



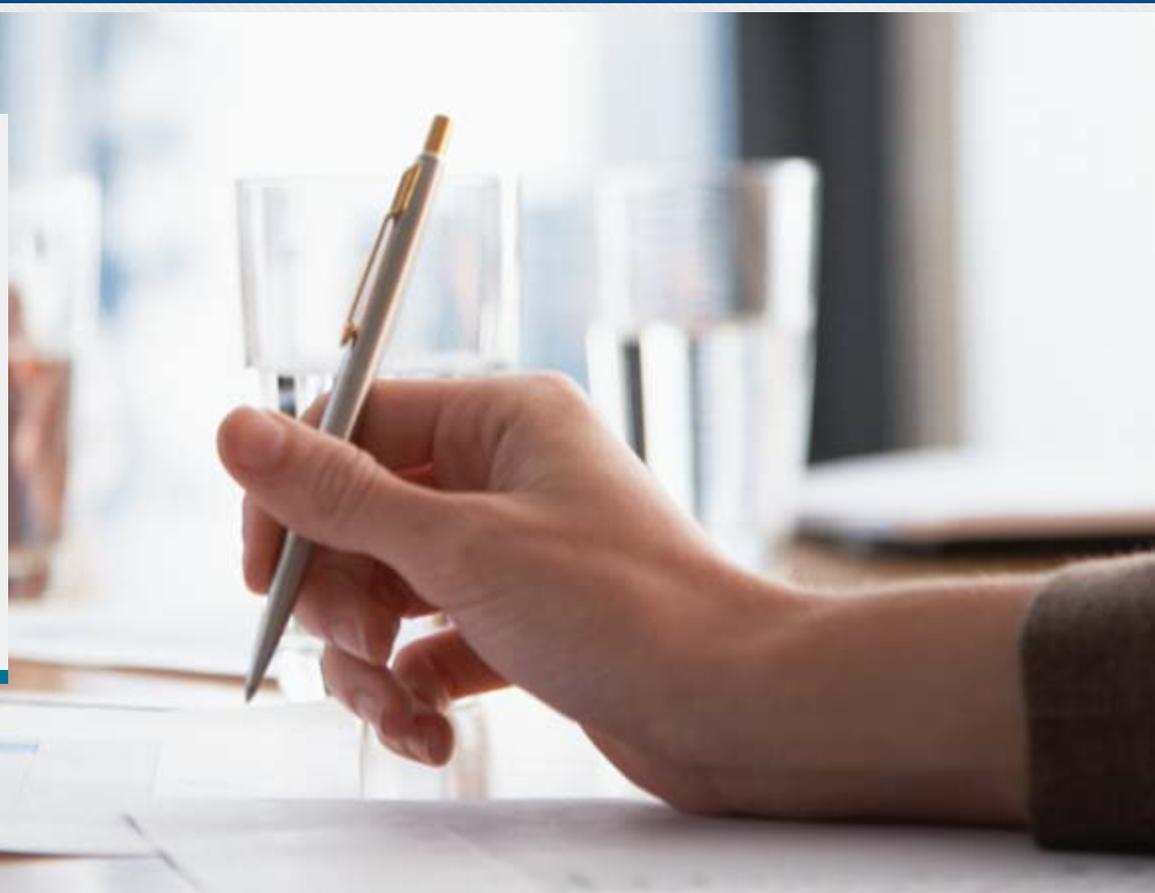
Fiscal Year 2016 Conference Call

November 15, 2016



Tammy Wilson

Vice President, Treasurer, &
Chief Risk Officer





AGENDA

Fiscal Year 2016 Review

- Bill Johnson, President and Chief Executive Officer

Review of Financial Performance

- John Thomas, Executive Vice President and Chief Financial Officer

Question and Answer Session

Closing Remarks



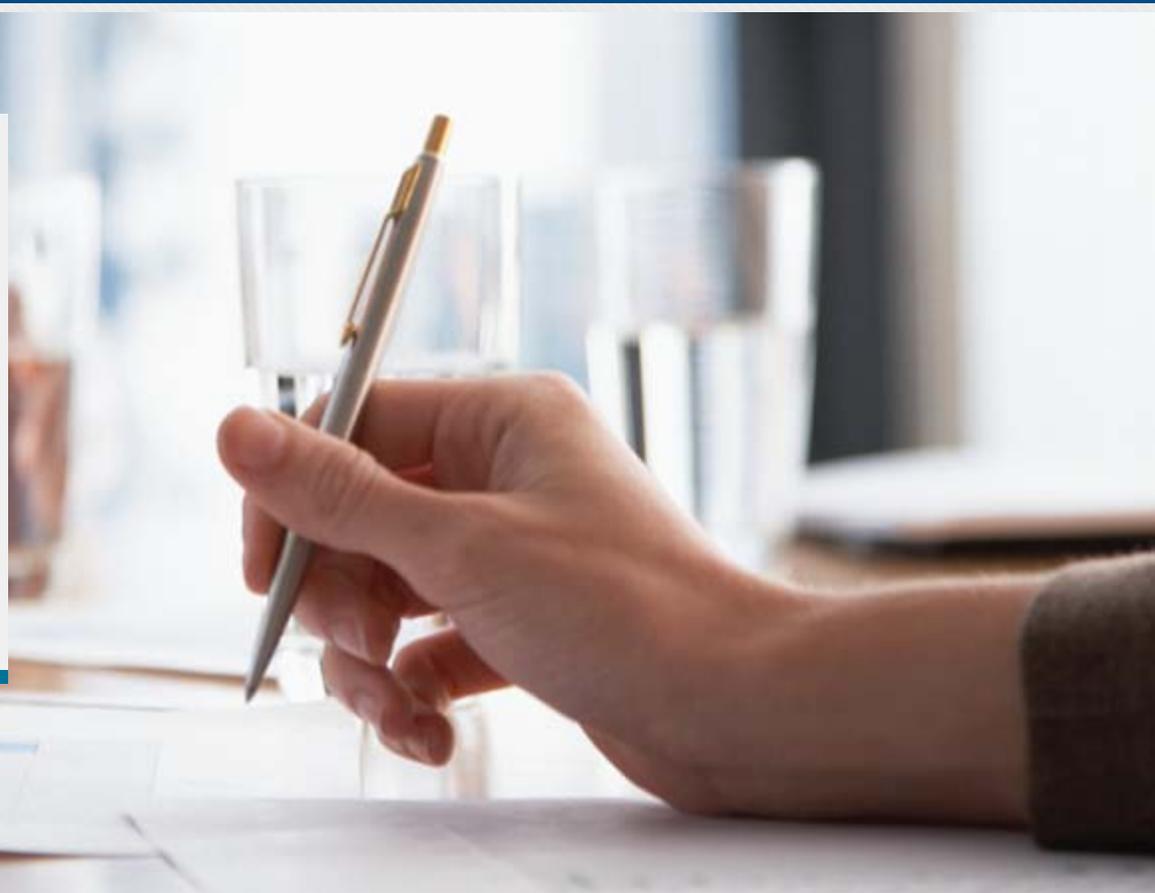
SAFE HARBOR STATEMENT

This document contains forward-looking statements relating to future events and future performance. All statements other than those that are purely historical may be forward-looking statements. 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,” “forecast,” “estimate,” “objective,” “possible,” “probably,” “likely,” “potential,” “speculate,” or other similar expressions. Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. For a discussion of these factors, please see the annual, quarterly, and periodic reports that TVA files with the Securities and Exchange Commission. 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.



Bill Johnson

President and
Chief Executive Officer



OUR MISSION AND STRATEGIC IMPERATIVES

Energy

Provide electricity at the lowest feasible rate and the highest feasible reliability



Environment

Promote proper use of Tennessee River and Valley natural resources for best use by the public



Meet reliability expectations & provide a balanced portfolio

Economic Development

Leverage competitive rates to attract and retain good jobs and capital investment in the Valley



Strategic Imperatives



PERFORMANCE OVERALL

FY16 FUEL & PURCHASED POWER COSTS **\$1 BILLION** LESS THAN 2012

\$800 MILLION
O&M COST REDUCTIONS

\$1.8 BILLION
EMPLOYEE EXPENSE REDUCTIONS

FISCAL YEARS 2012-2019

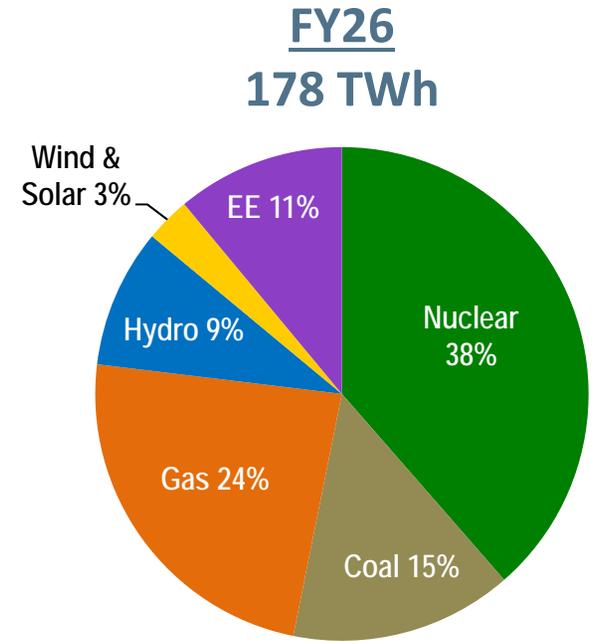
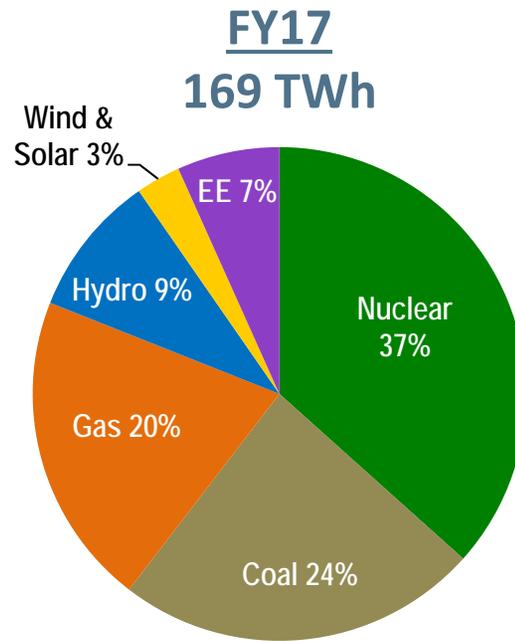
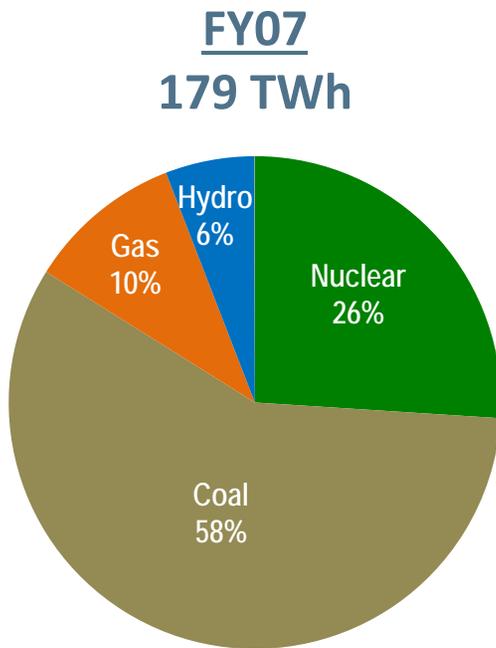
\$300 MILLION DEBT REDUCTION
WHILE INVESTING
\$20 BILLION CAPITAL INVESTMENTS

FISCAL YEAR 2016 HIGHLIGHTS

- Continued expense reduction
- Lower average rate for customers
- Significant investment in assets
- Attracted jobs and capital
- Expanded stewardship activities
- Powered by our people



ASSET PORTFOLIO – CLEANER, MORE DIVERSE



ASSET PORTFOLIO

Constructing Paradise Combined-Cycle Facility



- ✓ Replacing two coal-fired units
- ✓ Initial testing underway
- ✓ On schedule
- ✓ Within \$1.1 billion budget
- ✓ Expected in-service 2017

ASSET PORTFOLIO

Constructing Allen Combined-Cycle Facility



- ✓ Replacing coal-fired facility
- ✓ Approximately 30% complete
- ✓ On schedule
- ✓ Total budget \$975 million
- ✓ Expected in-service 2018

ASSET PORTFOLIO

Progress on Gallatin Clean Air Projects and Other Environmental Initiatives



- ✓ \$1 billion total Investment – Gallatin
- ✓ Gallatin dry scrubber completed
 - Removing up to 98% of SO₂
- ✓ Gallatin SCR construction 50% complete
 - Expected operational 2018
- ✓ Wet-to-dry CCR storage underway
 - In design phase at coal-fired sites

ASSET PORTFOLIO

Investing in a Robust Transmission System



- ✓ 99.999% reliability 17th year
- ✓ 156 billion kWh delivered 2016
- ✓ \$1.2 billion capital 2013 to 2016
- ✓ Continued investments
 - Customer support
 - Regulatory requirements
 - Bulk system support
 - Risk mitigation

FISCAL YEAR 2017 PRIORITIES

RATES

- Maintain low rates and align O&M spending with revenues
- Effectively manage debt to ensure long-term financial health

PEOPLE

- Work safely and effectively
- Embrace continuous improvement
- Develop employees and leadership for sustained optimal performance
- Engaged workforce
- Focus on values, competencies, and behaviors

ASSET PORTFOLIO

- Pursue operational excellence
- Successfully implement strategic asset projects
- Balance the portfolio to provide cleaner, efficient, and affordable energy

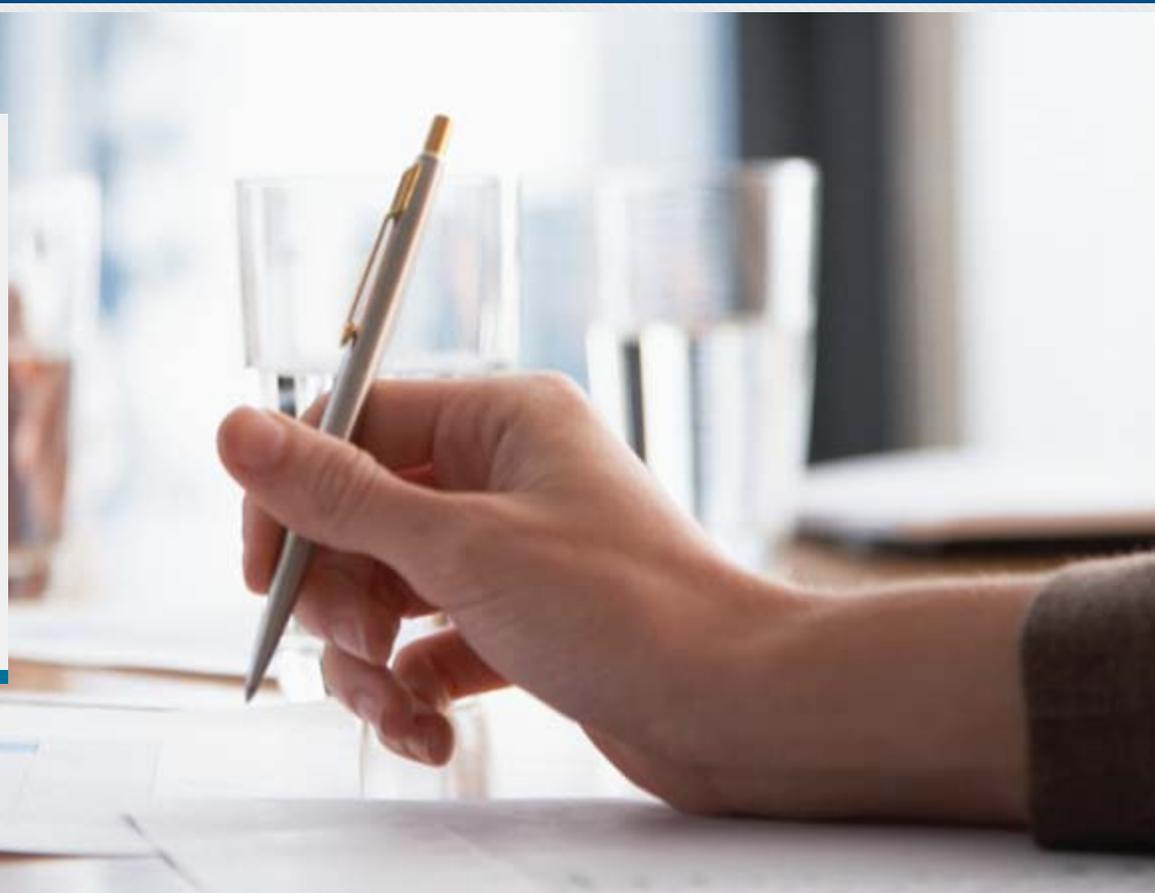
STEWARDSHIP

- Stimulate economic development and investment in the Valley
- Strengthen customer loyalty and stakeholder relationships
- Maximize potential of the Tennessee River System
- Protect and improve the natural resources and the use and enjoyment of public lands



John Thomas

Chief Financial Officer



FY16 FINANCIAL SUMMARY

Net Income: \$1,233M

- \$122M above last year

Operating Revenues: Effective rate of 6.7¢ v. 6.9¢ last year

- Favorable fuel cost results in lower customer rates

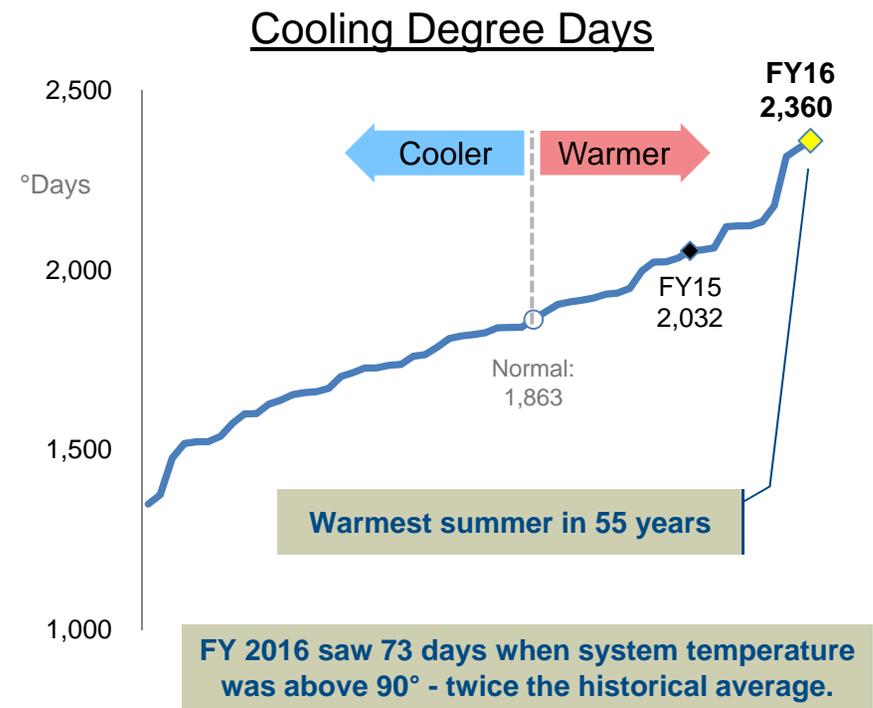
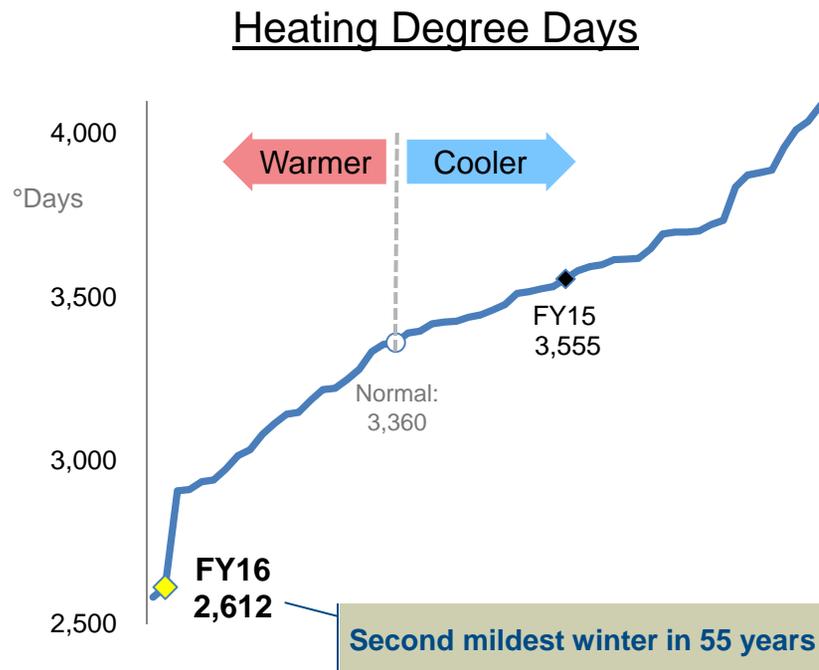
Operating & Maintenance Expenses: Flat to prior year

- Reduced O&M over \$800M from 2013 budget

Interest Expense: Flat to prior year

- Additional AFUDC recognition and lower debt rates

WARM WINTER - LONG, HOT SUMMER



Fiscal years 1962 through 2016 (ranked low to high). FY16 heating degree days adjusted for leap year for comparison purposes

REVENUE AND SALES

Maintaining Low Rates

Twelve Months Ended September 30				
	2016	2015	Change	Percent Change
Power Sales (GWh)	155,855	158,163	(2,308)	(1.5)%
Total Operating Revenues (\$ millions)	\$ 10,616	\$ 11,003	\$ (387)	(3.5)%
Effective Rates ⁽¹⁾ (¢/kWh)				
Total Effective Rate	6.7	6.9	(0.2)	(2.3)%

(1) Excludes other revenue and off-system sales and revenue; percentage change based on rates before rounding

EXPENSES AND NET INCOME

Aligning O&M Costs

Twelve Months Ended September 30				
(\$ millions)	2016	2015	Change	Percent Change
Total Operating Revenues	\$ 10,616	\$ 11,003	\$ (387)	(3.5)%
Fuel & Purchased Power	\$ 3,090	\$ 3,394	\$ (304)	(9.0)%
Operating & Maintenance	2,842	2,838	4	0.1%
Depreciation & Amortization	1,836	2,031	(195)	(9.6)%
Tax Equivalents	522	525	(3)	(0.6)%
Net Interest Expense	1,136	1,133	3	0.3%
Net Income	\$ 1,233	\$ 1,111	\$ 122	11.0%

CASH FLOW

Investing in Key Capital Projects

Twelve Months Ended September 30			
Net Cash Provided by / (Used in) (\$ millions)	2016	2015	Change
Operating Activities	\$ 3,042	\$ 3,315	\$ (273)
Investing Activities	(3,113)	(3,585)	472
Financing Activities	71	70	1
Net Change in Cash and Cash Equivalents	-	(200)	200

BALANCE SHEET

Ensuring Long-Term Financial Health

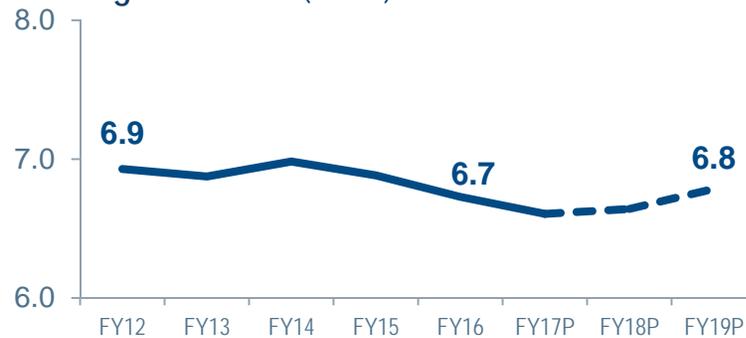
(\$ millions)	Sept. 30 2016	Sept. 30 2015	Change
Property, Plant & Equipment, gross ⁽¹⁾	\$ 60,022	\$ 57,216	\$ 2,806
Total Debt and Other Financing Obligations ⁽¹⁾⁽²⁾	26,202	26,120	82
Cash and Cash Equivalents	300	300	-

(1) See Appendix - Regulation G Reconciliation

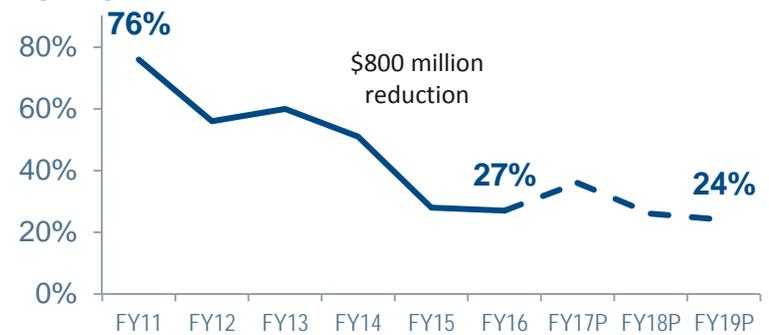
(2) Bonds and Notes outstanding subject to \$30.0 billion statutory limit totaled \$24.2 billion at Sept. 30, 2016, \$0.3 billion higher compared to Sept. 30, 2015

FINANCIAL TRACK RECORD

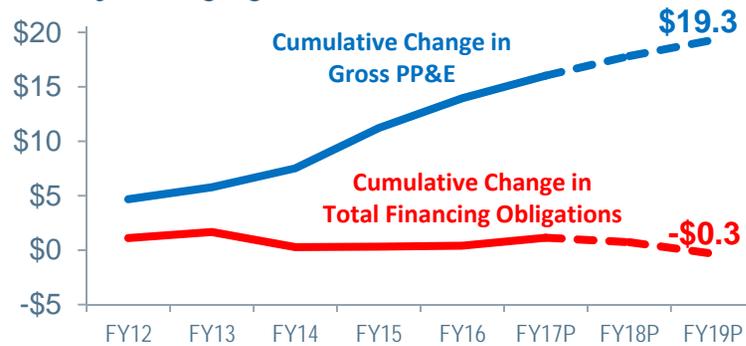
Maintaining Low Rates (¢/kWh)



Aligning Non-Fuel O&M Cost (Gap to top quartile)



Effectively Managing Debt (\$ billions)



Balanced Portfolio – Fuel & PP Cost (\$/MWh)



MEETING FINANCIAL OBJECTIVES

Maintain low rates and align operating and maintenance costs

- ✓ Delivering stable rates through a balanced, reliable asset portfolio

Effectively manage debt to ensure long-term financial health

- ✓ Maintaining fiscal discipline in line with capital plan

Invest in key capital projects

- ✓ Making investments in key projects

Support stewardship commitments

- ✓ Ongoing investment in TVA stewardship activities

Working safely and effectively to achieve our financial objectives

Questions





APPENDIX

Regulation G Reconciliation

	September 30, 2016	September 30, 2015	September 30, 2010
Property, Plant & Equipment, gross (Completed Plant plus Construction in Progress)	\$ 60,022	\$ 57,216	\$ 46,005
Accumulated depreciation	(27,592)	(26,318)	(19,326)
Nuclear fuel	1,450	1,415	1,102
Capital leases	163	94	49
Total property, plant and equipment, net	<u>\$ 34,043</u>	<u>\$ 32,407</u>	<u>\$ 27,830</u>
Total Debt and Other Financing Obligations, gross	\$ 26,202	\$ 26,120	\$ 25,803
Energy prepayment obligations	(210)	(310)	(822)
Leaseback obligations	(537)	(616)	(1,354)
Membership interests of variable interest entity subject to mandatory redemption	(35)	(37)	-
Debt of variable interest entities	(1,245)	(1,279)	-
Bonds and Notes, gross	24,175	23,878	23,627
Exchange loss / (gain)	(150)	(21)	14
Unamortized discounts, premiums, issue costs and other	(173)	(187)	(217)
Debt of Gallatin Generation LLC & Johnsonville Generation LLC	75	-	-
Debt of variable interest entities	1,245	1,279	-
Total outstanding debt	<u>\$ 25,172</u>	<u>\$ 24,949</u>	<u>\$ 23,424</u>

Note: Numbers shown may be adjusted for rounding