



## A DIRECT APPROACH



Ours is a practical company. If there's a straight line from an opportunity to an outcome that's good for business — and consistent with our values — we go forward.

Avista. We favor a direct approach.

## AVISTA BUSINESSES

We are among the nation's most efficient and cost-competitive energy providers, with utility operations in five Western states. By focusing on our core utility business, Avista gains expertise directly applicable to our energy-related subsidiaries.

### Regulated Business

**Avista Utilities** provides energy to 320,000 electric and 290,000 natural gas customers, primarily in the Pacific Northwest.

### Unregulated Business

**Avista Energy** applies our energy marketing knowledge and experience to physical assets in Western regional markets.

**Avista Advantage** streamlines utility billing and related business processes for multi-site organizations.

**Avista Labs** develops clean, reliable modular fuel cell technology for distributed power markets.

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# The right direction

Despite a fair degree of adversity, Avista gained strength and momentum in 2002.

Our two principal energy businesses operated profitably, providing the means to repurchase \$204 million in high-cost debt. As a result, we achieved a debt ratio of 54 percent, reduced future interest expense and earned an upgrade in our credit outlook from Standard & Poor's. We further stabilized our financial footing with a Washington rate case agreement that includes a mechanism for more predictable future earnings. And we are well on our way to favorably resolving the Federal Energy Regulatory Commission's investigation into our energy trading practices, with no finding of improper activities.

The progress we've made is all the more striking in light of some truly serious obstacles. Like many in our industry, we confronted grave financial hardship in 2002. Adding to the strain were delays in a significant generation project and a political threat to our largest hydroelectric asset.

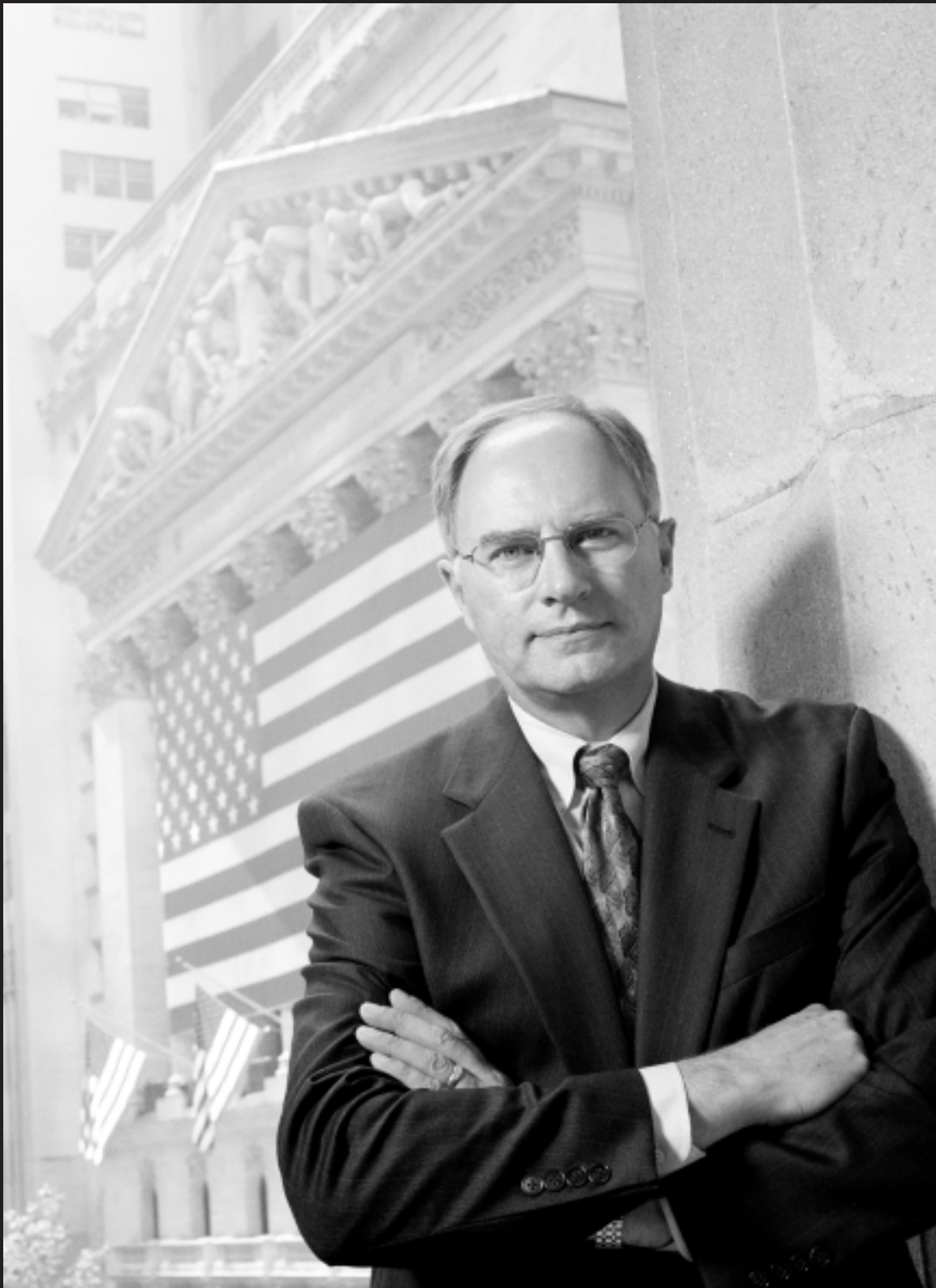
Such difficulties have repercussions, and Avista's 2002 results reflect that. Net income totaled \$31 million on revenues of \$980 million and earnings per diluted share of \$0.60. Overall, our stock

finished the year down 12.82 percent. This compares well to the Dow Jones industrial and utility averages, however, which were down 16.76 percent and 26.79 percent, respectively.

While it was a tough year, I remain upbeat — and with good reason. Any company as long-established as Avista finds a way to manage the ups and downs of business. We do so by holding fast to our guiding principles. No matter the situation or opportunity, these principles of trust, integrity, innovation, relationships and collaboration apply. And they steer us toward an outcome consistent with our values.

Our adherence to guiding principles accounts for the successes we realized in the midst of 2002's challenges. We drew on Avista's collaborative relationship with regulators in crafting an all-party settlement of the remaining issues in our general rate case before the Washington Utilities and Transportation Commission. Consequently, we will recover the vast majority of 2001's deferred power costs. We also were granted an energy recovery mechanism in Washington that, along with the regulatory tracking mechanisms in place for electric and natural gas operations in all the states we serve, will promote ongoing financial stability.

CONTINUED



**Gary G. Ely** has been with Avista for 36 of its 50 years on the New York Stock Exchange. It was an honor for Gary to preside over The Closing Bell™ on October 2, 2002. Several other long-time Avista employees joined him in this celebration of our golden anniversary as an NYSE-listed company.

Fewer than 10 percent of companies on the exchange reach that landmark. We're pleased to be among them.

In order to maintain a good relationship with you, our shareholders, we've undertaken additional measures to restore value. Avista Energy's continued success, along with Avista Utilities' improved performance, provided much of the cash we used to reduce total outstanding debt by \$248 million by year-end. We intend, through similar strategies, to persevere in elevating our financial performance and, over time, to regain our investment-grade credit rating.

Our customers' trust is equally important to us, and the past year saw us reach our goal of owning or controlling sufficient generation to meet their needs. We overcame some serious impediments to achieve the level of reliability we're determined to provide current and future customers — including a number of unavoidable delays in completing our Coyote Springs 2 plant and a Montana voter initiative that attempted to transfer title of the state's privately owned hydroelectric projects to the public. The measure was defeated, preserving our long-time ownership of Noxon Rapids Dam.

All that progress aside, we understand, of course, that you are less interested in what we have done than in what we will do. Here is what you can expect from Avista in the months and years ahead: continued reduction of our debt ratio and interest costs, in part through earnings contributions from Avista Energy; improved Avista Utilities earnings through cost controls and price increases, where appropriate; and renewed focus on revenue growth

at the utility through such measures as increased commercial and industrial sales, and economic development programs.

In addition, we'll remain disciplined in our approach to Avista Labs and Avista Advantage. Both these businesses met key milestones in 2002. And although market conditions have hampered our efforts to find a partner for Avista Labs, we are in discussions with several parties. Our goal is less than 20 percent ownership of this subsidiary. At Avista Advantage, we'll continue our push toward sustained profitability.

There's a long road ahead for Avista. It may take another two years for us to reach the solid financial position you — and I — expect of us. We do have several things working in our favor, including a resource base that provides our customers some of the lowest-cost electricity in the nation. And we have the finest, most capable people I know working on the task. You'll read about a few of them in the pages that follow. Most Avista employees are shareholders just like you, and they have your best interests in mind. You can count on that.



Gary G. Ely  
Chairman, President and  
Chief Executive Officer

March 14, 2003

## FINANCIAL AND OPERATING HIGHLIGHTS

(Dollars in Thousands Except Statistics and Per Share Amounts or as Otherwise Indicated)

	2002	2001	2000
<b>Financial Results</b>			
Operating revenues	\$ 980,446	\$1,395,313	\$ 1,858,516
Operating expenses	835,759	1,226,021	1,641,428
Income from operations	144,687	169,292	217,088
Income from continuing operations	34,310	59,605	101,055
Income (loss) from discontinued operations	1,145	(47,449)	(9,376)
Net income before cumulative effect of accounting change	35,455	12,156	91,679
Cumulative effect of accounting change	(4,148)	—	—
Net income	31,307	12,156	91,679
Income available for common stock	28,905	9,724	67,944
Earnings per common share from continuing operations, diluted	0.67	1.20	1.67
Earnings (loss) per common share from discontinued operations, diluted	0.02	(1.00)	(0.20)
Earnings per common share before cumulative effect of accounting change, diluted	0.69	0.20	1.47
Loss per common share from cumulative effect of accounting change, diluted	(0.09)	—	—
Earnings per common share, diluted	0.60	0.20	1.47
Earnings per common share, basic	0.60	0.21	1.49
Dividends paid per common share	0.48	0.48	0.48
Book value per common share	14.84	15.12	15.34
Average common shares outstanding	47,823	47,417	45,690
Actual common shares outstanding	48,044	47,633	47,209
Return on average common equity	4.0%	1.3%	12.9%
Common stock closing price	11.56	13.26	20.50
<b>Operating Results</b>			
<b>AVISTA UTILITIES</b>			
Retail electric revenues	\$ 463,667	\$ 398,441	\$ 394,439
Retail kWh sales (in millions)	7,584	8,018	8,238
Retail electric customers at year-end	320,210	316,694	313,290
Wholesale electric revenues	\$ 64,082	\$ 480,903	\$ 864,754
Wholesale kWh sales (in millions)	2,216	6,262	15,807
Total natural gas revenues	\$ 309,823	\$ 308,643	\$ 224,846
Total therm sales (in thousands)	516,491	541,984	595,902
Total natural gas customers at year-end	290,278	284,420	278,982
Net income (loss)	\$ 36,382	\$ 24,164	\$ (38,781)
<b>ENERGY TRADING AND MARKETING</b>			
Revenues	\$ 54,207	\$ 134,266	\$ 307,746
Net income	22,425	63,246	161,753
kWh sales (in millions)	40,426	47,927	105,548
Natural gas sales (thousands of dekatherms)	225,983	248,193	273,448
Coal sales (thousands of tons)	—	—	3,514
<b>INFORMATION AND TECHNOLOGY</b>			
Revenues	\$ 17,630	\$ 13,815	\$ 5,732
Net loss	(12,117)	(19,384)	(19,032)
<b>OTHER</b>			
Revenues	\$ 14,645	\$ 16,385	\$ 32,937
Net loss	(12,380)	(8,421)	(2,885)
<b>Other Financial and Operating Statistics</b>			
Total assets	\$3,614,133	\$4,037,223	\$12,577,081
Total net utility property	1,563,704	1,565,642	1,518,312
Utility capital expenditures	64,207	119,905	98,680
Total capitalization:			
Long-term debt	902,635	1,175,715	679,806
Preferred trust securities	100,000	100,000	100,000
Preferred stock	33,250	35,000	35,000
Common equity	712,791	720,063	724,224
Total Capitalization	\$1,748,676	\$2,030,778	\$ 1,539,030

## 2002 MILESTONES

Avista advanced on several fronts over the course of the year.

**Malyn K. Malquist**



### FINANCIAL

- We strengthened our financial position with improved operating cash flow and earnings.
- Standard & Poor's upgraded its credit outlook to stable and affirmed its credit ratings for Avista.
- Malyn K. Malquist joined the company as our chief financial officer and senior vice president. He comes to us from Truckee Meadows Water Authority, where he served as general manager. Previously, Malyn was CEO of Sierra Pacific Resources and vice president of finance and treasurer at San Diego Gas and Electric. He replaces Jon E. Eliassen, who retired after nearly 33 years with Avista.

### REGULATORY

- The Federal Energy Regulatory Commission (FERC) suspended its investigation of Avista after it found no evidence of improper energy trading practices.
- Montana voters resoundingly rejected Initiative 145 in the November general election. The defeat of the measure, which would have allowed the state to purchase a dozen privately owned hydro-electric dams, secures our continued ownership of the 527-megawatt Noxon Rapids Dam, our largest generation facility.
- Washington regulators allowed us to begin recovering \$196 million in deferred power costs, approved a general rate case, and authorized an energy recovery mechanism to reduce our risk when market prices fluctuate.

**Noxon Rapids Dam**



**Scott L. Morris**



### ECONOMIC DEVELOPMENT

- Scott L. Morris, senior vice president of Avista Corp. and president of Avista Utilities, was named chairman of the newly formed Washington State Economic Development Commission.

As we move Avista forward, certain principles guide our decisions: trust, integrity, innovation, relationships and collaboration. They are the means by which we will achieve our desired ends.

These are not unusual concepts, but the following pages will demonstrate how seriously we take them, how deeply we feel them, and how diligently we apply them.



TRUST

INTEGRITY

INNOVATION

RELATIONSHIPS

COLLABORATION



## OUTCOME

Tom Beil | Wells Fargo

“We’ve been doing business with Avista for 32 years. We know the people in management, and we understand the company.

“Our bank, as a rule, is pretty deliberate in making our decisions. We pay as much attention to management strength and character — to the integrity of management — as we do the financials.

“Many companies at one time or another are going to go through financial issues. Avista’s always been candid and up front about what its issues are. Good companies are good companies regardless of what industry they’re in.”

OPPORTUNITY:

# Financial Responsibility

Doing the right thing in good times is fairly easy. Acting with integrity when times are tough shows a company's true mettle.

Last year, Wells Fargo and our other banks clearly observed how Avista deals with adverse conditions. We'd spent hundreds of millions of dollars to purchase power during the 2001 energy crisis. It was absolutely the correct decision — our customers have come to expect an exceptional level of reliability from us — but it had serious consequences that played out in 2002.

Others in our industry have experienced similar financial strains. We're not alone in that regard. But we think the way we dealt with those pressures was uniquely Avista.

First, we laid our cards on the table and sought counsel from those — like Wells Fargo — who know us best.

The costs we incurred jeopardized our credit agreements; we saw it coming and alerted our banks in advance. Those were frank and sometimes painful conversations, but they generated a level of trust that allowed our creditors the flexibility to waive some covenants while we addressed a series of challenging cash shortages and worked to regain our financial strength.

Then we made difficult, disciplined choices to bring capital expenditures and operating and maintenance expenses in under budget. We received rate increases to help drive down last year's energy deferral balances and lowered our debt ratio to 54 percent compared to 59 percent at the end of 2001.

We're determined to restore our bond rating to investment grade. While it may take a couple of years, we've seen progress already. In December, Standard & Poor's upgraded its credit outlook for Avista from negative to stable.

OPPORTUNITY:

# Sharing Ideas

If ever a situation put our belief in collaboration to the test, this was it.

An unfortunate convergence of record low hydro conditions, a short supply of power and soaring wholesale prices led to the hundreds of millions of dollars in purchased power costs we'd incurred by the end of 2001. But by the middle of 2002, we'd successfully secured financial relief through an all-party settlement with Washington regulators and others involved in the case — and found a way to protect our customers' and shareholders' best interests in the process.

We'd previously been granted the right to recover 90 percent of our deferred power costs, and the final agreement included an energy recovery mechanism for adjusting electric rates up or down as necessary to reflect future changes in our supply costs. This mechanism will stabilize Avista's financial results in cases of severe market disruptions when prices spike. And by opting to spread our recovery of the deferred costs over time, we mitigate the financial effects on those we serve.

We recognize the benefits of such mutually agreeable resolutions, and we look for ways to bring them about. At Avista Energy, for instance, our five-year association with Clark County Public Utility District bears fruit for both parties. We gain experience in managing and transporting fuel for its gas-fired generation facility, and Clark County draws on our purchasing expertise. In another arrangement, we combine our understanding of the marketplace with Chelan County Public Utility District's aptitude for operating physical assets to meet demand with the right product — and maximize results.

We've always sought to collaborate with other players in the relatively new field of distributed generation. In 2002, Avista Labs formed a partnership with Airgas, Inc. for further developing the U.S. hydrogen-powered fuel cell market. We also established a supply agreement with 3M and three new distribution channels, including one for Italian markets with SGS Future s.r.l.



## OUTCOME

**Don Falkner | Manager of Revenue Requirements | Rates Department, Avista Utilities**

“With the financial situation we were in, we had no choices. The magnitude of unrecovered energy costs was staggering. Still, we tried to strike a balance between Avista’s financial health and the impact on our customers. Our company has a long history of caring about our customers, about our community and about our shareholders.

“It goes back to our way of doing business. We try to come to mutually beneficial resolutions. We’ve chosen to work with regulators in a way that is open, cooperative and responsive. We may not agree on everything, but there’s a way to work through issues that recognizes the needs of the other parties. We tend to take that approach. People appreciate it.”



## OUTCOME

**Martha Choe | Washington State Department of Community, Trade and Economic Development**

“There are certain companies that integrate economic development with their business model. Avista is one of those companies.

“Scott Morris’ participation in the governor’s competitiveness council and his leadership in spearheading an economic development commission for the state both say a lot about the willingness of the company to step up and assume some responsibility. I think it demonstrates a real passion and a personal commitment on Scott’s part to making sure the state is a great place to do business.

“It’s a smart strategic move for Avista. For a utility to grow and thrive it needs more people, more businesses to serve. It’s smart to find ways to grow the economy and find more customers.”



OPPORTUNITY:

# Economic Expansion

When Washington Governor Gary Locke asked Scott Morris, Avista senior vice president, to head the Washington State Economic Development Task Force, Scott didn't hesitate. Our deeply rooted tradition of working for the prosperity of the communities we serve made this a perfect fit for the company. And with his experience in a similar capacity in Oregon, it was a natural for Scott, too.

The task force's work led to the formation of a permanent state Economic Development Commission, and Scott has taken on the leadership of that group, as well.

Avista is drawn to this kind of public-private partnership. That's why we lent an Avista executive to the City of Spokane in 2002 to support the mayor and city council in their economic development activities. We also united with area developers to

turn an old downtown hotel into a 35,000-square-foot office complex, and opened our high-speed fiber system to the region's education community, creating the Virtual Possibilities Network. Over the next five years, regional higher education institutions will have the opportunity to use our infrastructure for projects that focus on incubation, education, and research and development.

By bringing our strongest resources to bear in such collaborative efforts, we can truly effect change — and all reap the benefits of a healthy economy.

OPPORTUNITY:

# Keeping Our Word

Given our predisposition toward reliability and low-cost service, choosing to expand our generation capacity was a relatively straightforward decision. Executing that decision, however, has presented some challenges.


After several technical equipment setbacks far beyond our control, our Coyote Springs 2 combined-cycle, natural gas generation plant near Boardman, Oregon, is expected to go on line in mid-2003. The team overseeing construction of the 280-megawatt facility that we own jointly with Mirant has endured a transformer fire, a subsequent oil spill, shipping damage to the replacement transformer and the bankruptcy of two key contractors.

In the end, Avista took on the role of general contractor, assumed the financial obligations of the previous contractors, made every effort to establish continuity with remaining employees and continued to forge ahead.

Of all our assets — including equipment, pipes and wires, and generation facilities — nothing's more valuable than our word. So when we can't deliver on a commitment, the first thing to do is own up. We meant to complete Coyote Springs 2 in 2002. It didn't happen. And we believe we should say so.

The importance we place on trustworthiness worked to our advantage when Avista Energy's credit agreement expired in June. Our new line of credit represents a \$13 million increase over the previous line, a significant accomplishment considering the turmoil in energy markets. We take it as a much-appreciated vote of confidence from our banks.



A black and white portrait of a middle-aged man with short, light-colored hair, looking slightly to the left. The lighting is dramatic, with strong shadows on the right side of his face. The background is dark and out of focus.

## OUTCOME

**Tim Carlberg | Coyote Springs 2 Project Manager, Avista Utilities**

“We work hard to build and sustain good relationships. People feel they can trust us. Not that we don’t have bumpy roads sometimes, yet people at Avista can sleep at night knowing we’ve done the right thing.

“When we had the oil spill, we mobilized immediately. We had the Department of Environmental Quality on-site; we listened to them and supported them. In the end, the harm to the environment was zero. As an extra precaution, we handled this mineral oil as if it were hazardous waste, and yet it wasn’t. Our monitoring wells are showing ‘non-detect’ levels and there’s absolutely no oil on the water or the shorelines of the nearby pond. It was the best thing to do for the environment.”

## OUTCOME

**Ann Carey | Associate Vice President of Sales, Avista Advantage**

“The main thing that keeps customers with us through rocky times in the energy industry is the relationship we have built with them. Each of our teams has a core group of customers they work with so they know each other very well. We become an extension of the customer’s company.

“Providing great service also serves us well. Our customers give us a lot of referrals, and we still have huge potential to up-sell to current customers. There’s a lot of growth potential.

“To achieve and sustain profitability, we need to increase revenues and drive down costs. We’re on a good track with both.”



OPPORTUNITY:

# Controlling Costs

We're all for good ideas. But they must be profitable. So we've devoted considerable energy to turning a great product — utility bill processing and facility information management — into a solid contributor. And there's real progress to show for our efforts.

Today, it costs half what it cost last year for Avista Advantage to process an invoice. Twenty percent fewer employees handle 30 percent more bills. And we've improved gross margins from 9 percent in 2001 to 51 percent in 2002, generating our first-ever break-even cash flow this past November.

We've achieved those improvements through reduced costs, restructured business processes and more effective use of technology. These operational efficiencies leave our standard of service unchanged, though, and we've clearly earned our customers' loyalty — as the year's increased revenue attests.

At the corporate level, Avista instituted a hiring freeze, reductions in staff and aggressive budget cuts. That cost-conscious approach is not likely to change any time soon; our 2003 budgets will compensate for much higher pension, insurance and health-care costs. And although our utility customers continue to enjoy some of the lowest-priced electricity in the country, their bills are higher as a reflection of our increased operating costs.

While we can't control external business and economic circumstances, we can control our response. We've involved employees in addressing our financial issues, and we conducted a benchmark study to identify further strategic cost reductions.

OPPORTUNITY:

# Real Connections

Certain opportunities call for a restrained response. Our regional marketing and trading company, Avista Energy, represents such a case. We've narrowed the scope and risk of this subsidiary's operations over the last few years, and it's proven the prudent course. Avista Energy's solid performance of 11 consecutively profitable quarters has contributed significantly to the corporation's overall financial health.

That record of success can be attributed, in large part, to strong, longstanding relationships with partners and customers such as Chelan County and Clark County Public Utility Districts. Avista also shares ownership of the Lancaster combined-cycle combustion turbine generating station in Idaho with Cogentrix Energy, Inc.; Avista Energy manages the fuel input and markets the entire 270-megawatt output through a long-term, power-purchase agreement. Alliances like these advance our strategy of extracting the most value from our energy assets and creating tailored packages for our customers.

And they exemplify our firm conviction that respectful relationships are good business. A single statistic from another of our subsidiaries demonstrates the power of this idea.

When you achieve a 95 percent customer retention rate — as Avista Advantage has — you know you're treating people right. Our clients at KayBee Toys, for instance, faced the choice of upgrading their service or finding another provider. They shopped around, and in the end decided no other vendor understood their business or respected their needs the way Avista Advantage does.

Our relationship with Mirant, our Coyote Springs 2 partner, is another example. After we lost a general contractor during construction, Mirant felt enough confidence in our team to affirm our position in the lead role. This solution, reached in adversity, kept us moving forward cost-effectively.





## OUTCOME

**Jiong Ji | Senior Analyst, Avista Energy**

“We concentrate on what we’re good at. Experience is vital to any successful marketing company, and we have extensive background in the Western market. In other regions, there’s more fixed generation and it’s somewhat predictable. There are more variables in the Western energy market because hydro levels change quite a bit from one year to another. That’s where our experience comes in.

“We use that experience to manage and optimize assets — like the Lancaster gas generation plant — and market the output. We also manage part of the Jackson Prairie gas storage facility in southwest Washington. And through an alliance with Chelan County Public Utility District, we share knowledge and uncover opportunities we might not find on our own. These arrangements are good for everybody.”



## OUTCOME

**Arnette Daniels** | Dispatcher, Avista Utilities

“Our outage management system has enormous potential. It actually tells us how many customers are on the line that’s out. All the information the crews need is right at our fingertips.

“It’s a great communication tool, too. Customers can call us for immediate updates on an outage. And it’s going to give us information about our delivery system that will help us keep it in better working order.

“Avista trusts employees to find a better way to do things.”

OPPORTUNITY:

# Breaking New Ground

Few businesses could survive as long as Avista has without plenty of enthusiasm for innovation.

When our employees decided customers would benefit from a new outage management tool, they took on the job themselves. Avista's people collaborated with the city and county, securing grid maps for a computerized geographic information system. The result — introduced in 2001 and enlarged in 2002 — speeds outage response times, prioritizes crew deployments, and links to our interactive voice response system to keep customers informed.

We appreciate employee-driven initiatives like the outage management tool. It's one way we find new, productive ways to take care of our customers, a goal that will become more and more important as we expand our customer base. Over the next four years, we anticipate our retail electric and gas sales to increase by up to four percent annually.

Natural gas, in particular, holds potential for growth. A survey of our natural gas customers in four states found an average of 2.5 burner tips per household, while new construction sites average 3.4 burner tips. Each burner tip represents a natural-gas-operated device such as a fireplace, stove or other appliance.

Another service introduced in 2002 offers customers the option of purchasing wind power. The program extends our activities in alternative energy beyond Avista Labs' fuel cell technology. We also worked with a partner company to launch Avista Connections in 2002, a free service for our residential customers. With one call, a customer can set up local phone, long distance, cable television, newspaper delivery and Avista Utilities services.

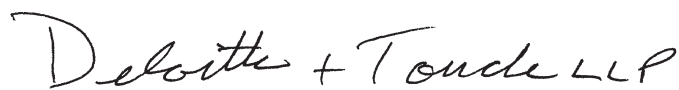
## INDEPENDENT AUDITORS' REPORT

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, 2002 and 2001, 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, 2002. Such consolidated financial statements and our report thereon dated February 7, 2003, (March 3, 2003, as to Note 28) expressing an unqualified opinion (which are not presented herein), are included in Appendix A to the 2002 annual report. 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, 2002 and 2001, and the related condensed consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2002, is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

As described in Note 2 to the consolidated financial statements included in Appendix A to the 2002 annual report, during 2002, the Company changed its method of accounting for goodwill to conform to Statement of Financial Accounting Standards No. 142, also, the Company changed its presentation of energy trading activities in accordance with Emerging Issues Task Force Issue No. 02-3.



Seattle, Washington  
February 7, 2003

(March 3, 2003, as to the information derived from Note 28 to the consolidated financial statements.)

## 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 2002 annual report. 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 Appendix A to the 2002 annual report. Their report on the condensed consolidated financial statements appears above.



Gary G. Ely  
Chairman, President and  
Chief Executive Officer



Malyn K. Malquist  
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)

	2002	2001	2000
<b>Operating Revenues</b>	<u>\$ 980,446</u>	<u>\$1,395,313</u>	<u>\$1,858,516</u>
<b>Operating Expenses</b>			
Resource costs	453,525	849,996	1,246,459
Operations and maintenance	122,920	125,656	129,708
Administrative and general	118,766	119,216	134,912
Depreciation and amortization	73,275	71,981	65,936
Taxes other than income taxes	67,273	59,172	54,608
Restructuring and exit costs	—	—	9,805
Total operating expenses	<u>835,759</u>	<u>1,226,021</u>	<u>1,641,428</u>
<b>Income from Operations</b>	<u>144,687</u>	<u>169,292</u>	<u>217,088</u>
<b>Other Income (Expense)</b>			
Interest expense	(105,336)	(106,480)	(68,255)
Capitalized interest	<u>7,486</u>	<u>10,498</u>	<u>3,359</u>
Net interest expense	(97,850)	(95,982)	(64,896)
Other income — net	<u>17,467</u>	<u>20,681</u>	<u>25,861</u>
Total other income (expense) — net	<u>(80,383)</u>	<u>(75,301)</u>	<u>(39,035)</u>
<b>Income from Continuing Operations before Income Taxes</b>	64,304	93,991	178,053
<b>Income Taxes</b>	<u>29,994</u>	<u>34,386</u>	<u>76,998</u>
<b>Income from Continuing Operations</b>	34,310	59,605	101,055
<b>Income (Loss) from Discontinued Operations</b>	<u>1,145</u>	<u>(47,449)</u>	<u>(9,376)</u>
<b>Net Income before Cumulative Effect of Accounting Change</b>	35,455	12,156	91,679
<b>Cumulative Effect of Accounting Change</b>	<u>(4,148)</u>	<u>—</u>	<u>—</u>
<b>Net Income</b>	31,307	12,156	91,679
<b>Deduct — Preferred Stock Dividend Requirements</b>	<u>2,402</u>	<u>2,432</u>	<u>23,735</u>
<b>Income Available for Common Stock</b>	<u>\$ 28,905</u>	<u>\$ 9,724</u>	<u>\$ 67,944</u>
<b>Earnings per Common Share, Basic</b>			
Earnings per common share from continuing operations	\$ 0.67	\$ 1.21	\$ 1.69
Earnings (loss) per common share from discontinued operations	<u>0.02</u>	<u>(1.00)</u>	<u>(0.20)</u>
Earnings per common share before cumulative effect of accounting change	0.69	0.21	1.49
Loss per common share from cumulative effect of accounting change	<u>(0.09)</u>	<u>—</u>	<u>—</u>
Total earnings per common share, basic	<u>\$ 0.60</u>	<u>\$ 0.21</u>	<u>\$ 1.49</u>
<b>Earnings per Common Share, Diluted</b>			
Earnings per common share from continuing operations	\$ 0.67	\$ 1.20	\$ 1.67
Earnings (loss) per common share from discontinued operations	<u>0.02</u>	<u>(1.00)</u>	<u>(0.20)</u>
Earnings per common share before cumulative effect of accounting change	0.69	0.20	1.47
Loss per common share from cumulative effect of accounting change	<u>(0.09)</u>	<u>—</u>	<u>—</u>
Total earnings per common share, diluted	<u>\$ 0.60</u>	<u>\$ 0.20</u>	<u>\$ 1.47</u>
Dividends paid per common share	\$ 0.48	\$ 0.48	\$ 0.48

## CONDENSED CONSOLIDATED BALANCE SHEETS

(As of December 31 — Dollars in Thousands)

2002 2001

### Assets

Current energy commodity assets	\$ 365,477	\$ 477,037
Other current assets	603,245	655,980
Total net utility property	1,563,704	1,565,642
Investment in exchange power — net	40,833	43,314
Nonutility properties and investments — net	204,522	230,800
Noncurrent energy commodity assets	348,309	383,497
Other property and investments — net	12,702	13,620
Regulatory assets for deferred income tax	139,138	149,033
Other regulatory assets	29,735	192,760
Utility energy commodity derivative assets	60,322	1,889
Power and natural gas deferrals	166,782	265,063
Other deferred charges	79,364	58,588
<b>Total Assets</b>	<b>\$3,614,133</b>	<b>\$4,037,223</b>

### Liabilities and Capitalization

Current energy commodity liabilities	\$ 304,781	\$ 373,837
Current portion of long-term debt	71,901	1,827
Short-term borrowings	30,000	75,099
Other current liabilities	534,148	477,711
Noncurrent energy commodity liabilities	314,204	299,980
Deferred income taxes	454,147	517,428
Utility energy commodity derivative liabilities	50,058	159,418
Other noncurrent liabilities and other deferred credits	106,218	101,145
Capitalization:		
Long-term debt	902,635	1,175,715
Preferred trust securities	100,000	100,000
Preferred stock	33,250	35,000
Common stock — net (48,044,208 and 47,632,678 outstanding shares)	607,018	600,134
Retained earnings and accumulated other comprehensive loss	105,773	119,929
<b>Total capitalization</b>	<b>1,748,676</b>	<b>2,030,778</b>
<b>Total Liabilities and Capitalization</b>	<b>\$3,614,133</b>	<b>\$4,037,223</b>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents (For the Years Ended December 31 — Dollars in Thousands)	2002	2001	2000
<b>Continuing Operating Activities:</b>			
Net income	\$ 31,307	\$ 12,156	\$ 91,679
Loss (income) from discontinued operations	(1,145)	47,449	9,376
Cumulative effect of accounting change	4,148	—	—
Noncash items included in net income:			
Depreciation and amortization	73,275	71,981	65,936
Provision for deferred income taxes	(40,287)	79,141	79,274
Power and natural gas cost amortizations (deferrals), net	68,481	(210,540)	(70,250)
Energy commodity assets and liabilities	87,403	30,238	(174,680)
Other	(1,902)	1,783	(29,061)
Changes in working capital components	<u>110,038</u>	<u>(108,278)</u>	<u>111,816</u>
<b>Net Cash Provided by (Used in) Continuing Operating Activities</b>	<u>331,318</u>	<u>(76,070)</u>	<u>84,090</u>
<b>Continuing Investing Activities:</b>			
Utility property construction expenditures (excluding AFUDC)	(64,207)	(119,905)	(98,680)
Other capital expenditures	(19,390)	(162,279)	(73,515)
Changes in other property and investments	35,190	11,163	3,403
Proceeds from property sales and sale of subsidiary investments	586	75,953	105,228
Assets acquired and investments in subsidiaries	<u>(461)</u>	<u>(23,321)</u>	<u>(1,496)</u>
<b>Net Cash Used in Continuing Investing Activities</b>	<u>(48,282)</u>	<u>(218,389)</u>	<u>(65,060)</u>
<b>Continuing Financing Activities:</b>			
Increase (decrease) in short-term borrowings	(45,099)	(88,061)	42,126
Increase (decrease) in long-term debt	(203,393)	410,249	169,717
Redemption of preferred trust securities and preferred stock	(1,750)	—	(10,000)
Issuance of common stock	7,035	8,267	4,532
Cash dividends paid	(25,456)	(25,110)	(28,304)
Other	<u>(15,990)</u>	<u>(19,693)</u>	<u>(2,757)</u>
<b>Net Cash Provided by (Used in) Continuing Financing Activities</b>	<u>(284,653)</u>	<u>285,652</u>	<u>175,314</u>
<b>Net Cash Provided by (Used in) Continuing Operations</b>	<u>(1,617)</u>	<u>(8,807)</u>	<u>194,344</u>
<b>Net Cash Provided by (Used in) Discontinued Operations</b>	<u>16,765</u>	<u>(17,210)</u>	<u>(37,094)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>15,148</u>	<u>(26,017)</u>	<u>157,250</u>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>171,221</u>	<u>197,238</u>	<u>39,988</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u><u>\$ 186,369</u></u>	<u><u>\$ 171,221</u></u>	<u><u>\$ 197,238</u></u>

## FINANCIAL SUMMARY

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

**Overall Results of Operations** – Income from continuing operations was \$34.3 million for 2002 compared to \$59.6 million for 2001. The decrease was primarily due to reduced net income recorded by the Energy Trading and Marketing line of business. Energy Trading and Marketing recorded net income of \$0.47 per share in 2002 compared to \$1.33 per share in 2001. Net income recorded by Avista Utilities was \$0.71 per share in 2002, compared to \$0.46 per share in 2001. The Information and Technology line of business incurred a net loss of \$0.25 per share in 2002 compared to \$0.41 per share in 2001. The Other line of business incurred a net loss of \$0.26 per share in 2002 compared to \$0.18 per share in 2001. The discontinued operations of Avista Communications recorded net income of \$0.02 per share in 2002 compared to a net loss of \$1.00 per share in 2001.

In April 2002, the Company completed its transitional test of goodwill related to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets.” Accordingly, the Company determined that \$6.4 million of goodwill, related to a subsidiary in the Other business segment, was impaired. The Company recorded this impairment of \$4.1 million, net of tax, or \$0.09 per share, as a cumulative effect of accounting change.

**Avista Utilities** – Avista Utilities recorded net income of \$36.4 million for 2002 compared to \$24.2 million for 2001. Avista Utilities’ income from operations was \$149.2 million for 2002 compared to \$114.9 million for 2001. This increase was primarily due to an increase in gross margin (operating revenues less resource costs). Avista Utilities’ operating revenues decreased \$336.9 million and resource costs decreased \$396.5 million resulting in an increase of \$59.6 million in gross margin for 2002 as compared to 2001. The increase in gross margin was partially offset by an increase in administrative and general expenses, depreciation and amortization and taxes other than income taxes. The general electric rate increase of 19.3 percent in Washington base retail rates effective July 1, 2002, contributed to the increase in gross margin.

Retail electric revenues increased \$65.2 million for 2002 from 2001. This increase was primarily due to the electric surcharges implemented to recover deferred power costs and the June 2002 Washington electric rate increase, partially offset by decreased use per customer and total kWhs sold. The increase in retail electric revenues was also due to refunds to customers in January 2001 of the gain on the sale of Avista Utilities’ interest in the Centralia Power Plant that reduced revenues for 2001. Wholesale electric revenues decreased \$416.8 million, or 87 percent, reflecting wholesale sales volumes which decreased 65 percent from 2001 and average sales prices that were 62 percent lower than the prior year. Wholesale sales volumes decreased primarily due to the expiration of several wholesale electric sales contracts, including two 100 MW index-based sales contracts that expired in July 2001. The extent of future wholesale transactions will be based on the availability of

resources owned or controlled by Avista Utilities and changes to loads of Avista Utilities’ customers and contractual obligations.

Other electric revenues increased \$13.5 million primarily due to the sale of natural gas purchased for electric generation that was not used in generation. Avista Utilities operated less thermal generation in 2002 as compared to 2001 based on lower retail demand, increased hydroelectric generation and decreased wholesale market prices.

Natural gas revenues increased \$1.2 million for 2002 from 2001 due to a slight increase in retail and transportation revenues, partially offset by a decrease in wholesale natural gas revenues. Retail rates were increased during 2001 to recover deferred natural gas costs. During the fourth quarter of 2002, retail rates for natural gas were reduced in response to a decrease in current and projected natural gas costs.

Power purchased for 2002 decreased \$593.0 million, or 84 percent, compared to 2001 due to the decreased volume and price of power purchases. Average purchased power prices for 2002 were 68 percent lower than 2001 and volumes purchased decreased 49 percent compared to 2001. The decrease in the volume of purchased power was primarily the result of decreases in the volume of wholesale electric sales and increased hydroelectric resource availability to meet retail demand.

Net amortization of deferred power costs was \$26.3 million in 2002 compared to net deferrals of \$202.8 million in 2001. During 2002, Avista Utilities recovered (collected as revenue) \$38.6 million of previously deferred power costs in Washington and \$24.7 million in Idaho. During 2002, Avista Utilities deferred \$22.4 million of power costs in Washington and \$13.5 million in Idaho. During 2002, \$27.7 million of a deferred credit was offset against the Idaho share of deferred power costs. Total deferred power costs were \$155.3 million as of December 31, 2002.

During 2002, Avista Utilities had \$42.2 million of net amortization of deferred natural gas costs, compared to net deferrals of \$7.7 million in 2001. Total deferred natural gas costs were \$11.5 million as of December 31, 2002.

The cost of fuel for generation for 2002 decreased \$63.4 million from 2001 primarily due to a decrease in thermal generation as well as a decrease in the average cost of natural gas used for generation. Thermal generation decreased 43 percent primarily due to increased hydroelectric generation and wholesale market prices that were generally below the cost of operating the thermal generating units.

The expense for natural gas purchased for 2002 decreased \$50.0 million compared to 2001 primarily due to the decreased average cost of natural gas.

Other fuel costs for 2002 increased \$34.6 million compared to 2001. This was due to an increase in natural gas purchased as fuel for electric generation that was not used. This excess natural gas was sold with the associated revenues reflected as other electric revenues.

**Energy Trading and Marketing** – Energy Trading and Marketing's net income was \$22.4 million for 2002, compared to \$63.2 million for 2001. The primary reason for the decrease in net income was a decrease in the net margin on energy trading activities. Net margin on energy trading activities, which is reported as operating revenues, was \$54.2 million for 2002 compared to \$134.3 million for 2001. Realized gains decreased to \$141.6 million for 2002 from \$164.5 million for 2001. Realized gains represent the net gain on contracts that have settled. The decrease was primarily due to a decrease in the underlying commodity values that settled and a decrease in the volume of transactions. The decrease in the volume of transactions was primarily due to reduced liquidity in wholesale markets, fewer creditworthy counterparties participating in the wholesale markets and a decrease in the volatility of prices in the wholesale markets. The total mark-to-market adjustment for Energy Trading and Marketing was an unrealized loss of \$87.4 million for 2002 compared to an unrealized loss of \$30.2 million for 2001. The increase in the unrealized loss is primarily due to the settlement of contracts and the realization of previously unrealized gains and decreased volatility in the wholesale energy markets.

**Information and Technology** – Information and Technology's net loss was \$12.1 million for 2002 compared to \$19.4 million for 2001. Operating revenues for this line of business increased \$3.8 million and operating expenses decreased \$7.2 million, as compared to 2001. Avista Advantage accounted for the increase in revenues primarily due to the expansion of its customer base. The decrease in operating expenses reflects reduced expenses for Avista Advantage and Avista Labs due to improved efficiencies, a reduction in the number of employees and a focus on reducing operating expenses.

**Other** – The net loss before cumulative effect of accounting change from this line of business was \$12.4 million for 2002, compared to \$8.4 million for 2001. The increase in the net loss was primarily due to a decrease in income from operations and partially due to an increase in interest expense as well as a reduction in gains on the disposition of assets. Operating revenues from this line of business decreased \$1.7 million and operating expenses increased \$2.7 million, respectively, for 2002 as compared to 2001. The decrease in income from operations was primarily due to an increase in litigation costs and settlements as well as an increase in the loss from other subsidiary operations.

**Discontinued Operations** – In September 2001, the Company reached a decision that it would dispose of substantially all of the assets of Avista Communications. The divestiture of operating assets was complete by the end of 2002. Certain liabilities of the operations remain to be settled. Net income for 2002 was \$1.1 million, compared to a net loss of \$47.4 million for 2001. Net income for 2002 was primarily due to the settlement of contracts and liabilities during the period as well as the favorable settlement of a lawsuit during the period. The significant net loss for 2001 was due to asset impairment charges of \$58.4 million recorded during the third quarter of 2001.

**Capitalization** – During 2002, short-term borrowings decreased \$45.1 million and the Company repurchased \$203.6 million of long-term debt scheduled to mature in

future years. The overall decrease in borrowings during 2002 reflects increased cash flows from operations primarily related to the recovery of deferred power and natural gas costs as well as a general rate increase for Washington electric customers that was partially used to repurchase long-term debt. Cash dividends from Avista Energy were also a significant source of funds used to repurchase long-term debt during 2002.

The Company's consolidated capital structure, including the current portion of long-term debt and short-term borrowings was 54.3 percent debt, 5.4 percent preferred trust securities, 1.8 percent preferred stock, and 38.5 percent common equity, as of December 31, 2002, compared to 59.4 percent debt, 4.7 percent preferred trust securities, 1.7 percent preferred stock, and 34.2 percent common equity as of December 31, 2001. The Company has a target capital structure of 50 percent debt and 50 percent preferred trust securities, preferred stock and common equity. The Company plans to achieve this capital structure primarily with the reduction of total debt and the retention of net earnings.

**Pension Plan** – As of December 31, 2002, the Company's pension plan had assets with a fair value that was less than the present value of the accumulated benefit obligation under the plan. In 2002, the Company recorded an additional minimum liability for the unfunded accumulated benefit obligation of \$33.4 million and an intangible asset of \$6.4 million related to the pension plan. This resulted in a charge to other comprehensive income of \$17.6 million, net of taxes. The Company does not expect the current pension plan funding deficit to have a material adverse impact on its financial condition, results of operations or cash flows. The Company made \$12 million in cash contributions to the pension plan in 2002 and the Company's funding contribution is expected to be approximately \$12 million for 2003.

**Off-balance Sheet Arrangements** – Avista Receivables Corp. (ARC) was formed for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Under the current agreement that expires in May 2005, ARC can sell without recourse, on a revolving basis, up to \$100.0 million of those receivables. As of December 31, 2002, \$65.0 million in receivables were sold pursuant to the agreement.

WP Funding LP is an entity that was formed for the purpose of acquiring the natural gas-fired combustion turbine generating facility in Rathdrum, Idaho (Rathdrum CT). WP Funding LP purchased the Rathdrum CT from the Company with funds provided by unrelated investors of which 97 percent represented debt and 3 percent represented equity. The Company operates the Rathdrum CT and leases it from WP Funding LP and currently makes lease payments of \$4.5 million per year. The total amount of WP Funding LP debt outstanding that is not included on the Company's consolidated balance sheet was \$54.5 million as of December 31, 2002. A recent interpretation issued by the Financial Accounting Standards Board will require the Company to begin consolidating WP Funding LP into its financial statements effective July 1, 2003, whereby the debt outstanding and the book value of the Rathdrum CT will be included in the Company's consolidated balance sheet.

## BOARD OF DIRECTORS

### **Erik J. Anderson**

President  
Westriver Capital  
Kirkland, Washington  
Director since 2000

### **Kristianne Blake**

President  
Kristianne Gates Blake, P.S.  
Spokane, Washington  
Director since 2000

### **David A. Clack**

Managing Director  
Meridian Capital, LLC  
Spokane, Washington  
Director since 1988

### **Roy Lewis Eiguren**

Senior Partner  
Givens Pursley LLP  
Boise, Idaho  
Director since 2002

### **Gary G. Ely**

Chairman, President and  
Chief Executive Officer  
Avista Corp.  
Spokane, Washington  
Director since 2001

### **John F. Kelly**

Chairman, President and  
Chief Executive Officer  
Alaska Air Group  
Seattle, Washington  
Director since 1997

### **Jessie J. Knight, Jr.**

President and Chief  
Executive Officer  
San Diego Regional  
Chamber of Commerce  
San Diego, California  
Director since 1999

### **Dr. Lura J. Powell**

President  
Lura J. Powell & Associates  
Richland, Washington  
Director since 2003

### **R. John Taylor**

Chairman and Chief  
Executive Officer  
AIA Services Corporation  
Lewiston, Idaho  
Director since 1985

## TRIBUTE

### **Sarah M.R. (Sally) Jewell**

Executive Vice President and Chief Operating Officer  
Recreational Equipment, Inc. (REI)  
Kirkland, Washington  
Director since 1997

Following six years of dedication to Avista, Sally Jewell will complete her service as a board member at the company's annual meeting in May 2003. We've been enriched over the years by Sally's invaluable strategic and financial expertise, her thoughtful perspective and endless enthusiasm. Sally will be greatly missed by her fellow board members and Avista colleagues.

### **Bobby Schmidt**

President  
Schmidt Trading, Inc.,  
Hilton Head Island, South Carolina  
Director since 1997

Bob left the board on May 28, 2002, after serving as a board member for five dedicated years. We benefited tremendously from his energy trading expertise, wealth of knowledge and wise counsel. We are grateful for Bob's commitment and support, and wish him our best as he continues to be engaged in his many and diverse endeavors.

## CORPORATE AND BUSINESS UNIT OFFICERS

### **Corporate**

#### **Gary G. Ely**

Chairman, President and  
Chief Executive Officer

#### **Malyn K. Malquist**

Senior Vice President and  
Chief Financial Officer

#### **David J. Meyer**

Senior Vice President and  
General Counsel

#### **Scott L. Morris**

Senior Vice President

#### **Terry L. Syms**

Vice President and  
Assistant to the  
Chairman

#### **David A. Brukardt**

Vice President and  
Treasurer

#### **Christy M. Burmeister-Smith**

Vice President and  
Controller

#### **Karen S. Feltes**

Vice President of Human  
Resources and Corporate  
Secretary

#### **Kelly O. Norwood**

Vice President

#### **Ronald R. Peterson**

Vice President

#### **Roger D. Woodworth**

Vice President

### **Business Unit**

#### **Avista Advantage**

Harry E. Stephens  
President and Chief  
Executive Officer

Gerry D. Crooks  
Founder and Chief  
Strategic Officer

#### **Avista Energy**

Dennis P. Vermillion  
President and Chief  
Operating Officer

#### **Avista Labs**

J. Michael Davis  
President and Chief  
Executive Officer

#### **Avista Utilities**

Scott L. Morris  
President

## TRIBUTE

### **Jon E. Eliassen**

For more than three decades, Jon has served Avista Corp., the industry and the community. He joined the company in 1970 and over the course of his tenure, Jon made a vital contribution as an invaluable member of our leadership team. He served as Avista's chief financial officer and in a number of other financial positions.

The boards of Western Energy Institute, Pacific Coast Gas Association, Edison Electric Institute, Western Electric Power Institute, the Spokane Symphony Endowment Fund, the Northwest Museum of Arts and Culture, and the Spokane Intercollegiate Research and Technology Institute have all benefited from Jon's insight and energy.

We wish Jon and his wife, Val, happiness in retirement.

## CORPORATE INFORMATION

### Company Headquarters

Avista Corp.  
1411 East Mission Avenue  
Spokane, Washington 99202

### Avista Corp. on the Internet

Financial results, stock quotes, news releases, documents filed with the Securities and Exchange Commission and information on the company's products and services are available at Avista Corp.'s home page on the Internet. The address is <http://www.avistacorp.com>.

### Transfer Agent

The Bank of New York is the company's stock transfer, dividend payment and reinvestment plan agent. Answers to many shareholder questions and requests for forms are available by visiting The Bank of New York's Web site at <http://www.stockbny.com>.

Inquiries should be directed to:

The Bank of New York  
Shareholder Relations Department  
P.O. Box 11258  
Church Street Station  
New York, New York 10286-1258  
Phone: (800) 642-7365  
e-mail: [shareowner-svcs@bankofny.com](mailto:shareowner-svcs@bankofny.com)

### Investor Information

A copy of the company's financial reports, including the reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission, will be provided, without charge, upon request to:

Avista Corp.  
Investor Relations  
P.O. Box 3727 MSC-18  
Spokane, Washington 99220-3727  
Phone: (800) 222-4931

### Annual Meeting of Shareholders

Shareholders are invited to attend the company's annual meeting to be held at 10 a.m. PDT on Thursday, May 8, 2003, at Avista Corp. headquarters, 1411 East Mission Avenue in Spokane, Washington.

The annual meeting also will be webcast. Please go to <http://www.avistacorp.com> to preregister for the webcast in advance of the annual meeting and to listen to the live webcast. The webcast will be archived at <http://www.avistacorp.com> through 5 p.m. PDT on May 15, 2003, to allow shareholders to listen to it at their convenience.

### Exchange Listings

Ticker Symbol: AVA  
New York Stock Exchange  
Pacific Exchange



This annual report contains forward-looking statements regarding the company's current expectations. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from the expectations. These risks and uncertainties include, in addition to those discussed herein, all factors discussed in the company's annual report on Form 10-K for the year 2002. Our 2002 annual report is provided for investors. It is not intended for use in connection with any sale or purchase of or any solicitation of others to buy or sell securities.

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Avista employees featured on the cover by row from left to right: TOP ROW – Tim Carlberg / Coyote Springs 2 Project Manager; Diane Thoren / Assistant Treasurer and Director of Corporate Finance; Don Falkner / Manager of Revenue Requirements. MIDDLE ROW – Arnette Daniels / Dispatcher; Jiong Ji / Senior Analyst; Malyn Malquist / Chief Financial Officer and Senior Vice President of Avista Corp. BOTTOM ROW – Scott Morris / Senior Vice President of Avista Corp. and President of Avista Utilities; Hassel Dotson / Line Foreman; Ann Carey / Associate Vice President of Sales.



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