

# 2<sup>nd</sup> Quarter Report



## TO SHAREHOLDERS

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FOR THE THREE MONTHS ENDED JUNE 30, 2003

### **PRESIDENT'S MESSAGE**

Dear Shareholder:

Puget Energy's continued focus on the steady and efficient growth of our regulated utility enabled us to deliver sound second-quarter financial results.

During the second quarter, Puget Energy earned \$20.6 million, or 22 cents per diluted share. This compares with \$29.4 million, or 34 cents per diluted share, for the second quarter in 2002 when there was a one-time \$25 million interim increase in electric revenues for the April-June 2002 period that allowed our Puget Sound Energy utility to recover increased power-supply costs. (The utility's increases in general rates set in the second half of 2002-4.6 percent for electric service and 5.8 percent for natural gas service- are spread over a full-year period.)

Despite continued weakness in Washington state's economy, the growth of our utility is indicative of a strong core business and service territory that will continue to drive future financial performance. Puget Sound Energy's customer base is growing at about a 2 percent annual rate on the electric side, and a 3.2 percent rate on the natural gas side.

During the second quarter, our non-regulated utility construction services business, InfrastruX Group, added \$2.8 million, or 3 cents a share, to net income-the same level as a year ago. While InfrastruX this year has faced the challenges of severe weather conditions on its construction projects and slow-paced spending by its utility customers, we are confident the fundamentals of this business remain sound.

We are pleased with the results of our second-quarter earnings and are anticipating our previously announced earnings guidance for 2003 will be within the low end of the \$1.40 to \$1.50 per-share range.

Through the dedication and commitment of employees, we are growing Puget Energy financially and are remaining focused on our utility's 2003 initiative to implement plans to acquire and deliver safe, reliable low-cost energy to an expanding customer base. I am grateful for your continued support of Puget Energy.

Sincerely,

A handwritten signature in black ink that reads "Stephen P. Reynolds".

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.*

### **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 6/30/03<br>(Unaudited) | At 12/31/02         |
|---|---------------------------|---------------------|
| <b>Assets</b>                               |                           |                     |
| Net utility plant                           | \$ 3,932,248              | \$ 3,916,229        |
| Other property and investments              | 407,368                   | 378,130             |
| Current assets                              | 576,556                   | 672,744             |
| Long-term assets                            | 710,430                   | 690,388             |
| <b>Total assets</b>                         | <b>\$ 5,626,602</b>       | <b>\$ 5,657,491</b> |
| <b>Capitalization</b>                       |                           |                     |
| Common equity                               | \$ 1,555,114              | \$ 1,523,787        |
| Preferred stock                             | 95,639                    | 103,162             |
| Trust preferred                             | 280,250                   | 300,000             |
| Long-term debt                              | 2,007,189                 | 2,149,733           |
| <b>Total capitalization</b>                 | <b>3,938,192</b>          | <b>4,076,682</b>    |
| Minority interest                           | 11,460                    | 10,629              |
| Current liabilities                         | 638,358                   | 572,047             |
| Long-term liabilities and deferred taxes    | 1,038,592                 | 998,133             |
| <b>Total capitalization and liabilities</b> | <b>\$ 5,626,602</b>       | <b>\$ 5,657,491</b> |

**Condensed Income Statement (Unaudited)**

(In thousands, except per-share amounts)

|  | 3 months ended 6/30 <sup>1</sup> |            | 6 months ended 6/30 <sup>1</sup> |              |
|--|----------------------------------|------------|----------------------------------|--------------|
|  | 2003                             | 2002       | 2003                             | 2002         |
| Operating revenues                               | \$ 557,856                       | \$ 540,819 | \$ 1,233,818                     | \$ 1,279,879 |
| Operating expenses (before federal income taxes) | 486,617                          | 450,344    | 1,039,828                        | 1,091,898    |
| Federal income taxes                             | 4,832                            | 13,642     | 36,198                           | 34,577       |
| Operating income                                 | 66,407                           | 76,833     | 157,792                          | 153,404      |
| Other income                                     | 2,247                            | 3,441      | 2,952                            | 3,825        |
| Interest charges                                 | 45,980                           | 48,682     | 93,645                           | 99,080       |
| Minority interest                                | 282                              | 223        | (50)                             | 302          |
| Net income before cumulative effect of change    | 22,392                           | 31,369     | 67,149                           | 57,847       |
| Cumulative effect of accounting charge           | ---                              | ---        | 169                              | ---          |
| Net income                                       | \$ 22,392                        | \$ 31,369  | \$ 66,980                        | \$ 57,847    |
| Income available to common                       | \$ 20,598                        | \$ 29,429  | \$ 63,319                        | \$ 53,895    |
| Common shares outstanding - basic                | 93,928                           | 87,448     | 93,833                           | 87,309       |
| Common shares outstanding - diluted              | 94,440                           | 87,646     | 94,346                           | 87,508       |
| Basic earnings per common share                  |                                  |            |                                  |              |
| before cumulative effect of accounting change    | \$ 0.22                          | \$ 0.34    | \$ 0.68                          | \$ 0.62      |
| Cumulative effect of accounting charge           | ---                              | ---        | -                                | ---          |
| Basic earnings per common share                  | \$ 0.22                          | \$ 0.34    | \$ 0.68                          | \$ 0.62      |
| Diluted earnings per common share                |                                  |            |                                  |              |
| before cumulative effect of accounting change    | \$ 0.22                          | \$ 0.34    | \$ 0.67                          | \$ 0.62      |
| Cumulative effect of accounting charge           | ---                              | ---        | -                                | ---          |
| Diluted earnings per common share                | \$ 0.22                          | \$ 0.34    | \$ 0.67                          | \$ 0.62      |

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

(Average for the period)

|             |         |         |         |         |
|-------------|---------|---------|---------|---------|
| Electricity | 967,775 | 948,623 | 963,931 | 945,518 |
| Gas         | 632,758 | 613,264 | 629,061 | 610,737 |

**Weather (heating degree days)**

|        |     |     |       |       |
|--------|-----|-----|-------|-------|
| Actual | 903 | 994 | 2,697 | 3,089 |
| Normal | 888 | 888 | 2,830 | 2,830 |

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

|                                      |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|
| Common Stock dividend per share paid | \$ 0.25 | \$ 0.25 | \$ 0.50 | \$ 0.71 |
|--------------------------------------|---------|---------|---------|---------|

<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 is \$0.25 per quarter, or \$1.00 annually, beginning May 15, 2002.

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