

# 1<sup>st</sup> Quarter Report



## TO SHAREHOLDERS

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FOR THE THREE MONTHS ENDED MARCH 31, 2003

### **PRESIDENT'S MESSAGE**

Dear Shareholder:

The first quarter's overall solid results indicate the strategy we implemented a year ago to bolster Puget Energy's financial performance is proving to be a strength for our company. While first-quarter 2003 earnings of 45 cents per diluted share were well above 2002's first-quarter earnings of 28 cents per diluted share, we faced the challenges of mild winter weather for our regulated utility and harsh winter conditions in the Northeast and Midwest for our non-regulated subsidiary.

Temperatures that were nearly 11 percent warmer-than-normal in the Pacific Northwest softened our utility's planned contribution to earnings. The exceptionally warm temperatures reduced anticipated earnings for our regulated utility subsidiary Puget Sound Energy by 10 cents per share. Consequently, we are taking a more cautious stand on our financial performance goals for the year, revising downwards by 10 cents a share our outlook for Puget Energy's 2003 earnings target in the range of \$1.40 to \$1.50 per share.

We have entered 2003 with very focused goals: continued growth in PSE's customer base and implementation of a long-range plan for acquiring additional energy resources to meet the needs of our utility customers. Furthermore, we remain committed to advance the progress of our utility's pay-down of debt and growth of corporate equity, with a focus on improving credit ratings.

For InfrastruX Group, our non-regulated utility-construction business, the past quarter's prolonged periods of snow accumulation and freezing temperatures in the eastern and central parts of the U.S. posed tough construction conditions, resulting in a loss of \$3.4 million. Focused on accelerating the completion of backlogged construction projects and achieving operational-efficiency initiatives in 2003, InfrastruX expects solid performance for the rest of the year.

Despite the adverse effects of weather, this was a very good quarter for Puget Energy. I'm confident that Puget Energy is poised for success and the creation of shareholder value. We will continue to strive to exceed your expectations.

Sincerely,

Stephen P. Reynolds  
President and Chief Executive Officer

*Certain statements contained in this news release are "forward-looking statements" within the meaning of the federal securities laws. Although Puget Energy and Puget Sound Energy believe that the expectations reflected in such statements are reasonable, there can be no assurance that the expected results will be achieved. For additional information concerning certain assumptions, risks, and uncertainties involved in the forward-looking statements contained herein, please refer to Puget Energy's reports on file with the SEC.*

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### **PLEASE NOTE**

Mellon Investor Services LLC, is Puget Energy's Securities Processing Agent, handling all securities transfer transactions, Dividend Reinvestment Plan administration and dividend payments. For your convenience, use the toll-free number, **1-800-997-8438**.

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**Condensed Balance Sheet**

(In thousands)

	At 3/31/03 (Unaudited)	At 12/31/02
<b>Assets</b>		
Net utility plant	\$ 3,919,079	\$ 3,916,229
Other property and investments	387,890	378,130
Current assets	647,980	672,744
Long-term assets	691,300	690,388
<b>Total assets</b>	<b>\$ 5,646,249</b>	<b>\$ 5,657,491</b>
<b>Capitalization</b>		
Common equity	\$ 1,550,212	\$ 1,523,787
Preferred stock	95,662	103,162
Trust preferred	280,250	300,000
Long-term debt	2,072,260	2,149,733
<b>Total capitalization</b>	<b>3,998,384</b>	<b>4,076,682</b>
Minority interest	10,301	10,629
Current liabilities	625,772	572,047
Long-term liabilities and deferred taxes	1,011,792	998,133
<b>Total capitalization and liabilities</b>	<b>\$ 5,646,249</b>	<b>\$ 5,657,491</b>

**Condensed Income Statement (Unaudited)**

(In thousands, except per-share amounts)

	3 months ended 3/31 <sup>1</sup>		12 months ended 3/31	
	2003	2002	2003	2002
Operating revenues	\$ 675,961	\$ 739,060	\$ 2,329,188	\$ 2,601,385
Operating expenses (before federal income taxes)	553,210	641,554	1,935,034	2,312,055
Federal income taxes	31,366	20,935	69,671	46,177
Operating income	91,385	76,571	324,483	243,153
Other income	704	384	5,778	12,968
Interest charges	47,665	50,398	193,643	195,023
Minority interest	(332)	79	456	79
Net income before cumulative effect of change	44,756	26,478	136,162	61,019
Cumulative effect of accounting change	169	---	169	---
Net income	\$ 44,587	\$ 26,478	\$ 135,993	\$ 61,019
Income available to common	\$ 42,720	\$ 24,466	\$ 128,307	\$ 52,752
Common shares outstanding - basic	93,740	87,175	89,906	86,729
Common shares outstanding - diluted	94,172	87,408	90,328	86,958
Basic and diluted earnings per common share				
before cumulative effect of accounting change	\$ 0.46	\$ 0.28	\$ 1.43	\$ 0.61
Cumulative effect of accounting change	---	---	-	---
Basic and diluted earnings per common share	\$ 0.46	\$ 0.28	\$ 1.43	\$ 0.61
Diluted earnings per common share				
before cumulative effect of accounting change	\$ 0.45	\$ 0.28	\$ 1.42	\$ 0.61
Cumulative effect of accounting change	---	---	-	---
Diluted earnings per common share	\$ 0.45	\$ 0.28	\$ 1.42	\$ 0.61

**Customers served - Puget Sound Energy data<sup>2</sup>**

(Average for the period)

Electricity	963,678	945,485	954,611	936,330
Gas	628,589	610,482	618,859	602,046

**Weather (heating degree days)**

Actual	1,794	2,095	4,645	5,109
Normal	2,008	2,008	4,905	4,905

**Common stock dividends<sup>3</sup>**

Common Stock dividend per share	\$ 0.25	\$ 0.46	\$ 1.00	\$ 1.84
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<sup>1</sup> Partial-year results may not accurately predict full-year performance, as earnings are significantly affected by weather.<sup>2</sup> Puget Sound Energy is the electric and natural gas utility of Puget Energy.<sup>3</sup> Puget Energy's common stock dividend per share will be \$0.25 per quarter, or \$1.00 annually, beginning May 15, 2002.**PUGET ENERGY**

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