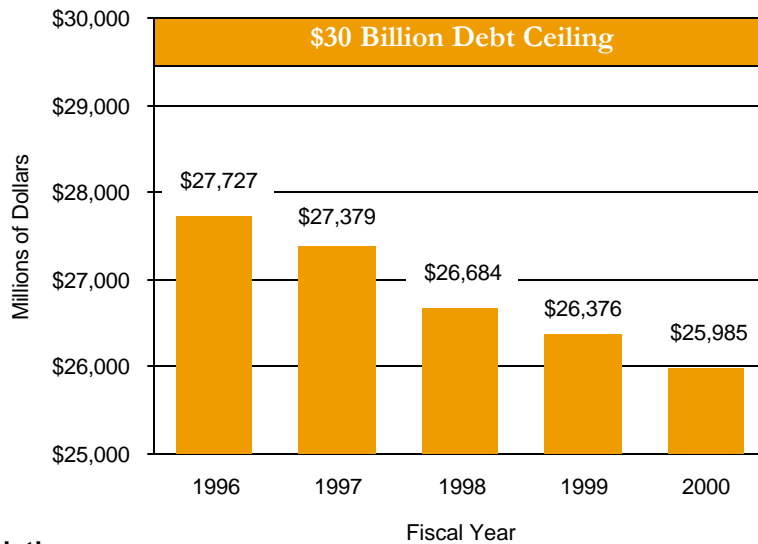
Continuing a five-year positive trend, TVA's net cash from operations increased to \$1,584 million, an improvement of nearly 100 percent since 1995. Also, TVA continues to make progress toward the primary objective of the *Ten Year Business Outlook*—to reduce the delivered cost of power to a level consistent with the projected market price of power in 2007.

Cash Flows from Operations After Interest Expense



Debt Reduction

Since TVA initiated its *Ten Year Business Outlook* in 1997, TVA has reduced its debt by more than \$1.7 billion—including a \$391 million reduction in FY2000—while increasing its power generation capacity by over 1,300 megawatts. These positive trends reflect the results of TVA's ambitious programs to achieve continuous process improvement, operational efficiency, and financial flexibility.



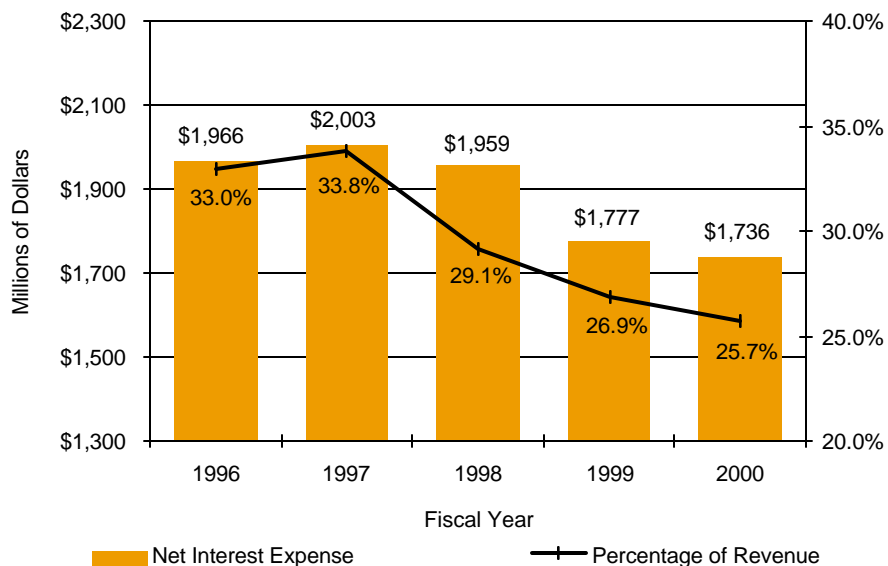
Cumulative Debt Reduction	1996	1997	1998	1999	2000
	\$0	\$348	\$1,043	\$1,351	\$1,742

Interest Expense

Reduction of interest expense continues to be an integral part of TVA's competitive strategy. Net interest expense declined \$41 million from \$1,777 million in 1999 to \$1,736 million in 2000. This reduction reflects savings from debt refinancing and lower total outstanding debt compared with 1999.

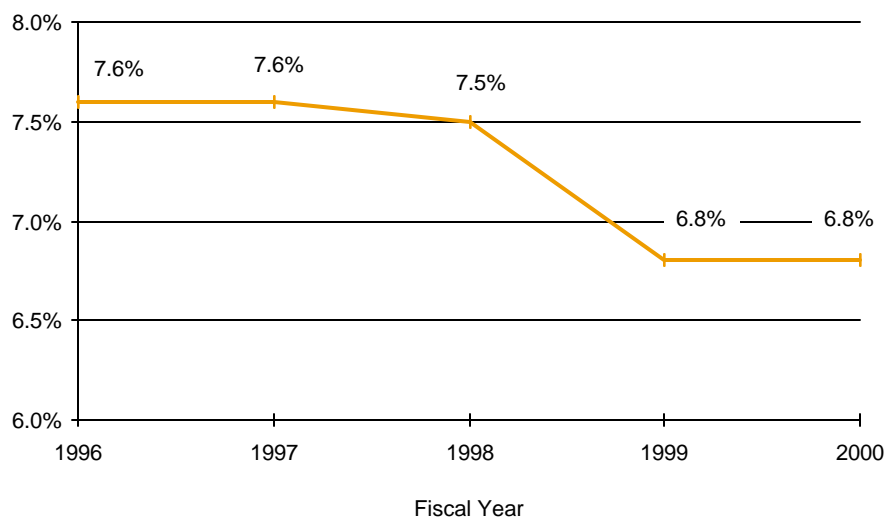
Over the past four years, net interest expense as a percentage of revenues has decreased from its peak of 34 percent to 26 percent—lower than at any time in the past 20 years.

Net Interest Expense as a Percentage of Revenue



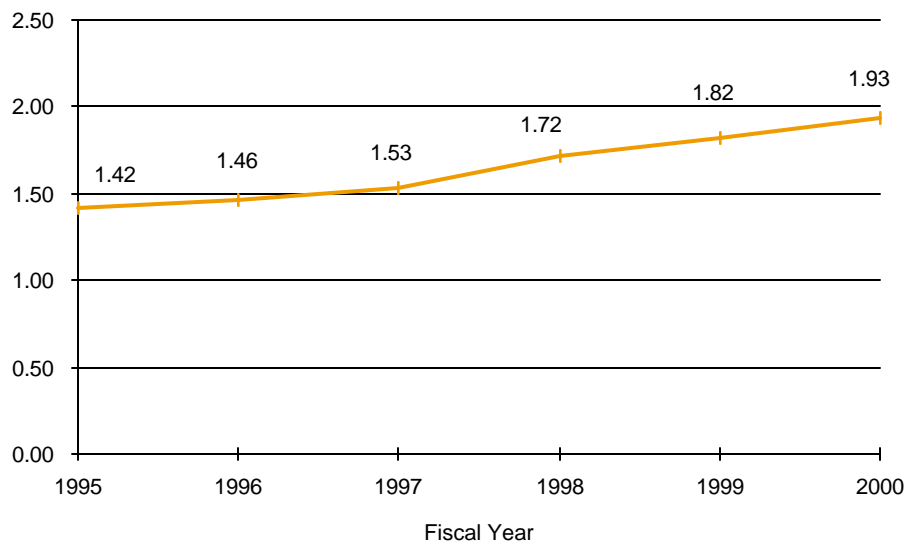
Interest expense as a percentage of average debt has been reduced from 7.6 percent to 6.8 percent in part by refinancing \$13 billion of debt in U.S. and global bond markets.

Interest Expense as a Percentage of Average Debt



TVA's interest coverage ratio, a measure of a company's ability to handle debt service, is now 1.93, an improvement of 36 percent from 5 years ago.

Interest Coverage Ratio



Competition

As the industry evolves, TVA will continue to promote economic growth, supply low-cost power, and support a thriving river system in order to remain the electric supplier of choice in price, availability, reliability, quality, and service. For more than 67 years, TVA has been dedicated to delivering value to the people it serves and will continue to apply all its resources to meet growing energy needs in the Tennessee Valley region.

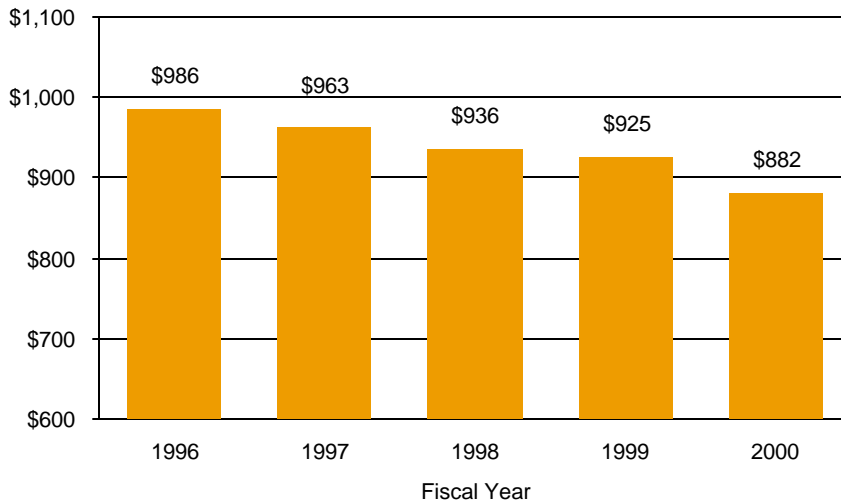
Market Capitalization

The cornerstone of TVA's financial strategy is a fiscally-responsible program for managing a reduction of its debt and the associated interest burden, while still providing the financial resources to fund a growing and thriving business. The challenge in this objective stems from the fact that TVA's unique capital structure is a product of its mission to provide power at the lowest feasible rates and the TVA Act's limitation on raising any required capital through the issuance of debt under conditions prescribed by the Act.

Private utility companies (IOUs) can raise needed capital by several means. They can sell equity interests in the company by issuing common stock and further enhance the selling price of such equity by maximizing profits for reinvestment in the business. They can issue preferred stock. They can borrow capital by issuing debt. They can even borrow from the government by deferring payment of their taxes. Because TVA cannot sell stock—it is already owned by the United States—debt is the only major component of the company's capital structure.

The best measure of debt burden, in context with the size of a utility, is debt per kilowatt of generating capacity.

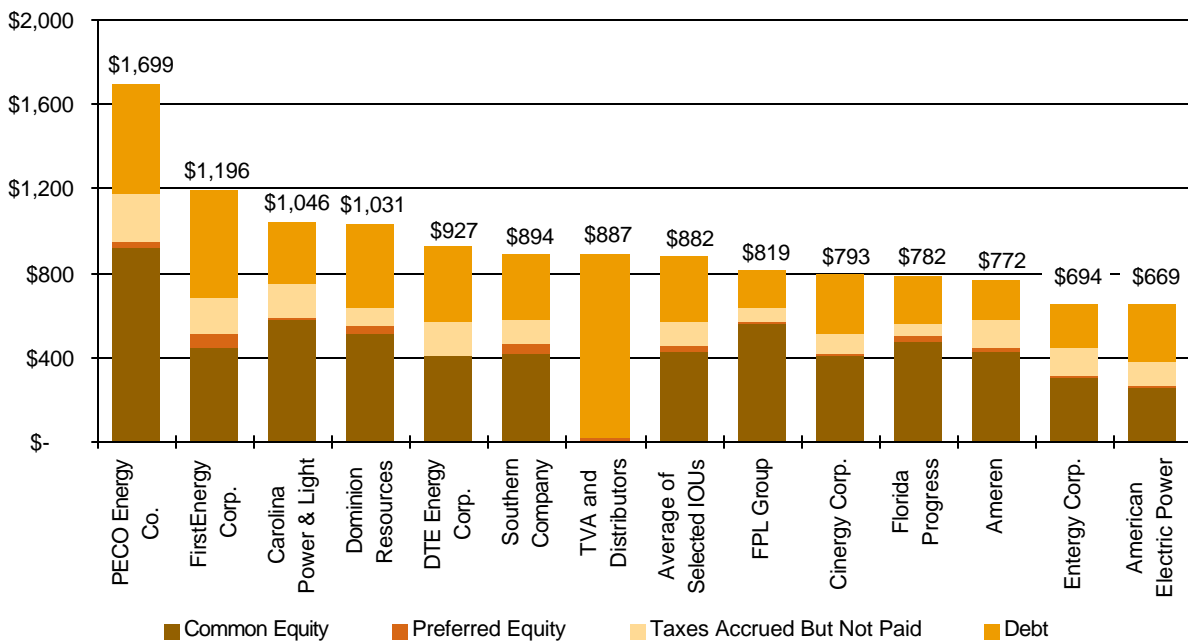
TVA Debt Per Kilowatt of Generating Capacity



As the chart above indicates, TVA's ratio has decreased significantly for the past several years. However, the adequacy of this measurement must be judged not only in an absolute sense, but in a comparative sense, by looking to TVA's competitors—the large IOUs that surround TVA's service territory.

For this purpose, the total market capitalization per kilowatt of generating capacity (including all debt and equity) must be compared.

*Market Value Capitalization
Per kW Installed Nameplate Capacity
Stock Prices as of September 29, 2000*



As the market capitalization chart illustrates, many conclusions can be reached, including:

- TVA's total market capitalization (in this case, including debt and equity of the distributors of TVA power) is not out-of-line when compared with the average for surrounding competitors.
- A simple comparison of TVA's debt to the debt of comparable investor-owned utilities is misleading, given that the comparison ignores an IOU's financial obligation to its shareholders and others.
- TVA's debt is not unreasonable considering the size of its generating capacity and the fact that substantially all of its business activities must be financed by debt or through internal generation of funds.