



TENNESSEE VALLEY AUTHORITY | **2002** ANNUAL REPORT

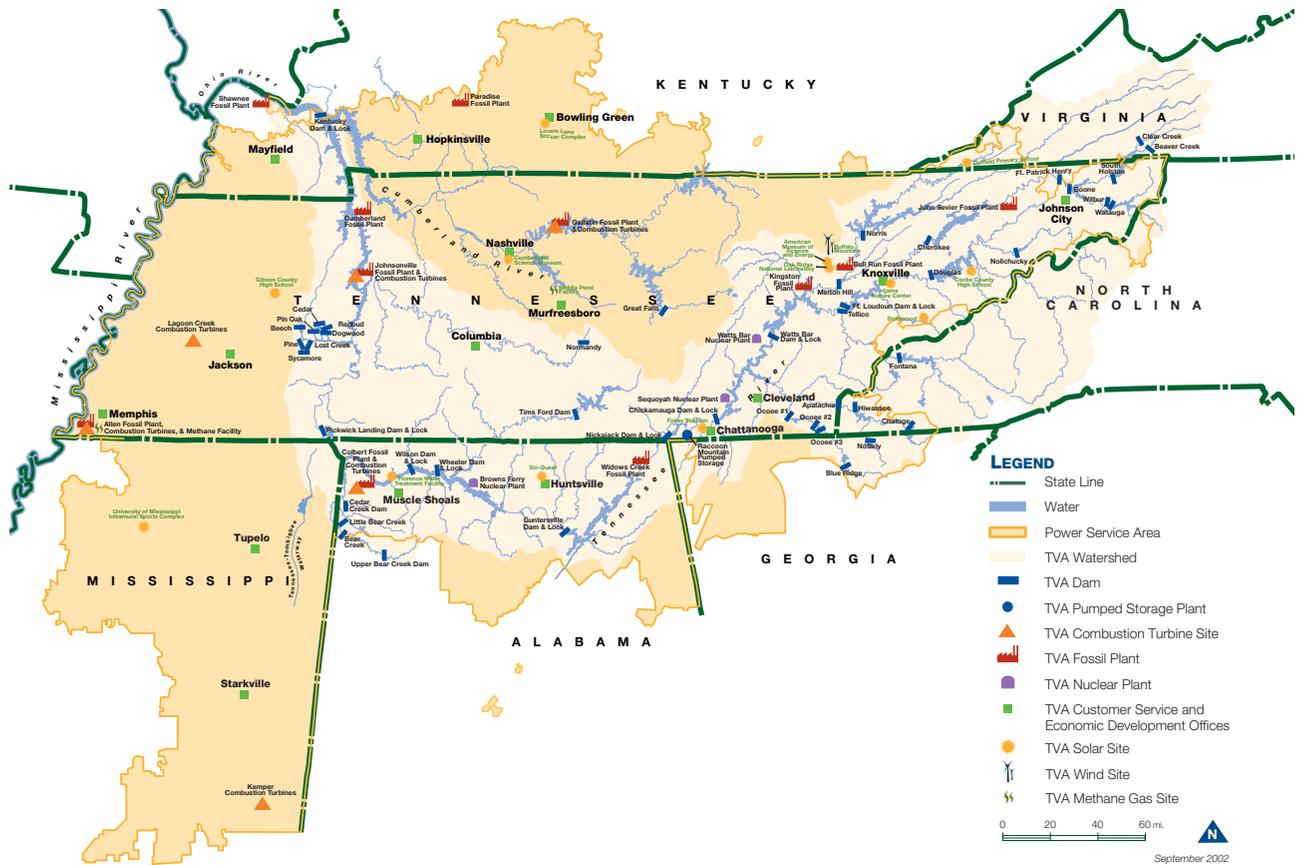




Cumberland Fossil Plant, TVA's largest coal-fired generating plant

## Steward of the Tennessee Valley's Resources

TVA manages the Tennessee River system, balancing the public benefits of navigation, flood control, power production and transmission, water quality and recreation.





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### Financial Highlights—Power Program

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

	2002	2001	Percent Change
<b>Summary statements of income</b>			
Operating revenues	\$ 6,835	\$ 6,999	(2)
Operating expenses	(5,186)	(5,506)	(6)
Operating income	1,649	1,493	10
Other income, net	7	248	NM
Interest expense, net	(1,429)	(1,633)	(12)
Income before loss on impairment of assets/plant cancellation	227	108	110
Loss on impairment of assets/plant cancellation	(154)	(3,419)	NM
<b>Net income (loss)</b>	<b>\$ 73</b>	<b>\$ (3,311)</b>	<b>NM</b>
<b>Total assets</b>	<b>\$30,158</b>	<b>\$29,699</b>	<b>2</b>
Discount notes	\$ 3,492	\$ 3,016	16
Long-term debt, including current maturities	21,763	22,359	(3)
<b>Total indebtedness</b>	<b>\$25,255</b>	<b>\$25,375</b>	<b>-</b>
<b>Cash flows from operations</b>	<b>\$ 1,347</b>	<b>\$ 1,914</b>	<b>(30)</b>
<b>Construction expenditures</b>	<b>\$ 1,231</b>	<b>\$ 1,015</b>	<b>21</b>

# corporate profile

The Tennessee Valley Authority (TVA) is the nation's largest public power producer. Wholly owned by the U.S. government, TVA was established by Congress in 1933 primarily to provide navigation, flood control and agricultural and industrial development and to promote the use of electric power in the Tennessee Valley region. Through 158 public power utilities, TVA supplies electricity to 8.3 million people in the TVA service area. Along with affordable, reliable power, TVA delivers value to the regional economy by supporting a thriving river system and promoting economic growth.

- Generation**
- Nation's largest public power system
  - 31,517 megawatts of capacity (net winter dependable)
  - 11 fossil plants (59 units)
  - 3 nuclear plants (5 units)
  - 29 hydro plants (109 units)
  - 6 combustion turbine plants (72 units)
  - 14 solar energy sites
  - 3 wind turbines
  - 2 methane gas facilities
  - 1 pumped storage plant (4 units)
  - Customers
    - 158 power distributors
    - 62 directly served customers
    - 11 exchange power arrangements

- Transmission**
- Reliable even under severe conditions
  - 99.999 percent reliability
  - Well located for power transfers
  - 17,000 miles of transmission lines
  - 120,000 transmission-line structures
  - 984 individual interchange and connection points
  - 240,000 right-of-way acres
  - 80,000-square-mile service area

- Stewardship**
- Nation's fifth-largest river system
  - 800 miles of commercially navigable waterways
  - 49 dams for integrated river management
  - 50 million short-tons of goods shipped annually
  - \$104 million in potential flood damage avoided in 2002
  - 11,000 miles of public shoreline

- Economic Development**
- \$328 million in tax-equivalent payments to Valley states and counties
  - \$1.3 billion total TVA employee compensation
  - \$22 million of economic development loan commitments to Valley businesses
  - \$2 billion spent in Valley states for products, fuel and services





TVA sponsorship supported a team of Tuskegee University engineering students—including Shirshir Kumar-David, Trey Raines and Keisha Richardson—as they built a solar-powered home in the Department of Energy's 2002 Solar Decathlon competition.

## Power System Statistics

At September 30 or for the years ended September 30, as appropriate

	2002	2001	Percent Change
<b>System input (millions of kilowatt-hours)</b>			
System generation			
Hydro, including pumped storage	10,205	9,508	7
Fossil	94,930	100,118	(5)
Nuclear	45,179	45,615	(1)
Combustion turbine	1,190	1,073	11
Green power	18	5	260
Total net generation	151,522	156,319	(3)
Purchased	13,599	9,866	38
<b>Total system input</b>	<b>165,121</b>	<b>166,185</b>	<b>(1)</b>
<b>System output (millions of kilowatt-hours)</b>			
Sales			
Municipalities and cooperatives	128,600	129,760	(1)
Industries directly served	26,478	23,306	14
Federal agencies and other	5,013	8,355	(40)
Total sales	160,091	161,421	(1)
Other	1,022	793	29
Losses	4,008	3,971	1
<b>Total system output</b>	<b>165,121</b>	<b>166,185</b>	<b>(1)</b>
<b>Net winter dependable capacity (megawatts)</b>	<b>31,517</b>	30,365	4
<b>System peak load (megawatts)—summer</b>	<b>29,052</b>	27,368	6
<b>System peak load (megawatts)—winter</b>	<b>26,061</b>	27,163	(4)
<b>Annual load factor (percent)</b>	<b>63.5</b>	67.0	(5)
<b>Number of employees as of September 30</b>	<b>13,444</b>	13,430	—
<b>Percent winter dependable capacity by fuel source</b>			
Fossil	<b>49%</b>	49%	—
Nuclear	<b>18%</b>	19%	(5)
Hydro	<b>18%</b>	19%	(5)
Combustion turbine	<b>15%</b>	13%	15

## chairman's letter



Director Skila Harris



Chairman Glenn L. McCullough, Jr.

**The past year is best described as a year of challenge. Our region experienced a milder than normal winter, and the nation experienced the effects of a sluggish economy. Despite those conditions, the people of TVA focused on our core business, demonstrated excellence in achieving our performance goals and met customers' needs without a rate increase.**

We brought on line 680 megawatts of new peaking capacity; set nine continuous-run records at our coal-fired plants; set a world record for safe, reliable generation at Browns Ferry Nuclear Plant; and invested in state-of-the-art equipment to further reduce emissions from our coal-fired plants. We achieved the best reliability record ever for TVA's transmission system, and we had an outstanding year for employee safety. Financially, we managed budget constraints, completed a lease/leaseback of 680 megawatts of peaking capacity and reduced TVA's outstanding balance of bonds and notes by \$120 million.

More than ever, throughout our operations, we are intent on setting and reaching goals that enable TVA to achieve excellence in business performance and public service. I am pleased to share with you this report on our performance in 2002 and a look ahead at how we are committed to paving the way for accelerated progress in the future.

### **COMMITTED TO ENERGY**

In producing electricity for the 8.3 million people of the Tennessee Valley, the TVA power system met a peak demand of 29,052 megawatts and earned revenues of \$6.8 billion. The efficiency of our generating and transmission



**Director Bill Baxter**

system resulted in operating costs among the lowest in the industry. All TVA nuclear plants have earned the top performance ratings from the Institute of Nuclear Power Operations, and several of our fossil plants are nationally recognized for productivity and low costs. Average residential, commercial and industrial prices in the TVA region are 22, 14 and 16 percent below the national average, respectively, and we are beginning our fifth year with no rate increase.

#### **COMMITTED TO THE ENVIRONMENT**

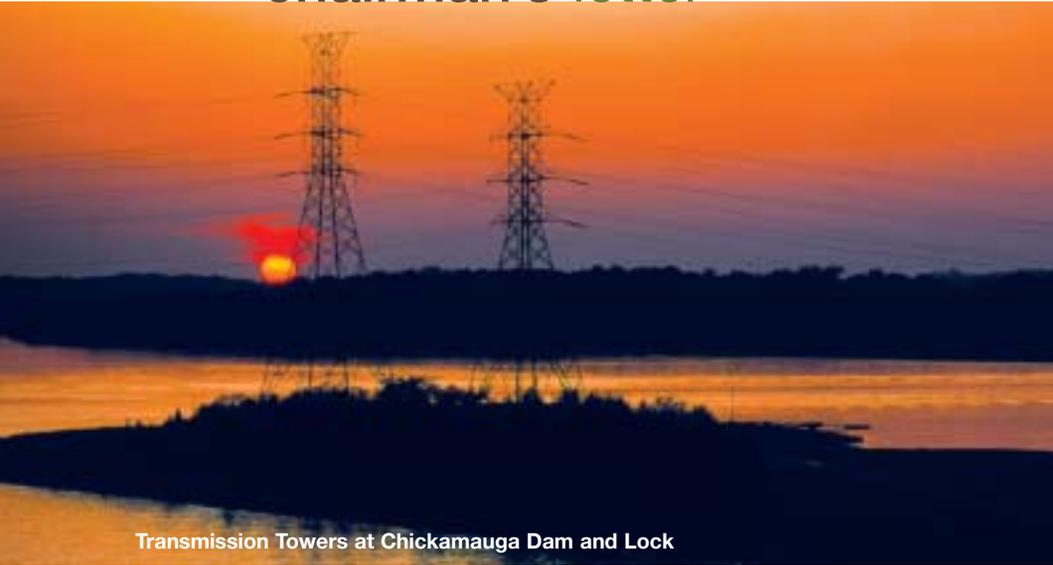
TVA serves as a steward of the Tennessee Valley's environment and manages the Tennessee River system to provide multiple benefits, including navigation, power supply, water supply and recreation.

At our coal-fired plants, we are achieving cleaner air for clearer skies by using the latest technologies to reduce emissions. Because these plants produced 63 percent of our total net generation last year, investments in air-quality equipment are investments in power system flexibility, as well as environmental quality.

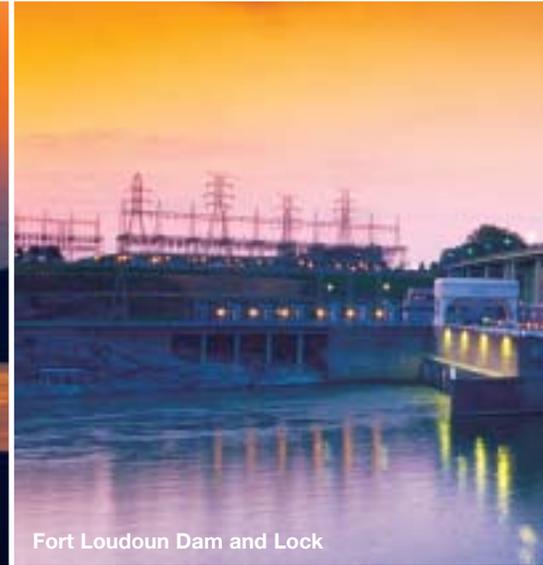
Renewable energy is an important new frontier for power suppliers, and TVA's work is leading the way for others. We are partnering with customers to offer renewable power to consumers, and our Green Power Switch<sup>®</sup> program uses solar, wind and methane gas as energy sources. The U.S. Department of Energy's National Renewable Energy Laboratory has ranked Green Power Switch on its top-10 list for energy production and customer participation.

We are also partnering with customers to make energy-efficient homes and

# chairman's letter



Transmission Towers at Chickamauga Dam and Lock



Fort Loudoun Dam and Lock

appliances more available to the people of the Valley. We have made our own facilities more energy efficient, and we have earned national recognition from the U.S. Department of Energy for our leadership in using energy more wisely.

## COMMITTED TO ECONOMIC DEVELOPMENT

TVA provides leadership for economic development in the region, which means more and better career opportunities for the people of the Valley. TVA electricity fuels the Valley economy, attracting industries that create high-quality jobs. The result is not only a stronger economy for the region; it is also an opportunity for individuals to build better lives for themselves and their families.

In partnership with our customers and industrial development groups across the region, TVA helped companies create or retain more than 48,000 jobs over the past year. TVA's economic development loan programs provided \$22 million in loans, leveraging \$180 million in investments from other sources. Other TVA economic development efforts help businesses pinpoint the best locations for their facilities and provide analysis, data and technical services to help them thrive. New efforts to promote the growth and expansion of minority-owned, women-owned and economically disadvantaged businesses mean they now have more opportunities for long-term success.

## COMMITTED TO THE FUTURE

As we prepare for electric utility industry restructuring, we are focusing on effective financial management. A comprehensive look at TVA's financial picture shows that TVA has invested wisely and effectively in new generating capacity, transmission system improvements and clean-air equipment—all essential elements of TVA's core business and long-term success. Looking forward, TVA will continue to manage its finances effectively while supporting the investments necessary for an affordable, reliable power supply for our customers.

In the nation's current financial climate, TVA is more committed than ever to



conducting business in an open, forthright manner. We strive to instill in our investors, owners and customers the highest level of confidence in TVA to ensure that we deserve your continued support.

As a federal corporation, we are committed to ensuring financial integrity and to protecting our stakeholders by fully disclosing all meaningful financial and business information to the public in a timely, comprehensive and accurate manner. TVA continues to be subject to rigorous oversight by the legislative and executive branches of the U.S. government. Even so, my Board colleagues and I decided it is important to do more—by establishing the TVA Corporate Accountability and Disclosure Plan. Adherence to this plan will demonstrate TVA's commitment to full disclosure and the highest level of corporate ethics.

### COMMITTED TO EXCELLENCE

In a restructured industry, public power entities like TVA and the distributors of TVA power will be more important than ever. Public utilities will set the benchmark for serving the public interest. As a federal corporation that our customers, our investors and the 8.3 million people of the Tennessee Valley can count on, TVA is committed to meeting the Valley's ever-growing needs for electricity, improving the quality of life in our region and fostering sustainable economic growth. *Energy*, the *Environment* and *Economic Development* are the elements of TVA's unique mission. Directors Skila Harris, Bill Baxter and I are proud to share with you this report on TVA's performance in those areas.

Glenn L. McCullough, Jr.

### TVA's Strategic Objectives

- Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship
- Meet customers' needs with affordable, reliable electric power
- Demonstrate leadership in sustainable economic development in the Valley
- Continue the trend of debt reduction
- Reduce TVA's delivered cost of power relative to the market
- Strengthen working relationships with all of TVA's stakeholders

## affordable energy



*Production Manager Pam Wilcoxon and Mechanical Engineer Danny Sample at Raccoon Mountain pumped-storage facility*

**TVA's power system is setting production records and operating efficiently and cost-effectively, and its performance and reliability for customers continue to improve. In 2002 TVA sold 160 billion kilowatt-hours of electricity for total revenues of \$6.8 billion. On August 5th, TVA met a peak power demand of 29,052 MW, the second highest of all time.**

TVA's transmission system maintained 99.999 percent reliability for the year in delivering power to customers. This was possible in part because of ongoing improvements to the transmission system, including 109 miles of new lines and 32 new individual interchange and connection points.



**"Cullman Electric Cooperative has a longstanding, true partnership with TVA. Looking forward to changes in our industry, folks will be hard pressed to find a better partner than the one we've had for more than 60 years."**

—GRADY SMITH, *president and CEO,*  
*Cullman Electric Cooperative, Cullman, Alabama*

### **PLANNING FOR GROWING POWER DEMAND**

TVA constantly assesses the changing demand for power in the region and the full range of options available to supply that demand.

**“Since second grade, Weekend Academy has taught me about character, responsibility, leadership, goal-setting and citizenship through activities and fun trips about different cultures, photography, music, money management, art, animals, plants, math, electricity and public speaking. Thank you, TVA, for the opportunity.”**

*—Weekend Academy student ALEXA CARTER, 11, of Knoxville*



**Inset: Chairman McCullough and Weekend Academy participants Alexa Carter, Milton Hill and Evan Lorhey in Knoxville**

Weather-adjusted power demand in the Valley is growing about 2 percent per year, requiring TVA to add an average of around 500 megawatts of capacity each year. To keep pace with rising demand, TVA has added over 5,000 megawatts of generating capacity in the past decade, much of it by getting more out of its existing plants through efficiency improvements and plant upgrades.

This past year, TVA added almost 700 megawatts of new combustion turbine capacity at its Lagoon Creek site in Tennessee and a new site in Kemper County, Mississippi. Also this year, looking toward the Valley's long-term power needs, the TVA Board voted to restart Browns Ferry Nuclear Plant Unit 1. Unit 1 is expected to add over 1,200 megawatts of clean, economical base-load generating capacity to TVA's power system in 2007. This new source of power will support TVA's mission of generating prosperity in the Tennessee Valley by decreasing TVA's delivered cost of power.

## affordable energy



*Earl Shockley, Allen Lewis and Bruce Cox at TVA's System Operations Center in Chattanooga*

### FINANCIALLY SOUND

This year TVA reduced the outstanding balance of its bonds and notes by \$120 million. With a six-year total reduction of nearly \$2.5 billion, TVA has reduced the balance from \$27.7 billion at the beginning of 1997 to just over \$25 billion today.

By using cost-effective leasing and by taking advantage of historically low interest rates, TVA has accomplished this reduction while still making investments in clean-air equipment, new generating capacity and transmission-system improvements that are essential to meeting the Valley's power needs.

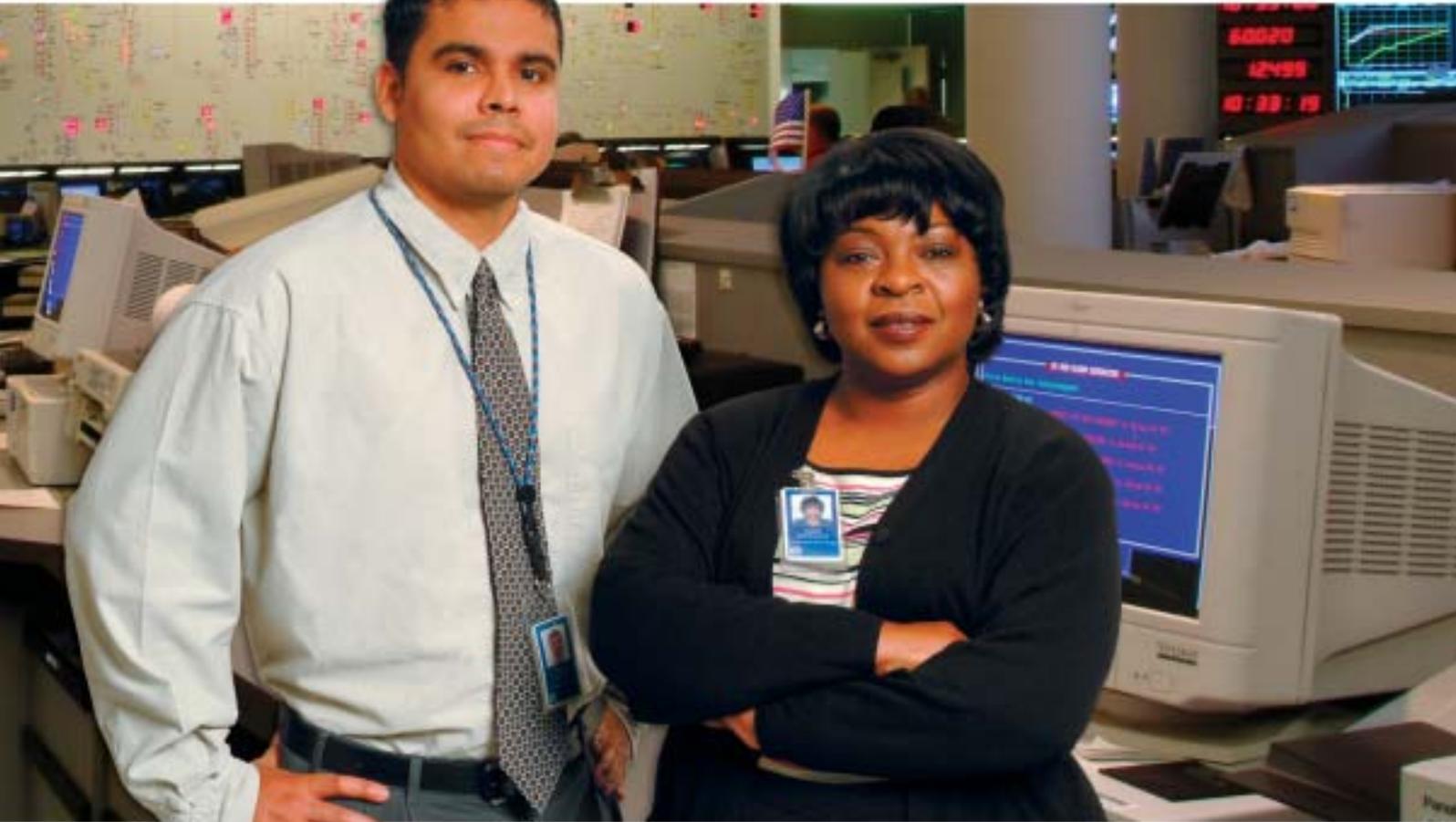


**“TVA bonds offer investors both safety and an attractive yield, a rare combination today, and they are easy to buy, track and sell.”**

—CLIFF PLETSCHET, *financial columnist for the Oakland (California) Tribune*

**“We’re proud of the 99.999 percent reliability of our transmission system. By continuing to improve our reliability, we make it easier for our customers to do business, and that helps everyone in the Valley.”**

—JULIO BOLANO, TVA transmission system operator



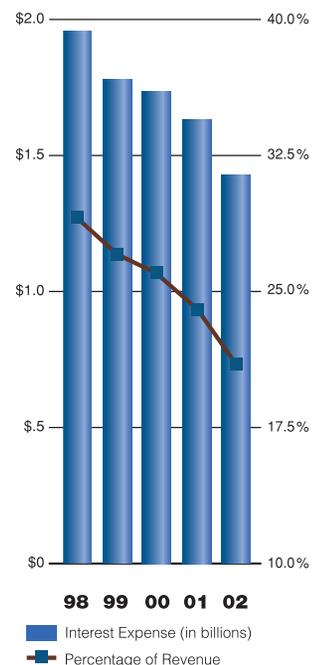
**TVA Transmission System Operators  
Julio Bolano and Yasmin Chargualaf**

Since 1997, TVA has reduced annual net interest expense by more than \$500 million and lowered net interest expense as a percentage of revenue from 34 percent to 21 percent.

In 2002, TVA’s delivered cost of power was 4.07 cents per kilowatt-hour. This number reflects savings resulting from operational improvements achieved by TVA employees and TVA’s continuing program of reducing interest expense by refinancing long-term debt at lower rates.

Residential electricity rates in the Tennessee Valley are 20 percent below the national and regional averages, and TVA customers have had only one general rate increase in 15 years. As TVA prepares for restructuring of the electric utility industry, it is complementing operational improvements with a focus on customer service. More flexible customer contracts—designed to be more responsive to customer needs—also will help TVA as it plans for future power supply.

**Interest Expense as a Percentage of Revenue**



## environmental stewardship



Goose Pond Marina owner Tony Sampson and TVA Director Skila Harris

**As a public power provider, TVA is committed to improving its environmental performance while balancing its mission of supplying low-cost, reliable power with responsible stewardship of the Valley's resources. TVA seeks public input when making decisions related to the environment to ensure that its actions are responsive to the varied needs of Valley residents today and tomorrow.**

As part of its long-term effort to meet regulatory requirements to improve air quality in the Tennessee Valley region, TVA has already installed six scrubbers and plans to build five additional scrubbers to reduce sulfur dioxide (SO<sub>2</sub>) emissions from its fossil power system. The additional scrubbers will cost about \$1.3 billion and collectively are expected to reduce emissions by more than 200,000 tons per year. TVA's SO<sub>2</sub> emissions are projected to be reduced by 85 percent from 1977 levels when the scrubbers are completed.

In addition, four of 18 planned selective catalytic reduction systems (SCRs) are now operable. By 2005, when all of the SCRs are operating, TVA's nitrogen oxides (NO<sub>x</sub>) emissions during the summer ozone season are projected to be reduced by 75 percent from 1995 levels.

**“The Tennessee Valley Clean Marina Initiative is a great project. We hope all marinas comply with its standards so we can all pass a cleaner river on to the next generation.”**

—TONY SAMPSON, *Goose Pond Marina owner*



*Goose Pond Marina, Scottsboro, Alabama*

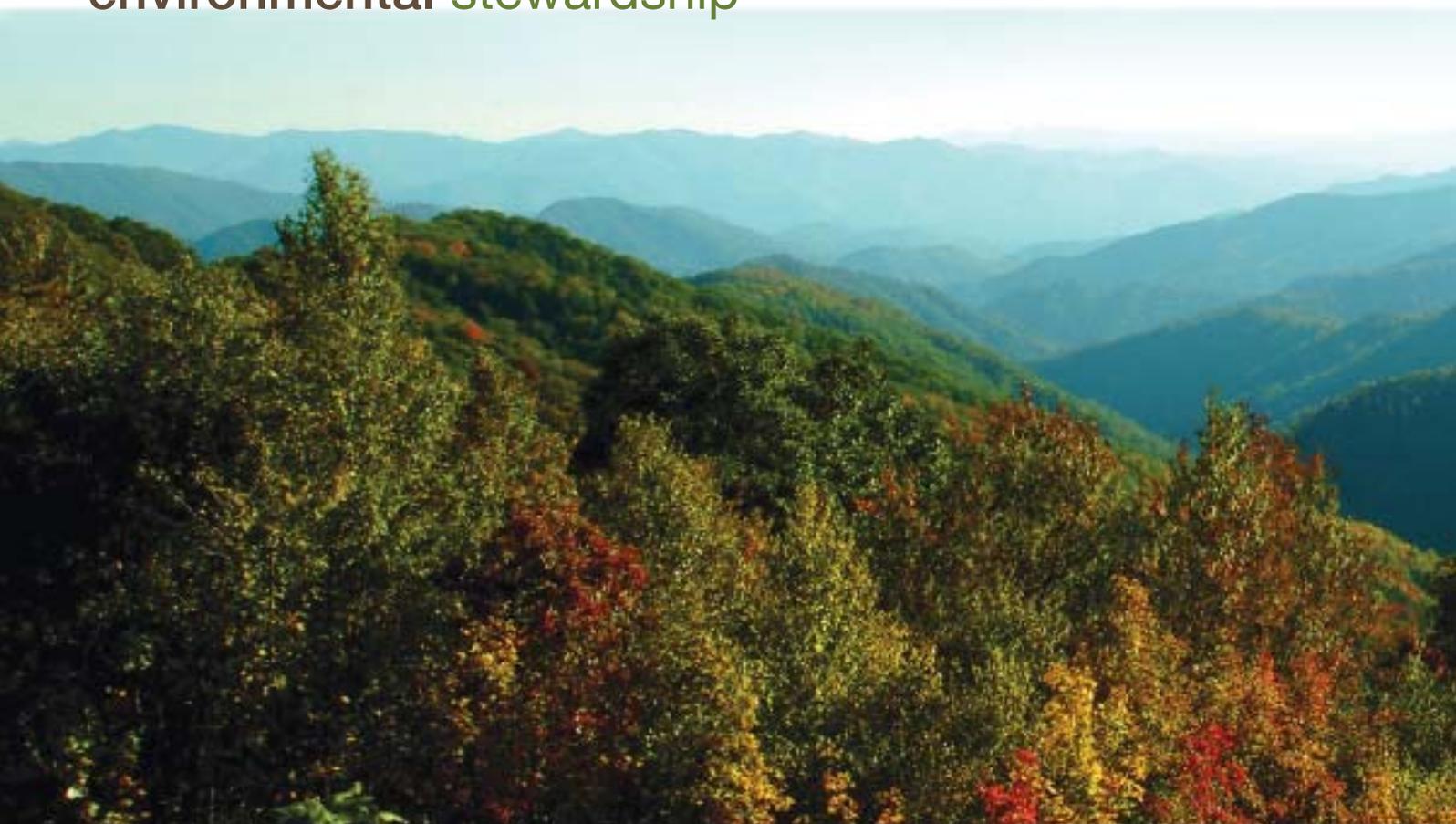
In the Southeast, TVA is also at the forefront of commercial development of renewable energy sources. TVA's Green Power Switch® program was the first such renewable energy program in the region that combined power available from wind, solar and methane gas technologies. Conducted in partnership with the distributors of TVA power and environmental groups, this program already has earned two top-10 national rankings for energy production and customer participation.



**“The river system is a vital and complex part of TVA. I appreciate TVA's efforts to manage the reservoirs for the greatest benefit of the people and the environment, as well as for the production of low-cost, reliable electric power.”**

—Mayor THOMAS GRIFFITH, *Amory, Mississippi*

## environmental stewardship



*The Great Smoky Mountains National Park*



**“I really appreciate the positive and collaborative relationship between the Great Smoky Mountains National Park and TVA. Projects such as the alternative-fuel vehicle experiment in Cades Cove and research activities such as our joint air-quality monitoring program provide positive benefits to both the Park and the citizens of our area.”**

—MIKE TOLLEFSON, *Park superintendent*

### **RESERVOIR OPERATIONS STUDY**

“How should TVA best balance the interests of navigation, flood control, power production, water quality and supply, land use and recreation?”

This was the question discussed in open meetings held across the Tennessee Valley as part of the comprehensive two-year Reservoir Operations Study. TVA manages the Tennessee River system—the nation’s fifth largest—for the multiple benefits listed above. The findings of the Reservoir Operations Study will be used to help TVA determine whether changes in the operation of the river system can produce greater overall value for the people of the Valley.

**“TVA’s accumulated data and expertise in integrated resource management and economic development are key resources for citizens of our region.”**

—ROBB TURNER, *executive director of the Southern Appalachian Man and the Biosphere (SAMAB) program*



**TVA Forest Ecologist Niki Nicholas and SAMAB Executive Director Robb Turner**

## **TRANSPORTATION AND FLOOD CONTROL**

The Tennessee River system is a major transportation artery, linking the Tennessee Valley’s industries to world markets. In 2002, TVA’s navigation channels and locks carried an estimated 50 million short-tons of cargo, with ports in 18 states depending on the river system for shipping. Valley industries save about \$480 million each year on the cost of goods shipped by barge, compared with shipping by other, more expensive means of transportation.

TVA’s flood control operations averted an estimated \$90 million in damages in the Tennessee Valley in 2002. In coordination with the U.S. Army Corps of Engineers, TVA was called upon to restrict water flow into the Ohio River on three separate occasions of flooding in the Ohio and Mississippi river valleys this year. These efforts helped avert almost \$14 million in damage, according to data provided by the Corps. Over the years, operation of the Tennessee River reservoir system and its dams has helped prevent more than \$5 billion in flood damages in the Tennessee Valley and on the Ohio and Mississippi rivers.

## economic development



**TVA Director Bill Baxter and DENSO President Neal Ozeki**

**Across the Tennessee Valley, TVA works in partnership with its customers, state and local leaders and regional industrial development associations to foster sustainable economic growth in the region. TVA economic development provides a diverse package of loans and technical services to stimulate capital investment and promote the creation and retention of high-quality jobs.**

### **CREATING AND RETAINING JOBS**

In 2002, TVA and its partners helped companies create or retain more than 48,000 jobs.

TVA's economic development loan programs provided \$22 million in loans, leveraging more than \$180 million in funding from other sources. These funds are used to stimulate investment and create jobs. Loans from TVA are coordinated through a distributor of TVA power or a local government or economic development agency to assist new or expanding businesses and industries. Additional information on potential industrial sites and existing buildings in the Valley region is provided through the electronic Site Selector system. TVA's research capabilities provide economic, demographic and market data to local governments, business leaders and chambers of commerce.

**“The state of Tennessee offers a tremendous workforce,  
good energy resources and untiring support from its leaders.  
East Tennessee is very good for business.”**

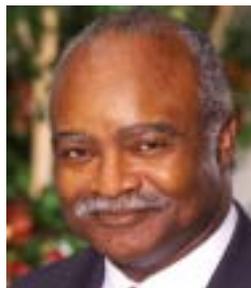
—NEAL OZEKI, *president of DENSO Manufacturing Tennessee Inc.*



*DENSO plant in Maryville, Tennessee*

In the past year, five new companies—New Mather Metals, Novitec Tube Cutting Division, Quality Rework and Sorting, Toyo Automotive Products and Vermont Thread Gage—located their operations in the city of Franklin, Kentucky, bringing a total of 390 jobs to that community. This was the result of a successful partnership among TVA, its distributor customers in the area and local and state economic development organizations.

The decision by Lane Manufacturing to locate a furniture-making facility and 1,000 jobs over five years in Aberdeen, Mississippi, was the culmination of the efforts by the Appalachian Regional Commission, Mississippi Development Authority, TVA, the Aberdeen Electric Department and community leaders.



**“MLGW and TVA share a common vision—to be a catalyst for economic prosperity. Together our efforts to support the growth of minority businesses are unparalleled and promote true economic development in our communities. We appreciate TVA’s commitment.”**

—Herman Morris Jr., *president and CEO, Memphis Light, Gas and Water Division*

## economic development



**Dennis Griffin of the Franklin-Simpson County Industrial Authority and TVA Senior Economic Development Specialist Rick Starks helped locate five companies and create 390 jobs.**

### **IMPROVING THE REGION'S ECONOMY**

Other Economic Development successes in the Valley in 2002 include the location of the TKA Fabco auto parts plant in Verona, Mississippi; the transfer of the former TVA Hartsville Nuclear Plant site for development as an industrial park; and the restart of the National Railway Equipment Company locomotive repair facility in Paducah, Kentucky.

Responding to a difficult economic climate, TVA focused on helping communities recover from the economic slowdown and ready themselves for the kind of economic development that works for their communities. With TVA's help, communities can improve their long-term economic competitiveness by developing leadership skills, preparing strategic action plans and building community readiness for promoting economic development.

Working with private sector partners and state and local agencies through its Small and Minority Business Development Program, TVA also helps small and disadvantaged businesses improve customer service and create jobs.

**“Working in economic development is exciting when you see new industrial projects completed and the job opportunities that they create for people in your own community.”**

—DENNIS GRIFFIN, *Franklin-Simpson County Industrial Authority*



*Downtown Franklin, Kentucky*

The Memphis Business Academy has begun a two-year pilot program of increased education and training for businesses and their employees in the Memphis area. Sponsored by TVA, Memphis Light, Gas and Water and Memphis business leaders, this effort will serve as a model for other communities that want to increase the efficiency of minority- and women-owned businesses.

Nine regional banks participate in the Valley Coalition for Minority Economic Development, which provides loans to small, disadvantaged businesses. More than \$6 million was leveraged through this partnership of TVA and the banks, helping regional companies create 155 jobs.



**“Power, expertise and desire to serve are what TVA brings to the economic development arena. We wouldn’t be able to compete without TVA at the table.”**

—MIKE PHILPOT, *executive director of the West Tennessee Industrial Association*



Transmission Lines

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# summary analysis of results of operations and financial condition

The condensed financial information on the following pages is presented to the stakeholders of the Tennessee Valley Authority as a review of TVA's operations for the fiscal year ended September 30, 2002. It is not considered a substitute for the full financial statements, inclusive of footnotes, which appear on pages 46 through 70 of the 2002 Information Statement. The 2002 Information Statement is an integral part of this annual report, and investors should read the 2002 Information Statement in its entirety before making an investment decision.

## General

TVA is a wholly owned corporate agency and instrumentality of the United States, established by Congress in 1933 primarily to provide navigation, flood control, and agricultural and industrial development, and to promote the use of electric power in the Tennessee Valley region. Its electric power system is one of the largest in the United States and is required to be self-supporting from power system revenues and from system financing. TVA is primarily a wholesaler of power with three primary customer groups including distributors, industries and federal agencies. In addition, TVA sells and buys power through exchange power agreements with most of the surrounding electric systems. No tax dollars fund TVA's power system and river-management functions.

The Tennessee Valley Authority serves the people of the Tennessee Valley by producing reliable, affordable electric

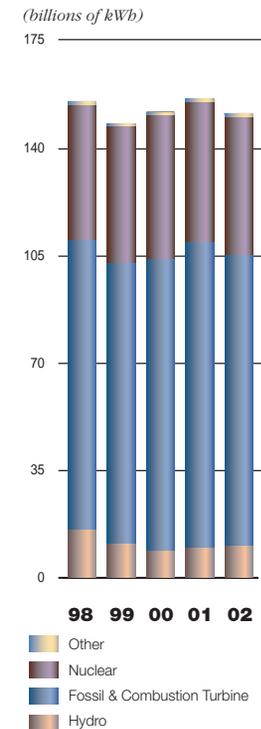
power, supporting sustainable economic development and maintaining stewardship of the region's natural resources. A corporation of the federal government, TVA operates like a business, using the best practices of private enterprise to achieve excellence in business operations and public service.

## Business Strategy

TVA's strategic objectives for competing in the energy market of the future encompass excellence in operating performance, leadership in economic development and sensitivity to our stakeholders' needs. Critical success factors have been developed and targets established to reach our goals. TVA strives to:

- Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship

## Generation Mix



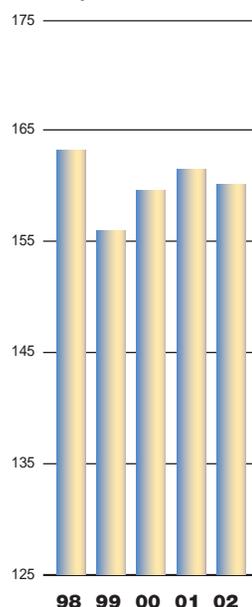
## Key Objectives and Indicators

MEASURE	STRATEGIC OBJECTIVE	INDICATOR	Performance Results	
			2002	2001
<b>Customer</b>	Meet customers' needs with affordable, reliable electric power	Customer-connection-point interruptions (interruptions per connection point)	1.03	1.17
	Demonstrate leadership in sustainable economic development in the Valley	Jobs added or retained (number)	48,248	47,808
<b>Operations</b>	Improve life in the Tennessee Valley through integrated management of the river system and environmental stewardship	Watershed water quality (number of watersheds rated good to fair out of a maximum 611)	512	496
<b>Financial</b>	Reduce TVA's delivered cost of power relative to the market	Delivered cost of power (cents/kWh)	4.07	4.05
<b>People</b>	Strengthen working relationships with all of TVA's stakeholders	All injury rate (per 100 employees)	1.97	2.32

## summary analysis of results of operations and financial condition

### Sales of Electricity

(billions of kWh)



- Meet customers' needs with affordable, reliable electric power
- Demonstrate leadership in sustainable economic development in the Valley
- Continue the trend of debt reduction
- Reduce TVA's delivered cost of power relative to the market
- Strengthen working relationships with all of TVA's stakeholders.

### Results of Operations

Net income for 2002 was \$73 million, compared with a net loss of \$3,311 million for 2001. The net loss in 2001 resulted primarily from a loss on impairment of long-lived assets of \$3,419 million. (See "Loss on Impairment of Assets/Plant Cancellation" at right.)

### Operating Revenues

Operating revenues were \$6,835 million in 2002, compared with \$6,999 million in 2001. The \$164 million decrease was primarily due to a \$170 million decline in interchange revenue as a result of lower market prices. In addition, there was a weather-related \$52 million decrease in energy sales to municipalities and cooperatives as a result of a

## Condensed Statements of Income—Power Program

For the years ended September 30 (in millions)

	2002	2001
<b>Operating revenues</b>		
Sales of electricity	\$ 6,747	\$ 6,897
Other	88	102
Total operating revenues	<b>6,835</b>	6,999
<b>Operating expenses</b>		
Fuel and purchased power	1,925	1,989
Operating and maintenance	1,840	1,660
Depreciation and amortization	1,093	1,542
Tax equivalents	328	315
Total operating expenses	<b>5,186</b>	5,506
<b>Operating income</b>	<b>1,649</b>	1,493
Other income, net	7	248
Interest expense, net	<b>(1,429)</b>	(1,633)
<b>Income before loss on impairment of assets/plant cancellation</b>	<b>227</b>	108
Loss on impairment of assets/plant cancellation	(154)	(3,419)
<b>Net income (loss)</b>	<b>\$ 73</b>	\$ (3,311)

milder winter when compared with 2001. Sales to directly served industries increased by \$73 million due to changes in product and service mix to certain customers.

### Operating Expenses

Operating expenses decreased \$320 million, or 6 percent, from \$5,506 million in 2001 to \$5,186 million in 2002. This decrease reflects a \$64 million decrease in fuel and purchased power expense resulting from a 3 percent decrease in generation. Additionally, depreciation and amortization expense was \$449 million lower as a result of accelerated amortization of regulatory assets during 2001 to offset an increase in Other Income. The decrease was offset by a \$180 million increase in operating and maintenance expense due to increased outage and other costs in 2002 and increased tax-equivalent payments of \$13 million in 2002.

### Other Income

TVA had net other income of \$7 million in 2002, compared with net other income of \$248 million in 2001. The 2001 net other income resulted primarily from a nonrecurring contract settlement in excess of \$200 million.

### Interest Expense

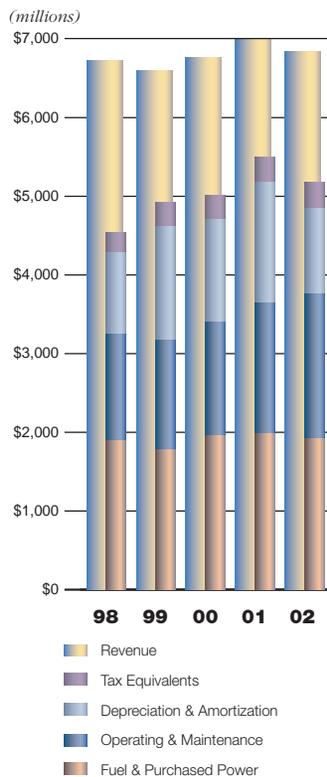
Net interest expense declined \$204 million from \$1,633 million in 2001 to \$1,429 million in 2002. Total outstanding indebtedness as of September 30, 2002, was \$25.3 billion, with an average interest rate of 5.89 percent; as of September 30, 2001, the amount outstanding was \$25.4 billion, with an average interest rate of 6.57 percent.

### Loss on Impairment of Assets/Plant Cancellation

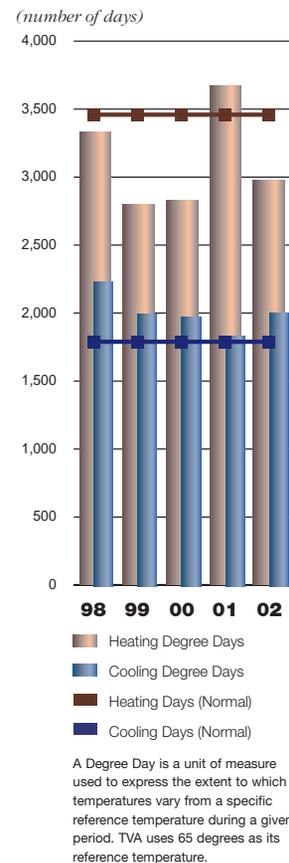
Due to changes in the three- to five-year forecast of energy supply and market opportunities, TVA elected not to complete a gas-fired combined-cycle plant that would have provided 510 megawatts of power in 2004. Accumulated costs associated with the project total approximately \$154 million, which TVA recognized as a loss in 2002.

During 2001 TVA identified certain assets for which estimated future cash flows provided through future rates were likely to be less than recorded book values. Accordingly, TVA reduced the carrying amount of these assets by a total of \$3,419 million, of which \$2,220 million was attributable to deferred nuclear generating units, \$789 million was attributable to deferred debt refinancing costs and \$410 million was attributable to plant held for future use. The ultimate disposition or use of these assets is unaffected by the asset value reductions.

### Operating Revenues & Operating Expenses



### Weather Degree Days



## Liquidity and Capital Resources

### Capital Structure

In 1959 TVA received congressional approval to issue bonds in order to finance its growing power program. Since that time, TVA's power program has been required to be self-supporting. As a result, TVA funds its capital requirements through internal cash generation, debt issuance (subject to a congressionally mandated \$30 billion limit) and other financing arrangements, including lease/leaseback agreements.

For primarily the first 25 years of TVA's existence, the U.S. Congress appropriated investments in TVA power facilities. TVA is required to pay the U.S. government a return on the appropriation investment in TVA power facilities, plus a repayment of the investment, as specified by law. The combined payment for 2002 was \$50 million. Total cumulative repayments and return on investment paid by TVA to the U.S. Treasury exceed \$3.4 billion on the government's original appropriation investment of \$1.4 billion.

## summary analysis of results of operations and financial condition

### Condensed Balance Sheets—Power Program

At September 30 (in millions)

	2002	2001
<b>Assets</b>		
Cash and cash equivalents	\$ 397	\$ 339
Other current assets	1,133	1,162
Property, plant and equipment, net	25,679	25,643
Regulatory assets	1,452	439
Other assets	1,497	2,116
<b>Total assets</b>	<b>\$30,158</b>	<b>\$29,699</b>
<b>Liabilities and proprietary capital</b>		
Current liabilities	\$ 4,809	\$ 6,334
Long-term debt, net of discount	21,358	19,851
Other liabilities	3,304	2,806
Retained earnings	349	306
Accumulated other comprehensive loss	(150)	(106)
Other proprietary capital	488	508
<b>Total liabilities and proprietary capital</b>	<b>\$30,158</b>	<b>\$29,699</b>

### Condensed Statements of Cash Flows—Power Program

For the years ended September 30 (in millions)

	2002	2001
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 73	\$ (3,311)
Items not requiring cash	1,369	5,178
Changes in current assets and liabilities	21	83
Other, net	(116)	(36)
Net cash provided by operating activities	<b>1,347</b>	1,914
<b>Cash flows from investing activities</b>		
Construction expenditures	(1,231)	(1,015)
Nuclear fuel	(146)	(94)
Other, net	31	(82)
Net cash used in investing activities	<b>(1,346)</b>	(1,191)
<b>Cash flows from financing activities</b>		
Long-term debt, net	(600)	(2,361)
Short-term debt, net	476	1,742
Proceeds from combustion turbine leasing, net	289	(29)
Other, net	(108)	(84)
Net cash provided by/(used in) financing activities	<b>57</b>	(732)
Net change in cash and cash equivalents	58	(9)
Cash and cash equivalents at beginning of period	339	348
<b>Cash and cash equivalents at end of period</b>	<b>\$ 397</b>	<b>\$ 339</b>

Net cash provided by power program operating activities decreased \$567 million from 2001 to 2002. The decrease includes a decline in interchange revenue due to lower market prices influenced by new independent power producer generating plants. In addition to lower sales, operating and maintenance expenses increased due to planned (budgeted) maintenance and unplanned outages. Funds were also used to pay current liabilities, which declined 24 percent during 2002.

Cash used in investing activities increased \$155 million due to additional expenditures for capital projects of \$216 million and fabrication of nuclear fuel of \$52 million, partially offset by cash received from other investing activities of \$113 million primarily due to a decrease in long-term investments during 2002.

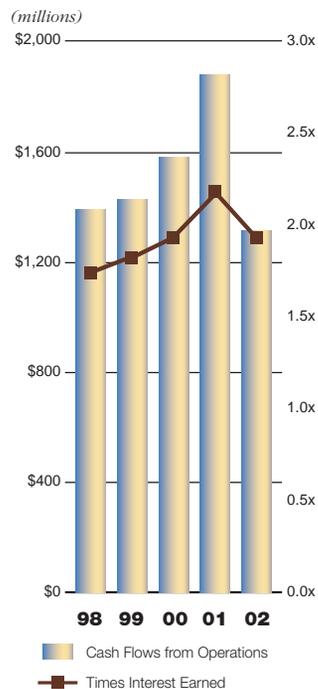
Net cash provided by financing activities increased \$789 million from 2001 to 2002 as a result of reduced debt payments of \$495 million and proceeds from a lease/lease-back of \$320 million, partially offset by an increase in financing costs of \$29 million related to bond issues.

### Capital Requirements

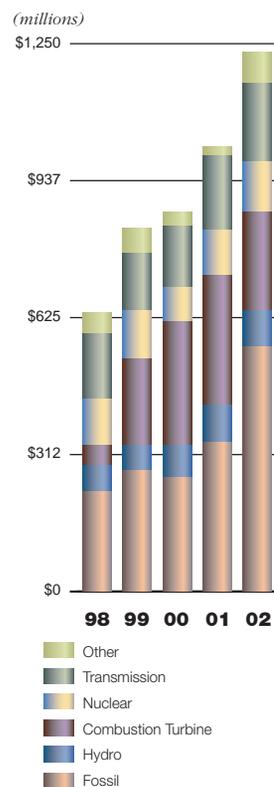
TVA has incurred and continues to incur substantial capital expenditures and operating expenses to comply with environmental requirements. Because these requirements change frequently, the total amount of these costs in the future is not now determinable. It is anticipated that environmental requirements will become more stringent and that compliance costs will increase. Although TVA cannot, with certainty, project the costs of additional emission control requirements for nitrogen oxides, sulfur dioxide and particulate matter beyond those required by the acid rain provisions of the 1990 Clean Air Act Amendments, the costs of these additional reductions could exceed \$3 billion.

On May 16, 2002, the Board of Directors initiated the return to service of Unit 1 at the Browns Ferry Nuclear Plant in northern Alabama in order to meet long-term energy needs in the Tennessee Valley. This decision advances the National Energy Policy that calls for the safe expansion of nuclear energy and it meets TVA's objective of providing affordable, reliable power to its customers. The Unit 1 recovery project is expected to add approximately 1,280 megawatts of generating capacity at an estimated cost of \$1.8 billion and to take five years to complete. When Unit 1 returns to service, additional generation is expected to help lower the average cost of power and provide additional cash flow for accelerated debt reduction.

### Cash Flows from Operations and Times Interest Earned



### Construction Expenditures



# summary analysis of results of operations and financial condition

## Capital Resources

During 2002 and 2001 TVA accessed the capital markets through cost-effective long-term financing structures and continued to expand its global investor base, as well as its domestic retail investor base. During 2002 TVA offered \$600 million of global securities and \$936 million of exchange bonds. TVA continued to offer its retail targeted, medium-term note program, *electronotes*<sup>®</sup>, ranging in size from \$6 million to more than \$60 million for a total of \$584 million for the year.

In an effort to meet the growing demand for reliable power in its service area, TVA has been involved in the construction of a series of new peaking combustion turbine units. The first set of eight units was completed in the summer of 2000, and a second set of eight units was completed in the summer of 2001. TVA installed two additional sets of four units each during the summer of 2002. For the units acquired in 2000 and 2001, TVA considered several options related to the financing of the units' construction, including the use of debt and cash from operations as well as various leasing alternatives. Of the financing options available to TVA, the leasing alternative was the most economically favorable to TVA.

TVA accounted for the respective lease proceeds of \$300 million and \$320 million for the 2000 and 2001 units, respectively, as financing obligations as required by generally accepted accounting principles. Accordingly, the aggregate outstanding financing obligations of \$559 million in 2002 and \$271 million in 2001 are included in Current Liabilities and Other Liabilities in TVA's 2002 year-end Balance Sheets.

## Other Matters

### Risk Policies

TVA is exposed to the following financial market risks:

- Changes in interest rates
- Foreign currency exchange rates
- Volatility of certain commodity and equity market prices
- Losses in the event of counterparties' nonperformance.

To manage the volatility attributable to these exposures, TVA has entered into various nontrading derivative transactions, principally an interest rate swap agreement, foreign currency swap contracts, and electricity, coal and natural gas contracts. TVA has established a Risk Management Committee, which maintains responsibility for reviewing and approving controls and procedures for TVA-wide risk management activities including the oversight of models and assumptions used to measure risk,

the review of counterparty exposure limits and the establishment of formal procedures regarding the use of financial hedging instruments.

With respect to hedging activities, TVA risk management policies allow the use of derivative financial instruments to manage financial exposures but prohibit the use of these instruments for speculative or trading purposes.

### Contingencies

The Environmental Protection Agency (EPA) has issued TVA an administrative order directing TVA to install additional pollution-control equipment on 14 of its units and to evaluate whether more controls should be installed on other units. TVA has challenged the validity of this order, and the Eleventh Circuit Court of Appeals has stayed the order pending its review. The outcomes of this litigation and the EPA proceedings are uncertain. If EPA substantially prevails, TVA could be required to incur capital costs in excess of \$3 billion.

TVA has exposure to a number of additional significant contingencies including, but not limited to, potential costs associated with spent nuclear fuel and low-level radioactive waste disposal, environmental matters and pending litigation. These, as well as other matters, are fully discussed in the Management's Discussion and Analysis and Notes to Financial Statements contained in the Information Statement. Investors should read the Information Statement in its entirety prior to making any investment decisions.

## Resource Management

TVA's responsibilities for managing public resources began with its creation in 1933. Today these resource management activities help sustain the interconnected tributaries and main stem of the Tennessee River, the nation's fifth-largest river system. Although similar resource management responsibilities are funded with taxpayer dollars elsewhere in the nation and funding for these TVA programs had historically included federal appropriations, since 1999 TVA has received no appropriations for these activities. The 652-mile-long river, the 42,000 miles of streams and tributaries and TVA's 49 dams and 14 navigation locks are a vital part of the nation's navigation system. TVA's other responsibilities in managing the river system include reducing flood risk, producing hydro power and providing cooling water for TVA's fossil and nuclear plants. Encompassing 41,000 square miles, the river and its 12 tributary watersheds touch 125 counties in portions of seven states. These

resources are managed to accomplish the multiple objectives of water supply, flood control, navigation, electric power production, recreation and environmental protection.

Because Congress has not provided any appropriations to TVA to fund such activities since 1999, TVA spent \$83 million in 2002 and \$71 million in 2001 for essential stewardship activities, primarily using power revenues and funding the remainder with a combination of user fees and other forms of nonpower revenues and fund balances unused in prior years.

TVA retains responsibility for management of the remaining nonpower assets and settlement of nonpower obligations. TVA remains committed to carrying out those stewardship activities related to its management of the Tennessee River system and TVA properties and to safeguarding and equitably distributing the public benefits that are central to management of its integrated system. TVA has direct stewardship responsibility for 650,000 reservoir surface acres available for recreation and other purposes, 11,000 miles of shoreline and 293,000 acres of public land. Reservoirs and recreation areas throughout the region provide outdoor recreation for millions of visitors each year, and TVA has set aside over 122,000 acres of the public lands it manages for natural resource protection, including the preservation of wildlife habitat.

## Accounting Policies and Practices

TVA prepares its financial statements in conformity with generally accepted accounting principles accepted in the United States of America applied on a consistent basis. In some cases, financial statements reflect amounts based on the best estimates and judgment of management, giving due consideration to materiality.

TVA accounts for the financial effects of regulation in accordance with Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain*

## Forward-Looking Statements

This annual report contains forward-looking statements relating to future events and future performance. Any statements regarding expectations, beliefs, plans, projections, predictions, estimates, objectives, intentions, or assumptions or otherwise relating to future events or performance may be forward-looking. In certain cases, forward-looking statements can be identified by the use of words such as "may," "will," "should," "expect," "anticipate," "believe," "intend," "project," "plan," "predict," "assume," "estimate," "objective," "possible," "potential," or other similar expressions. Some examples of forward-looking statements include statements regarding TVA's projections of future power and energy requirements; future costs related to environmental compliance; impacts of potential legislation on TVA and the likelihood of enactment of such legislation; strategic objectives; anticipated availability of nuclear waste storage facilities; projections of nuclear decommissioning costs; and impacts of pending litigation and administrative orders. Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements.

*Types of Regulation.* As a result, TVA records certain regulatory assets and liabilities that would not be recorded on the balance sheet under generally accepted accounting principles for nonregulated entities.

Additionally, TVA's system of internal controls is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and properly recorded to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

## Controls and Procedures

TVA's records are also subject to review by numerous government agencies including TVA's Inspector General, the General Accounting Office, the Congressional Budget Office and the Office of Management and Budget, as well as congressional committees as requested.

Additionally TVA's management, including the Chief Financial Officer, and the members of the Board of Directors have conducted an evaluation of the effectiveness of TVA's disclosure controls and procedures during November and December 2002. Based on that evaluation, members of the Board of Directors and the Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information necessary and appropriate for this Summary Analysis of Results of Operations and Financial Condition has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the members of the Board of Directors and Chief Financial Officer completed their evaluation. In 2002, TVA, along with its external auditors, identified no deficiencies in the design and operation of its internal control procedures that were reportable control weaknesses.

Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, new laws, regulations and administrative orders, especially those related to restructuring of the electric power industry and various environmental matters; increased competition among electric utilities; legal and administrative proceedings affecting TVA; the financial environment; performance of TVA's generation and transmission assets; fuel prices; demand for electricity; changes in technology; changes in the price of power; loss of any significant customers or suppliers; creditworthiness of counterparties; weather conditions and other natural phenomena; changes in accounting standards; and unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA's business or cause results to differ materially from those contained in any forward-looking statement. TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur after the statement is made.



## certifications of the members of the TVA board of directors

Glenn L. McCullough, Jr., Skila Harris and Bill Baxter individually certify that:

1. I have reviewed the Summary Analysis of Results of Operations and Financial Condition (Analysis) contained in the Annual Report of the Tennessee Valley Authority;
2. Based on my knowledge, the information in this Analysis does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Analysis;
3. Based on my knowledge, the condensed financial statements and other financial information included in this Analysis fairly present in all material respects the financial condition, results of operations and cash flows of the Tennessee Valley Authority as of, and for, the periods presented in this Analysis;
4. I and the other certifiers are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority and have:
  - a) designed such disclosure controls and procedures to ensure that the financial statements and other financial information relating to the Tennessee Valley Authority are made known to us by others particularly during the period in which this Analysis is being prepared;
  - b) evaluated the effectiveness of the Tennessee Valley Authority's disclosure controls and procedures as of a date within 90 days prior to the date of this Analysis (the "Evaluation Date"); and
  - c) presented in this Analysis conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. I and the other certifiers have disclosed, based on our most recent evaluation, to the Tennessee Valley Authority's independent auditors and the Inspector General of the Tennessee Valley Authority:
  - a) all significant deficiencies in the design or operation of internal controls that could adversely affect the Tennessee Valley Authority's ability to record, process, summarize and report financial data and have identified for the Tennessee Valley Authority's independent auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority's internal controls; and
6. I and the other certifiers have indicated in this Analysis whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 1/13/2003

Chairman

Director

Director



## certification of chief financial officer

I, David N. Smith, certify that:

- 1.** I have reviewed the Summary Analysis of Results of Operations and Financial Condition (Analysis) contained in the Annual Report of the Tennessee Valley Authority;
- 2.** Based on my knowledge, the information in this Analysis does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Analysis;
- 3.** Based on my knowledge, the condensed financial statements and other financial information included in this Analysis fairly present in all material respects the financial condition, results of operations and cash flows of the Tennessee Valley Authority as of, and for, the periods presented in this Analysis;
- 4.** I and the other certifiers are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority and have:
  - a)** designed such disclosure controls and procedures to ensure that the financial statements and other financial information relating to the Tennessee Valley Authority are made known to us by others particularly during the period in which this Analysis is being prepared;
  - b)** evaluated the effectiveness of the Tennessee Valley Authority's disclosure controls and procedures as of a date within 90 days prior to the date of this Analysis (the "Evaluation Date"); and
  - c)** presented in this Analysis our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5.** I and the other certifiers have disclosed, based on our most recent evaluation, to the Tennessee Valley Authority's independent auditors and the Inspector General of the Tennessee Valley Authority:
  - a)** all significant deficiencies in the design or operation of internal controls that could adversely affect the Tennessee Valley Authority's ability to record, process, summarize and report financial data and have identified for the Tennessee Valley Authority's independent auditors any material weaknesses in internal controls; and
  - b)** any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority's internal controls; and
- 6.** I and the other certifiers have indicated in this Analysis whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 1/13/2003

A handwritten signature in black ink that reads "David N. Smith".

Chief Financial Officer and Executive Vice President of Financial Services

## report of independent accountants

### To the Board of Directors of the Tennessee Valley Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheets (power program and all programs) of the Tennessee Valley Authority as of September 30, 2002 and 2001, and the related statements of income (power program), changes in proprietary capital (power program and nonpower programs), comprehensive income (power program), net expense and comprehensive income (nonpower programs), and cash flows (power program and all programs) for each of the three years in the period ended September 30, 2002 (not presented herein) appearing on pages 46 through 70 of the Tennessee Valley Authority 2002 Information Statement; and in our report dated December 19, 2002, we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Knoxville, Tennessee  
December 19, 2002

Management is responsible for the preparation, integrity, and objectivity of the financial statements of the Tennessee Valley Authority as well as all other information contained in the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the annual report is consistent with that in the financial statements.

The Tennessee Valley Authority maintains an adequate system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that the assets of the corporation are properly safeguarded. The system of internal controls is documented, evaluated, and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived. No material internal control weaknesses have been reported to management.

PricewaterhouseCoopers LLP was engaged to audit the financial statements of the Tennessee Valley Authority and issue reports thereon. Its audits were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Such standards require a review of internal controls and an examination of selected transactions and other procedures sufficient to provide reasonable assurance that the financial statements neither are misleading nor contain material errors. The Report of Independent Accountants does not limit the responsibility of management for information contained in the financial statements and elsewhere in the annual report.



David N. Smith  
Chief Financial Officer and Executive Vice President of Financial Services

## report of inspector general

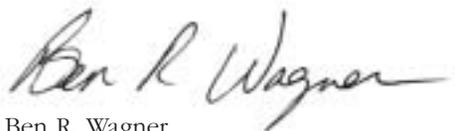
December 30, 2002

### **To the Board of Directors of the Tennessee Valley Authority**

The Tennessee Valley Authority contracted with the independent certified public accounting firm of PricewaterhouseCoopers LLP (PricewaterhouseCoopers) to audit the balance sheets (power program and all programs) as of September 30, 2002 and 2001, and the related statements of income (power program), changes in proprietary capital (power program and nonpower programs), comprehensive income (power program), net expense and comprehensive income (nonpower programs), and cash flows (power program and all programs) for each of the three years in the period ended September 30, 2002. The contract required the audit be done in accordance with generally accepted government auditing standards.

Under the Inspector General Act, the Office of the Inspector General (OIG) is responsible for taking appropriate steps to assure that any work performed by nonfederal auditors, including PricewaterhouseCoopers, complies with generally accepted government auditing standards. The Chief Financial Officers Act also places responsibilities on the OIG regarding TVA's annual financial statement audit. In keeping with our statutory responsibilities, we reviewed PricewaterhouseCoopers' reports and related audit documentation, interviewed their representatives, and performed such other procedures as we deemed appropriate in the circumstances to provide reasonable assurance that the audit was performed in accordance with generally accepted government auditing standards.

The objective of our review was not intended to enable us to express, and we do not express, an opinion on the Tennessee Valley Authority's financial statements or on management's conclusions about the effectiveness of its system of internal control. PricewaterhouseCoopers is responsible for the auditor's reports dated December 19, 2002, and the conclusions expressed in the reports. However, our review disclosed no instances where PricewaterhouseCoopers did not comply, in all material respects, with generally accepted government auditing standards. Our review was performed in accordance with generally accepted government auditing standards.



Ben R. Wagner  
Assistant Inspector General (Audits)

# board of directors



**Glenn L. McCullough, Jr.**

**Chairman**

Was appointed to a six-year term as the 26th member of the TVA Board of Directors in November 1999 . . . named Chairman by President Bush in July 2001 . . . serves on the Electricity Advisory Board to U.S. Department of Energy Secretary Spencer Abraham . . . board member of the Electric Power Research Institute (EPRI), the Institute of Nuclear Power Operations and the Memphis Chamber of Commerce . . . elected mayor of Tupelo, Mississippi, in 1997 after 14 years in private business . . . was director of the Mississippi office of the Appalachian Regional Commission . . . member of the boards of the Economic Development Partnership of Alabama and the Mississippi Partnership for Economic Development . . . B.S. from Mississippi State University.



**Skila Harris**

**Director**

Was appointed by President Clinton to a nine-year term as the 25th member of the TVA Board of Directors in November 1999 . . . the first woman to hold the post of TVA Director . . . 17 years of public and private experience in the energy field . . . served in the Department of Energy in both the Clinton and Carter administrations . . . from 1993 to 1997 served as special assistant to Vice President Al Gore and as chief of staff to Tipper Gore . . . was vice president for development and compliance at Steiner-Liff Iron and Metal Company from 1989 to 1992 . . . was a contract and project manager at the U.S. Synthetic Fuels Corporation . . . B.A. in political science from Western Kentucky University . . . M.A. in legislative affairs from George Washington University.



**Bill Baxter**

**Director**

Was appointed by President Bush and sworn into office November 2001 to become the 27th member of the TVA Board of Directors . . . prior to his appointment he was chairman and chief executive officer of his family-owned business, Holston Gases Inc., headquartered in Knoxville . . . appointed commissioner of Economic and Community Development for the State of Tennessee . . . during his three-year tenure the state achieved three consecutive years of record private capital investment and job creation . . . is a board member of the Development Corporation and Friends of the Smokies . . . B.A. from Duke University and law degree from the University of Tennessee.

# executive committee



From left: Ike Zeringue, David N. Smith, Kathryn J. Jackson, Ellen Robinson, Joe Bynum, D. LeAnne Stribley, John A. Scalice, Maureen Dunn,

**Ike Zeringue**  
**President and**  
**Chief Operating Officer**

Has more than 27 years of experience in the nuclear industry . . . directed the start-up and licensing of TVA's Watts Bar Nuclear Plant and the recovery and restart of Browns Ferry Nuclear Plant . . . directed start-up, maintenance and operation of Arizona Public Service Company's Palo Verde Unit 3 . . . in 1993 became TVA's Senior Vice President of Nuclear Operations . . . named Chief Nuclear Officer and Executive Vice President of TVA Nuclear in 1997 . . . appointed in 1998 to his current position, which entails oversight of TVA's power production, transmission and resource-management programs . . . nuclear-engineering degree from North Carolina State University . . . graduated from Advanced Management Program at Harvard Business School.

**David N. Smith**  
**Chief Financial Officer and**  
**Executive Vice President,**  
**Financial Services**

Came to TVA as Chief Financial Officer in 1995 . . . named Executive Vice President of Financial Services in 1996 . . . has led refinancing of \$23 billion of debt through a variety of global and domestic bond offerings since 1995 . . . previously co-founded Odyssey Financial, a corporate consulting firm, and served as its executive director . . . played a crucial role in the reorganization of LTV Corporation, enabling it to emerge successfully from one of the largest and most complex bankruptcies in U.S. history . . . was vice president of corporate development at Cyclops Corporation for 10 years . . . CPA certification in 1969 . . .

graduate of Northwestern University . . . MBA in finance from Northwestern's Kellogg School of Business.

**Kathryn J. Jackson**  
**Executive Vice President,**  
**River System Operations and**  
**Environment, and Environmental**  
**Executive**

Joined TVA in 1991 after holding positions with Westinghouse Electric Corporation and Alcoa Industries . . . appointed to current position in 1999 . . . served as Vice President, Technology Advancements, moving to Senior Vice President, Resource Group 1994-99 . . . responsibilities include river operations, resource stewardship, science and technology applications, environmental planning and regulatory affairs, Public Power Institute . . . chairs Joint Institute for Energy and Environment . . . serves on advisory boards of the Sloan Foundation/Carnegie Mellon Electricity Industry Center and Carnegie Mellon University School of Engineering . . . member of the President's National Science and Technology Council . . . served as Presidential appointee to the National Recreation Lakes Study Commission . . . B.S. in physics from Grove City College . . . M.S. in industrial engineering management from the University of Pittsburgh . . . M.S. and Ph.D. in engineering and public policy from Carnegie Mellon . . . post-doctoral fellowship, National Academy of Engineering.

**Ellen Robinson**  
**Executive Vice President,**  
**Communications and**  
**Government Relations**

Named to her current position in June 2001 . . . served as senior vice president of communications

and government affairs at CNH Global NV in Racine, Wisconsin, and before that as vice president of communications and government affairs at Case Corporation . . . joined Case from Burson-Marsteller in New York, where she was a vice president and a head of the business-to-business marketing unit . . . B.A. in journalism from the University of New Mexico . . . M.P.A. from the American University in Washington, D.C.

**Joseph R. Bynum**  
**Executive Vice President,**  
**Fossil Power Group**

Worked in TVA engineering and plant-operations positions from 1972 to 1982 . . . was plant manager of Arizona Public Service Company's Palo Verde Nuclear Generating Station from 1982 to 1987 . . . in 1987 named to a senior position in TVA's Nuclear Power Operations . . . appointed Vice President of Nuclear Operations in 1989 . . . served as Vice President of several TVA fossil and hydro organizations from 1993 to 1998, including Maintenance & Testing Services, Fuel Supply & Engineering and Fossil Operations . . . named to current position in 1998 . . . B.S. in electrical engineering and M.S. in nuclear engineering from Georgia Tech.

**D. LeAnne Stribley**  
**Executive Vice President,**  
**Administration**

Appointed to her current position in 2000 . . . joined TVA as Vice President of Finance in 1995 . . . assumed additional responsibilities as Controller in 1997 . . . promoted to the position of Senior Vice President of Finance and Controller in July 2000 . . . before joining TVA, was vice

president of finance and chief financial officer at Travel Resources Management Group Inc. . . . was director of corporate finance at Ohio-based LTV Corporation from 1987 to 1994 . . . between 1981 and 1987, worked as assistant treasurer for the Western Company of North America, an offshore-drilling and oil-services corporation . . . native of Fort Worth, Texas . . . CPA . . . B.A. in accounting from Texas Wesleyan University.

**John A. Scalice**  
**Chief Nuclear Officer and Executive**  
**Vice President, TVA Nuclear**

Came to TVA in 1989 as Plant Manager at Watts Bar Nuclear Plant . . . served as Browns Ferry Plant Manager . . . became Site Vice President at Watts Bar in 1993 and played a key role in the successful licensing, start-up and operation of that nuclear unit . . . served as Senior Vice President of Nuclear Operations in 1997 . . . named to his current position in 1998 . . . responsible for all management of TVA's three operating nuclear plants . . . more than 30 years of experience in the nuclear industry in areas of plant operations, nuclear security and reactor engineering . . . Senior Reactor Operating License . . . B.S. in mechanical engineering and M.S. in nuclear engineering from Polytechnical Institute of New York.

**Maureen Dunn**  
**Executive Vice President and**  
**General Counsel**

Named as TVA's General Counsel in 2001 . . . advises the Board on legal matters and serves as Secretary to the Corporation . . . oversees and coordinates all legal work for TVA . . . joined TVA in 1978 as an attorney . . . assumed



Mark O. Medford, Ron Loving, Amy Burns, Jack Bailey, John Bradley, John E. Long Jr., Theresa A. Flaim, Anda A. Ray, Terry Boston

position of Assistant General Counsel in 1986 . . . B.S. in political science from LeMoyne College in Syracuse, N.Y. . . . law degree from Catholic University in Washington, D.C.

**Mark O. Medford**

**Executive Vice President, Customer Service and Marketing**  
 Joined TVA in 1989 as Vice President and Nuclear Technical Director . . . served in several TVA executive positions before being named to his current position in 1996 . . . responsible for relations between TVA and its customers . . . directs staffs that manage customer accounts, product development, pricing and marketing . . . has more than 26 years of public and private utility experience . . . before joining TVA, was manager of nuclear regulatory affairs at Southern California Edison . . . served in U.S. Navy from 1971 to 1975 and was assigned to the staff of Vice Admiral H.G. Rickover . . . B.S. and M.S. degrees from Rice University . . . M.B.A. from California State Polytechnic University . . . Ph.D. in executive management from Claremont Graduate School.

**Ron Loving**

**Senior Vice President, Performance Initiatives**  
 Has more than 30 years of experience at TVA . . . is responsible for executive management of various operational performance-improvement initiatives . . . currently leading effort to achieve optimal outage performance at TVA's fossil and hydro facilities . . . promoted to Senior Vice President in December 2000 . . . served for three years as Vice President, Synterprise Group, an entrepreneurial business unit

that provided engineering and business services to other TVA organizations . . . Vice President, Government Relations in TVA's Washington office, 1994-96 . . . B.S. in electrical engineering from Southern University . . . M.B.A. from the University of Memphis.

**Amy T. Burns**

**Vice President, Bulk Power Trading**  
 More than 27 years of experience with TVA . . . named to her current position in 2000 . . . responsible for TVA's overall trading of bulk power in the wholesale market . . . served as Manager of Fuel Supply Analysis in the Fossil Power Group, with the responsibility of planning, analysis and acquisition for TVA's \$1.5 billion fossil fuel program . . . joined TVA in 1975 as an accountant . . . licensed CPA in state of Tennessee . . . B.S. in accounting from Samford University.

**Jack A. Bailey**

**Senior Vice President, Power Resources & Operations Planning**  
 More than 20 years of experience in the nuclear industry . . . joined TVA in 1997 as Vice President of Engineering and Technical Services in TVA Nuclear . . . worked for eight years at Arizona Public Service Company's Palo Verde Nuclear Generating Station and seven years at Virginia Power's Surry Nuclear Power Station . . . an officer in the U.S. Navy from 1976 to 1982 . . . B.S. in mathematics from the University of Texas at El Paso.

**John Bradley**

**Senior Vice President, Economic Development**  
 Joined TVA as Senior Vice President, Economic Development in 2002 . . . responsibilities include recruitment and retention

of capital investment and job creation, business development, technical services and community development . . . served as senior vice president for economic development for the Memphis Regional Chamber of Commerce from 1996 to 2002 . . . worked in Memphis Light, Gas & Water's economic development department from 1980 to 1996 . . . B.S. in business administration from the University of Tennessee.

**John E. Long Jr.**

**Executive Vice President, Human Resources**  
 Named to his current position in 2000 . . . is also TVA's Designated Safety and Health Official . . . since 1992 has served as a management appointee to the TVA Retirement System Board . . . joined TVA in 1980 as a Personnel Officer in the Engineering Division . . . B.S. in business administration and M.B.A. from the University of Tennessee.

**Theresa A. Flaim**

**Senior Vice President, Strategic Planning and Analysis**  
 Joined TVA in 2002 . . . responsible for developing strategies related to the ongoing competitive restructuring of the electric-utility industry . . . served for nine years as vice president of strategic planning for Niagara Mohawk . . . worked at the Solar Energy Research Institute and the Los Alamos National Laboratory . . . B.A. in history from the University of Missouri . . . M.S. and Ph.D. in resource economics from Cornell University.

**Anda A. Ray**

**Acting Vice President, Performance Initiatives**  
 More than 20 years of experience at TVA, beginning in Nuclear . . . is responsible for executive

management, oversight and alignment of key corporate performance improvement and change initiatives . . . chairs the Project Review and Approval Committee . . . most recently served as Director of TVA's Public Power Institute . . . before joining TVA, conducted research at AT&T in the area of laser and fiber optic communication . . . B.S. in nuclear physics from Auburn University . . . M.S. in solid state physics from Emory University.

**Terry Boston**

**Executive Vice President, Transmission/Power Supply**  
 More than 30 years of experience with TVA . . . named to his current position in 1999 . . . oversees the planning, building, operating and maintaining of one of the nation's largest transmission and power supply networks . . . also provides for transmission and related services to neighboring systems . . . serves on the executive committee for the Electric Power Research Institute National Reliability Initiative, on the board of directors for the North American Energy Standards Board and on the Board's stakeholder committee for the North American Electric Reliability Council, as vice chairman on the Southeastern Electric Reliability Council board of directors and executive committee, and as vice president of CIGRE, the international Industrial Council of Large Electric Systems . . . B.S. in engineering from Tennessee Tech . . . M.S. in engineering administration from the University of Tennessee.

# investor information

## Financing Goal

TVA's financing goal is to offer unique investment opportunities that provide exceptional value for both the investor and TVA.

### Key Strengths of TVA Securities

TVA is a wholly owned corporate agency of the U.S. government. TVA's rated bonds receive the highest possible credit rating from Moody's Investors Service, Standard & Poor's and Fitch Ratings (Aaa/AAA).

In 1959 Congress authorized TVA to sell bonds in public markets to finance its own power operations. This allowed TVA's power system to become self-financing and fund its capital requirements with operating cash flow and power program financings. TVA securities may be issued only for the purposes of TVA's power program, including the provision of capital for TVA's power program and refunding of existing debt.

**TVA securities are backed solely by the net power proceeds of the TVA power system and are neither obligations of nor guaranteed by the U.S. government.** Both principal and interest on TVA securities are generally exempt from state and local income taxes. TVA securities are not exempt from estate, inheritance and gift taxes or from federal income tax. TVA is not authorized to issue equity securities.

### Earnings Objective

TVA is a corporation wholly owned by the U.S. Government that finances its capital requirements through internally generated funds and power program financings. Consistent with its federal charter, TVA's objective is to deliver a reliable supply of power to its customers at the lowest feasible cost. TVA operates much like a non-profit corporation, so it does not accumulate a large amount of retained earnings.

### Securities Listing

All TVA bonds are publicly held. Two bonds, the Puttable Automatic Rate Reset Securities (PARRS), are listed and traded on the New York Stock Exchange under the symbols TVC and TVE. TVA issues a variety of debt securities in U.S. dollars and other currencies targeted to institutional and individual investors around the world. TVA has investors in all 50 states and in 39 countries.

### Investment Opportunities

TVA issues debt in a variety of innovative structures, including PARRS, electronotes®, Quarterly Income Tiered Securities (QUINTS), discount notes, and an assortment of other debt securities. As of September 30, 2002, TVA had 61 long-term public debt issues outstanding, totaling \$21.8 billion. Of these, 30 issues were electronotes®.

### Investors understand and have confidence in TVA's business . . .

- TVA rated bonds receive the highest possible credit ratings (Aaa/AAA).
- Well-managed electric utility providing affordable, reliable power to more than 8.3 million consumers.
- Required by its founding charter, the TVA Act, to set rates sufficient to pay, among other things, debt service on outstanding bonds.
- Holders of TVA power bonds and discount notes are given first pledge of payment from net power proceeds.
- Board appointed by the President of the United States and confirmed by the Senate.
- Oversight of TVA provided by Congressional committees, an independent inspector general and the General Accounting Office.

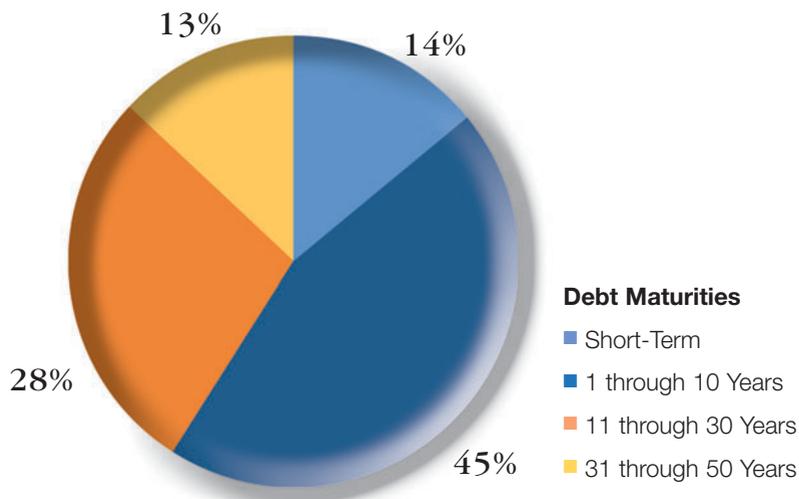
## Form and Denomination

Security	Book-Entry Form	Denomination*	Payments
electronotes®	The Depository Trust Company	\$1,000	Varies with offering
PARRS (2 issues)	The Depository Trust Company	\$25	Quarterly
QUINTS (5 issues)	Federal Reserve Bank System	\$1,000	Quarterly
2001 Series B Global	The Depository Trust Company	£1,000	Annual
1998 Series A Estate Feature	Federal Reserve Bank System	\$1,000	Quarterly
1998 Series H Global	The Depository Trust Company	£1,000	Semi-annual
1996 Series C Global	The Depository Trust Company	DM1,000	Annual
Other Power Bonds (20 issues)	Federal Reserve Bank System	\$1,000	Semi-annual

\*Market prices and broker policies may require that investors pay more or less than par value for the security. To receive a complete listing of TVA securities, call Investor Relations at 888-882-4975.

TVA securities can be purchased through a broker, bank or other financial institution.

## Diversification of TVA's Debt Portfolio



**tva**  
**electronotes**<sup>®</sup> is a retail bond program that offers bonds in a variety of structures targeted to individual investors.

### Benefits include:

- Competitive interest rates
- State and local income tax exemption (generally)
- Bimonthly offerings (generally)
- \$1,000 denominations
- Maturities from 1 to 30 years
- A variety of interest payments
- A survivor's option in some issues

To learn more about electronotes<sup>®</sup> go to [www.tvaelectronotes.com](http://www.tvaelectronotes.com).

TVA is an equal opportunity and affirmative action employer. TVA also ensures that the benefits of programs receiving TVA financial assistance are available to all eligible persons regardless of race, color, sex, national origin, religion, disability or age. This document can be made in an alternate format upon request. This report is printed on 30% post-consumer recycled paper and uses soy-based inks.

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(toll-free in the U.S.)  
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(toll-free outside the U.S.)  
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### E-mail Alert

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*Chattanooga, Tennessee*