Financial and Operating Highlights

(Dollars in Thousands Except Statistics and Per Share Amounts or as Otherwise Indicated)	2001	2000	1999
Financial Results			
Operating revenues	$6,025,872	$ 7,905,577	$7,902,399
Operating expenses	5,834,800	7,688,489	7,867,006
Income from operations	191,072	217,088	35,393
Income from continuing operations	73,762	101,055	28,662
Loss from discontinued operations	(47,449)	(9,376)	(2,631)
Net income	26,313	91,679	26,031
Income available for common stock	23,881	67,944	4,639
Earnings per common share from continuing operations, basic	1.50	1.69	0.19
Earnings per common share from discontinued operations, basic	(1.00)	(0.20)	(0.07)
Earnings per common share, basic	0.50	1.49	0.12
Earnings per common share, diluted	0.50	1.47	0.12
Dividends paid per common share	0.48	0.48	0.48
Book value per common share	15.43	15.34	12.95
Average common shares outstanding	47,417	45,690	38,213
Actual common shares outstanding	47,633	47,209	35,648
Return on average common equity	3.3%	12.9%	3.3%
Common stock closing price	13.26	20.50	15.44
Operating Results			
Avista Utilities			
Retail electric revenues	$ 398,441	$ 394,439	$ 383,841
Retail KWh sales (in millions)	8,018	8,238	8,142
Retail electric customers at year-end	316,764	313,350	309,072
Wholesale electric revenues	$ 480,903	$ 864,754	$ 522,499
Wholesale KWh sales (in millions)	6,262	15,807	19,778
Total natural gas revenues	$ 308,643	$ 224,846	$ 187,484
Total therm sales (in thousands)	541,984	595,902	658,902
Total natural gas customers at year-end	284,457	279,018	269,214
Net income (loss)	$ 38,321	$ (38,781)	$ 59,573
Energy Trading and Marketing			
Revenues	$5,016,980	$ 6,531,551	$6,695,671
Resource costs	4,882,714	6,223,805	6,713,613
Net income (loss)	70,087	161,753	(60,739)
KWh sales (in millions)	47,927	105,759	135,099
Natural gas sales (thousands of dekatherms)	248,193	309,428	775,822
Coal sales (thousand of tons)	—	3,514	1,638
Information and Technology			
Revenues	$ 13,815	$ 5,732	$ 2,266
Net loss	(19,384)	(19,032)	(5,989)
Other			
Revenues	$ 16,385	$ 32,937	$ 122,303
Net loss	(15,262)	(2,885)	35,817
Other Financial and Operating Statistics			
Total assets	$4,073,079	$12,577,081	$3,713,494
Total net utility property	1,565,642	1,518,312	1,500,837
Utility capital expenditures	119,905	99,807	86,256
Total capitalization:			
Long-term debt	1,175,715	679,806	714,904
Preferred trust securities	100,000	100,000	110,000
Preferred stock	35,000	35,000	35,000
Convertible preferred stock	—	—	263,309
Common equity	734,960	724,224	393,499
Total Capitalization	$2,045,675	$ 1,539,030	$1,516,712

Independent Auditors' Report

Avista Corporation
Spokane, Washington

We have audited the consolidated balance sheets and the statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Such consolidated financial statements and our report thereon dated _______________, 2002, expressing an unqualified opinion (which are not presented herein), are included in Appendix A to the proxy statement for the 2002 annual meeting of shareholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2001 and 2000, and the related condensed consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2001, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

_________, 2002
Seattle, Washington

Deloitte + Touche LLP

Management's Statement of Responsibility

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in Appendix A to the proxy statement for the 2002 annual meeting of shareholders. Management of Avista Corporation is responsible for the accuracy and completeness of the information in this summary annual report. The financial and operating information is derived from company records, and includes amounts based on judgment and estimates where necessary. Quality control practices for reporting business information in combination with the company's internal control procedures provide adequate assurance that the summary annual report fairly and reasonably presents the company's financial position and operating results.

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

Gary G. Ely
President and
Chief Executive Officer

Jon E. Eliassen
Senior Vice President and
Chief Financial Officer

Condensed Consolidated Statements of Income

(For the Years Ended December 31 – Dollars in Thousands, Except Per Share Amounts)	2001	2000	1999
Operating Revenues	$6,025,872	$7,905,577	$7,902,399
Operating Expenses			
Resource costs	5,458,775	7,293,520	7,391,277
Operations and maintenance	125,656	129,708	187,853
Administrative and general	119,216	134,912	123,996
Depreciation and amortization	71,981	65,936	67,873
Taxes other than income taxes	59,172	54,608	53,085
Restructuring and exit costs	—	9,805	42,922
Total operating expenses	5,834,800	7,688,489	7,867,006
Income from Operations	191,072	217,088	35,393
Other Income (Expense)			
Interest expense	(106,480)	(68,255)	(64,747)
Capitalized interest	10,498	3,359	1,001
Net interest expense	(95,982)	(64,896)	(63,746)
Other income – net	20,681	25,861	73,912
Total other income (expense) – net	(75,301)	(39,035)	10,166
Income From Continuing Operations Before Income Taxes	115,771	178,053	45,559
Income Taxes	42,009	76,998	16,897
Income From Continuing Operations	73,762	101,055	28,662
Loss From Discontinued Operations	(47,449)	(9,376)	(2,631)
Net Income	26,313	91,679	26,031
Deduct – Preferred stock dividend requirements	2,432	23,735	21,392
Income Available for Common Stock	$ 23,881	$ 67,944	$ 4,639
Earnings Per Common Share, Basic			
Earnings per common share from continuing operations	$ 1.50	$ 1.69	$ 0.19
Loss per common share from discontinued operations	(1.00)	(0.20)	(0.07)
Total earnings per common share, basic	$ 0.50	$ 1.49	$ 0.12
Earnings Per Common Share, Diluted			
Earnings per common share from continuing operations	$ 1.50	$ 1.67	$ 0.19
Loss per common share from discontinued operations	(1.00)	(0.20)	(0.07)
Total earnings per common share, diluted	$ 0.50	$ 1.47	$ 0.12
Dividends paid per common share	$ 0.48	$ 0.48	$ 0.48

Condensed Consolidated Balance Sheets

(As of December 31 – Dollars in Thousands)	2001	2000
Assets		
Current energy commodity assets	$ 477,037	$ 7,956,229
Assets held for sale from discontinued operations	21,316	50,665
Other current assets	648,740	1,145,138
Total net utility property	1,565,642	1,518,312
Investment in exchange power – net	43,314	46,981
Non-utility properties and investments – net	230,800	172,275
Non-current energy commodity assets	383,497	1,367,107
Other property and investments – net	13,620	21,885
Regulatory assets for deferred income tax	149,033	156,692
Other regulatory assets	176,058	5,407
Utility energy commodity derivative assets	1,889	—
Power and natural gas deferrals	286,843	75,648
Other deferred charges	75,290	60,742
Total Assets	$4,073,079	$12,577,081
Liabilities and Capitalization		
Current energy commodity liabilities	$ 373,837	$ 7,834,007
Liabilities of discontinued operations	6,642	5,763
Current portion of long-term debt	1,827	89,454
Short-term borrowings	75,099	163,160
Other current liabilities	485,145	1,046,476
Non-current energy commodity liabilities	299,980	1,272,374
Deferred revenue	35,824	46,002
Deferred income taxes	525,450	446,310
Utility energy commodity derivative liabilities	159,418	—
Non-current liabilities and other deferred credits	64,182	134,505
Capitalization:		
Long-term debt	1,175,715	679,806
Preferred trust securities	100,000	100,000
Preferred stock	35,000	35,000
Common stock – net (47,632,678 and 47,208,689 outstanding shares)	600,134	592,005
Retained earnings and accumulated other comprehensive income	134,826	132,219
Total capitalization	2,045,675	1,539,030
Total Liabilities and Capitalization	$4,073,079	$12,577,081

Condensed Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents For the Years Ended December 31 – Dollars in Thousands	2001	2000	1999
Continuing Operating Activities:			
Net income	$ 26,313	$ 91,679	$ 26,031
Loss from discontinued operations	47,449	9,376	2,631
Non-cash items included in net income:			
Depreciation and amortization	71,981	65,936	67,873
Provision for deferred income taxes	86,764	79,274	(1,085)
Power and natural gas deferrals, net of amortizations	(270,166)	(67,299)	(14,906)
Energy commodity assets and liabilities	10,636	(172,918)	(9,841)
Other – net	23,653	3,337	(49,663)
Changes in working capital components	(89,959)	74,705	90,967
Net Cash Provided by (Used in) Continuing Operating Activities	(93,329)	84,090	112,007
Continuing Investing Activities:			
Utility property contruction expenditures (excluding AFUDC)	(119,905)	(98,680)	(87,160)
Other capital expenditures	(162,279)	(73,515)	(17,573)
Changes in other non-current balance sheet items-net	11,163	3,403	(7,636)
Proceeds from property sales and sale of subsidiary investments	75,953	105,228	148,851
Assets acquired and investments in subsidiaries	(23,321)	(1,496)	(48,931)
Net Cash Used in Continuing Investing Activities	(218,389)	(65,060)	(12,449)
Continuing Financing Activities:			
Increase (decrease) in short-term borrowings	(88,061)	42,126	110,522
Increase (decrease) in long-term debt	410,249	169,717	(95,765)
Redemption of preferred trust securities	—	(10,000)	—
Redemption of preferred stock	—	—	(5,918)
Issuance (repurchase) of common stock, net	8,267	2,625	(81,985)
Cash dividends paid	(25,110)	(28,304)	(39,757)
Other – net	(2,434)	(850)	(4,634)
Net Cash Provided by (Used in) Continuing Financing Activities	302,911	175,314	(117,537)
Net Cash Used in Discontinued Operations	(17,210)	(37,094)	(14,830)
Net Increase (Decrease) in Cash and Cash Equivalents	(26,017)	157,250	(32,809)
Cash and Cash Equivalents at Beginning of Period	197,238	39,988	72,797
Cash and Cash Equivalents at End of Period	$ 171,221	$ 197,238	$ 39,988

Financial Summary

The following is a brief discussion and analysis of financial condition and results of operations for 2001. For a more detailed analysis, please refer to Appendix A to the 2002 proxy statement.

Results of Operations – Income from continuing operations was $73.8 million in 2001, a decrease from $101.1 million in 2000. Diluted earnings per share from continuing operations were $1.50 in 2001, compared to $1.67 in 2000. The primary reason for the decrease in earnings was a decrease in earnings the Energy Trading and Marketing line of business, which recorded net income of $1.48 per diluted share in 2001, compared to net income of $3.51 per diluted share in 2000. This decrease was partially offset by an increase in earnings from Avista Utilities. Avista Utilities recorded net income of $0.75 per diluted share in 2001 compared to a net loss of $1.37 per diluted share in 2000. The Information and Technology line of business reported a net loss of $0.41 per diluted share in 2001 consistent with a net loss of $0.41 per diluted share in 2000. The Other line of business recorded a net loss of $0.32 per diluted share in 2001 compared to a net loss of $0.06 per diluted share in 2000. The loss per diluted share from the discontinued operations of Avista Communication was $1.00 in 2001 compared to a loss of $0.21 per diluted share in 2000.

Avista Utilities – Net income was $38.3 million in 2001 compared to a net loss of $38.8 million in 2000. The net loss in 2000 was primarily due to higher purchased power costs and a short position associated with wholesale trading activities in the second quarter of 2000.

Retail electric revenues increased $4.0 million from 2000 to 2001 primarily due to the electric surcharges implemented during the fourth quarter of 2001 partially offset by refunds to customers in January 2001 from the gain on the sale of Avista Utilities' interest in the Centralia Power Plant. Wholesale electric revenues decreased $383.9 million, or 44 percent, while wholesale sales volumes decreased 60 percent during 2001 from 2000, reflecting average sales prices that were 40 percent higher than the prior year. Natural gas revenues increased $83.8 million from 2000 to 2001 primarily due to increased prices approved by state commissions to recover increased natural gas costs.

Power purchased during 2001 decreased $364.2 million, or 34 percent compared to 2000 primarily due to the decreased volume of power purchases, partially offset by higher prices. Average purchased power prices for 2001 were 28 percent higher than for 2000; however, volumes purchased decreased 48 percent. The decrease in the volume of purchased power was primarily the result of decreases in the volume of wholesale electric sales.

During 2001 Avista Utilities deferred $167.2 million in power costs in Washington and $73.7 million in Idaho. The total balance of deferred power costs was $162.0 million for Washington and $73.1 million for Idaho as of December 31, 2001. The WUTC approved a 25 percent electric rate surcharge to Washington customers in September 2001 and the IPUC approved a 19.4 percent PCA surcharge to Idaho customers in October 2001. These surcharges will allow the Company to recover approximately $183 million in deferred power costs, including $95 million in cash recovery. As of December 31, 2001, the Company had recovered $73.8 million in deferred power costs including $13.1 million in surcharge revenue and $60.7 million related to the amortization of a non-cash credit on the Company's balance sheet.

In December 2001, Avista Utilities filed a general rate case with the WUTC to address the impact of energy price volatility, the recovery of cash outlays for increased power supply costs and expenses related to building additional generation. The WUTC approved a temporary deferred accounting mechanism allowing the company to continue deferring a portion of certain power supply costs, subject to later regulatory review, through the conclusion of the general rate case. Additionally, the WUTC is reviewing a request for an interim rate increase as well as the prudence and recoverability of deferred power costs.

The cost of fuel for generation for 2001 increased $12.9 million compared to 2000 primarily due to an increase in combustion turbine plant generation and partially due to the increased cost of natural gas for generation.

The expense for natural gas purchased for resale for 2001 increased $50.8 million compared to 2000 due to the increased cost of natural gas partially offset by a decrease in total therms sold. Natural gas costs were relatively high during the first half of 2001 before declining in second half of 2001.

Energy Trading and Marketing – Energy Trading and Marketing recorded net income of $70.1 million in 2001, a decrease from $161.8 million in 2000. Although net income decreased, Avista Energy continued to benefit from a well-positioned portfolio of energy-related assets in the Pacific Northwest and western energy markets. The primary reason for the decrease in net income was a decrease in the mark-to-market adjustment for the change in the fair value position of Avista Energy's energy commodity portfolio. During the second half of 2001, volatility in wholesale energy markets in the western United States decreased which reduced Avista Energy's earnings potential. Energy Trading and Marketing's revenues totaled $5.0 billion in 2001 compared to $6.5 billion in 2000, while resource costs decreased to $4.9 billion in 2001 from $6.2 billion in 2000. The decrease in revenues and expenses is primarily the result of decreased sales volumes from 2000.

Energy Trading and Marketing's total assets decreased $8.8 billion from December 31, 2000 to December 30, 2001 due to a decrease in total current and non-current energy commodity assets. This decrease in commodity assets primarily reflects the settlement of a significant amount of contracts during 2001 and a decrease in the price of natural gas and electricity from December 31, 2000 to December 31, 2001. Energy Trading and Marketing's total current and non-current energy commodity liabilities have decreased by a similar amount to the decrease in assets.

Information and Technology – This line of business includes the results of Avista Advantage and Avista Labs. The net loss was $19.4 million in 2001 compared to a loss of $19.0 million in 2000. Operating revenues and expenses for this line of business increased $8.1 million and $11.5 million, respectively, as compared to 2000. Avista Advantage has accounted for the increase in revenues due to expansion of its customer base. The increase in operating expenses reflects expansion of operations for Avista Advantage and further fuel cell development by Avista Labs.

Other – The net loss from this line of business was $15.3 million in 2001 compared to a net loss of $2.9 million in 2000. The increase in the net loss from 2000 is primarily a result of increased interest expense on intercompany borrowings between Avista Capital and Avista Corp. that is eliminated in the consolidated financial statements.

Discontinued Operations – During September 2001 the Company reached a decision that it would dispose of substantially all of the assets of Avista Communications. The divestiture is expected to be completed in the first half of 2002. The net loss for 2001 was $47.4 million, compared to a net loss of $9.4 million for 2000. The significant net loss for 2001 was due to asset impairment charges.

Capitalization – In December 2001, the Company issued $150.0 million of 7.75 percent First Mortgage Bonds due in 2007. In April 2001, the Company issued $400.0 million of 9.75 percent Senior Notes due in 2008. During 2001, $15.0 million of Secured Medium-Term Notes, with rates of 7.59 percent and 7.60 percent, and $74.0 million of Unsecured Medium-Term Notes, with rates between 8.0 percent and 9.57 percent, matured. The Company also legally defeased $50 million of Medium-Term Notes scheduled to mature in 2002 with interest rates between 6.28 percent and 8.15 percent.

The Company's total common equity increased $10.7 million during 2001 to $735.0 million primarily due to net income and issuances of common stock in excess of dividends declared on common stock. The Company's consolidated capital structure, including the current portion of long-term debt and short-term borrowings as of September 30, 2001, was 59.0 percent debt, 6.4 percent preferred securities and 34.6 percent common equity, compared to 52.1 percent debt, 7.5 percent preferred securities and 40.4 percent common equity as of December 31, 2000. It is the Company's plan to target a capital structure of 50 percent debt and 50 percent preferred and common equity. The Company plans to achieve this capital structure through the issuance of preferred or common stock and net earnings as well as reducing total debt.