ENERGY AT WORK

2003 Avista Corp. Summary Annual Report

There's no magic to this business. It is the most basic of undertakings. But when done well – and after 115 years we know what that means – it fuels the economy, powers our workplaces and sheds light on the bedtime stories we read to our children.

AVISTA Corp.

Avista Businesses

Avista is a company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista operating divisions and subsidiaries include:

Avista Utilities provides energy to more than 325,000 electric and 300,000 natural gas customers, primarily in the Pacific Northwest.

Avista Energy applies 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.

Table of Contents

That's the real magic of

energy at work.

Gary G. Ely
Chairman, President and
Chief Executive Officer

To Our Shareholders

Energy is more than what we sell. It's the way we tackle our financial challenges, strive forward and make good on our commitments. With energy.

You're only as good as your word.

I grew up on a farm where my dad had a profound impact on me. We made do with what we had and lived within our means. We had stewardship over the water, the land and the livestock. I learned what it meant to be dependable, to put in an honest day's work and to make tough decisions as we watched over our crops and herds. I feel much the same way about the stewardship of our company, our employees, our customers and our environment. After my 37 years with Avista, it's easy to become attached and to take the good and the bad very personally. But my dad taught me that the only thing of real value is your word, that your word is your bond.

Three years ago, I gave you my word we would do certain things to return our company to a position of financial strength, and that is exactly what we are doing. The tough decisions we made have paid off and, as we anticipated, we're solidly on the road to recovery. We did cut back, just as any good business would in tough times, but we also charted a course for stability and growth.

Our overall performance was solid for 2003, and we continue to execute our financial recovery plan. We set goals and we met them, hitting our financial targets, reducing interest expense, maintaining positive operating cash flows and holding operations within budget without sacrificing reliability or safety. As a result, we were able to raise the common stock dividend by 4.2 percent in August for the first time since 1983. In addition, we obtained an external infusion of cash for Avista Labs while retaining a means to share in the fuel cell business' future success. We brought company-owned generation on line to serve our native load, and we kept the lines of communication open with our state and federal regulators.

At mid-year we revised our earnings guidance upward and then met that guidance despite slightly warmer-than-normal temperatures and the write down of the value of an asset, both in the fourth quarter. Avista is moving in the direction we set, meeting and exceeding targets, and resolving the regulatory and financial challenges we've faced for the past few years.

Diligence at work

We also met our 2003 projections for customer growth throughout our service territory, averaging 2 percent for electric customers and 3 percent for natural gas customers.

Based on those facts alone, it could be tempting to relax and declare victory. However, we have not returned to the investment grade credit rating of days gone by. Rather, we are one more year into a multi-year path to recovery. If our numbers hold, by the end of 2005 I believe we will have turned the corner sufficiently to begin to realize our long-term goals. Until then, the critical steps we took over the last three years show we are willing to be accountable and make the tough decisions. We are proud of the steps we have taken to position our company so well. But we must not be complacent. While we have tremendous opportunities, we still face significant challenges.

In addition, we have to focus on the future. To reinforce the electric transmission grid throughout Eastern Washington and North Idaho, Avista Utilities, in coordination with the Bonneville Power Administration, is building and upgrading transmission infrastructure that will improve the delivery of electricity to meet existing and future power needs throughout Avista's service territory. The projects will relieve current transmission congestion, improve system reliability and provide additional transmission capacity as the region grows. This undertaking, which should be completed by 2006, represents more than $100 million in infrastructure investment.

Pressures will not ease, and the demands on our resources will continue to grow. Therefore, we must be wise, we must be prudent, and we must have vision. We are beginning to implement long-term structural changes that will result in a better company focused on growing our utility in the Northwest.

As my dad taught me long ago, you're only as good as your word. Last year, I told you it could take another two years for Avista to reach the solid financial position you expect of us. We've made measurable progress, and there's every reason to believe we will continue down this same path. I ask you to join with me in thanking our more than 1,900 dedicated employees. I'm grateful for their efforts. With their help, we've faced our problems head-on. Our game plan is solid, and we appreciate your ongoing confidence in us.

Gary G. Ely
Chairman, President and Chief Executive Officer
March 8, 2004

Financial and Operating Highlights

(Dollars in Thousands Except Statistics and Per Share Amounts or as Otherwise Indicated)	2003	2002	2001
Financial Results			
Operating revenues	$ 1,123,385	$ 1,062,916	$ 1,511,751
Operating expenses	951,682	905,774	1,327,685
Income from operations	171,703	157,142	184,066
Income from continuing operations	50,643	42,174	68,241
Loss from discontinued operations	(4,949)	(6,719)	(56,085)
Net income before cumulative effect of accounting change	45,694	35,455	12,156
Cumulative effect of accounting change	(1,190)	(4,148)	–
Net income	44,504	31,307	12,156
Deduct – preferred stock dividend requirements (1)	1,125	2,402	2,432
Income available for common stock	$ 43,379	$ 28,905	$ 9,724
Earnings per common share from continuing operations, diluted	$ 1.02	$ 0.83	$ 1.38
Loss per common share from discontinued operations, diluted	(0.10)	(0.14)	(1.18)
Earnings per common share before cumulative effect of accounting change, diluted	0.92	0.69	0.20
Loss per common share from cumulative effect of accounting change, diluted	(0.03)	(0.09)	–
Earnings per common share, diluted	$ 0.89	$ 0.60	$ 0.20
Earnings per common share, basic	$ 0.90	$ 0.60	$ 0.21
Dividends paid per common share	0.49	0.48	0.48
Book value per common share	$ 15.54	$ 14.84	$ 15.12
Average common shares outstanding	48,232	47,823	47,417
Actual common shares outstanding	48,344	48,044	47,633
Return on average common equity	5.9%	4.0%	1.3%
Common stock closing price	$ 18.12	$ 11.56	$ 13.26
Operating Results			
Avista Utilities			
Retail electric revenues	$ 489,168	$ 463,667	$ 398,441
Retail kWh sales (in millions)	8,027	7,584	8,018
Retail electric customers at year-end	325,554	320,210	316,694
Wholesale electric revenues	$ 73,463	$ 64,082	$ 480,903
Wholesale kWh sales (in millions)	2,075	2,216	6,262
Total natural gas revenues	$ 277,289	$ 309,823	$ 308,642
Total therms delivered (in thousands)	490,474	516,491	541,984
Retail natural gas customers at year-end	298,296	290,188	284,340
Net income	$ 36,241	$ 36,382	$ 24,164
Energy Marketing and Resource Management			
Gross margin (operating revenues less resource costs)	$ 60,189	$ 54,207	$ 134,266
Net income	$ 20,672 (2)	$ 22,425	$ 63,246
kWh sales (in millions)	41,579	40,426	47,927
Natural gas sales (thousands of dekatherms)	228,397	225,983	248,193
Avista Advantage			
Revenues	$ 19,839	$ 16,911	$ 13,151
Net loss	(1,334)	(4,253)	(10,748)
Other			
Revenues	$ 13,581	$ 14,645	$ 16,385
Net loss	(4,936)	(12,380) (2)	(8,421)
Financial Condition			
Total assets	$ 3,661,495	$ 3,799,543	$ 4,210,704
Long-term debt	925,012	902,635	1,175,715
Long-term debt to affiliated trusts (3)	113,403	–	–
Preferred trust securities (3)	–	100,000	100,000
Preferred stock (subject to mandatory redemption) (1)	29,750	33,250	35,000
Common equity	751,252	712,791	720,063

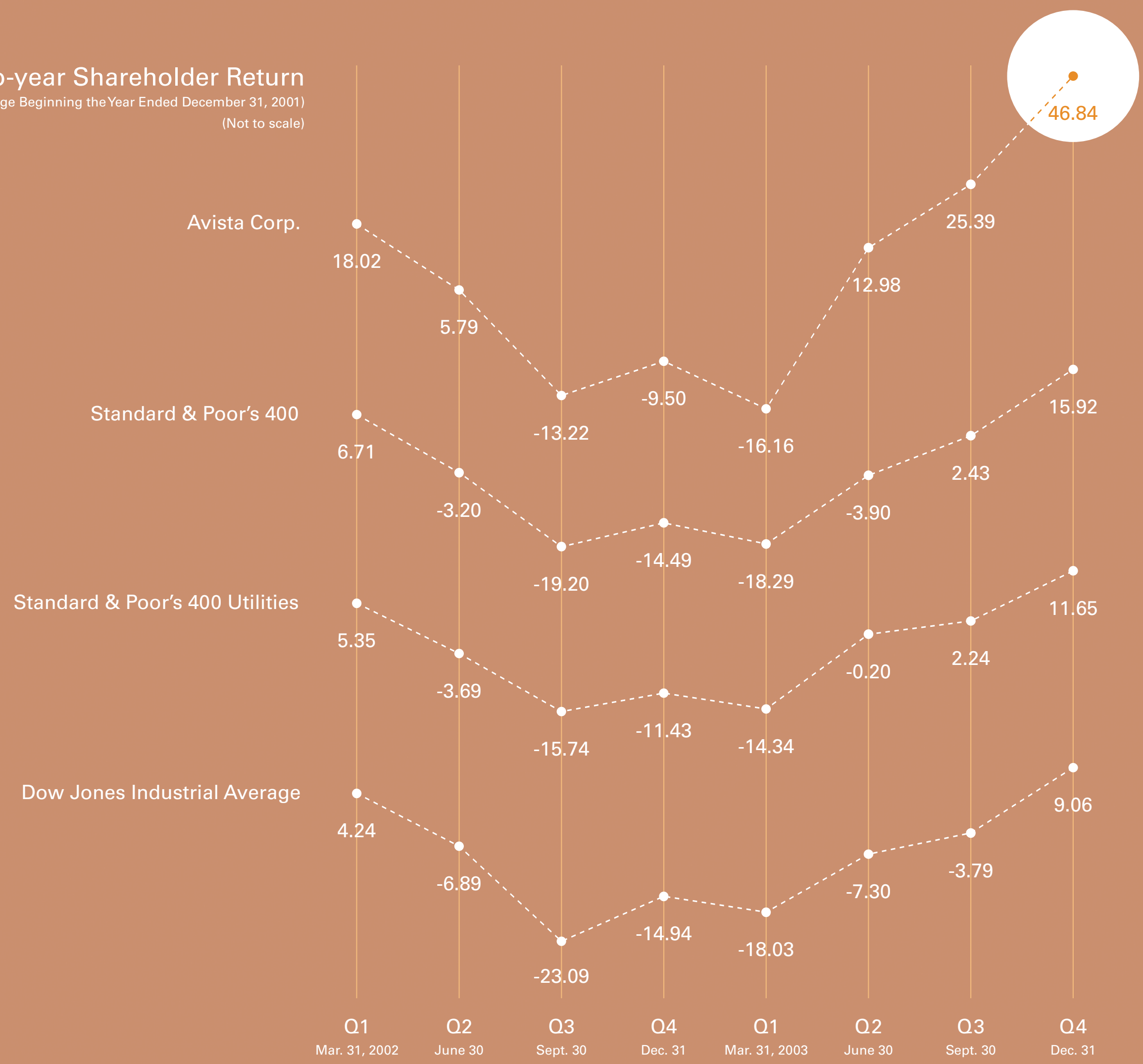
(1) Pursuant to changes in accounting principles, preferred stock was reclassified to liabilities and preferred stock dividend requirements were reclassified to interest expense effective July 1, 2003.

(2) Excludes cumulative effect of accounting change.

(3) Pursuant to changes in accounting principles, Avista Corporation no longer consolidates the affiliated trusts that have issued preferred trust securities.

Real progress takes dedication and determination. And it takes the support of our shareholders, customers, employees and communities. We're putting our energy into creating results worthy of that support.

Two-year Shareholder Return
(Percent Change Beginning the Year Ended December 31, 2001)
(Not to scale)

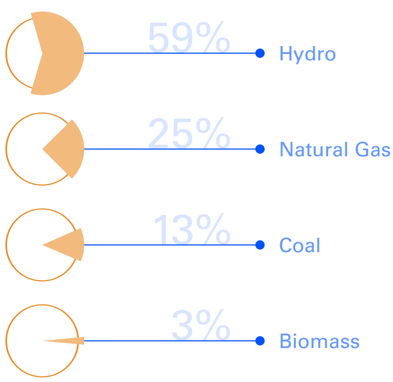


Source: Bloomberg L.P. Based on dividends reinvested.

Reliability at work

"People depend on our service in order to conduct their lives. Their work, their personal lives, even their recreational activities are all dependent upon having a reliable power system, and that's why we work so hard to assure that reliability."

Power Supply Mix



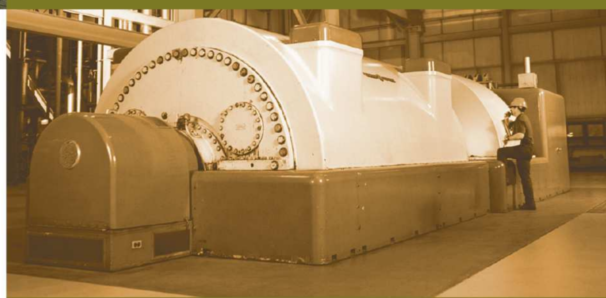
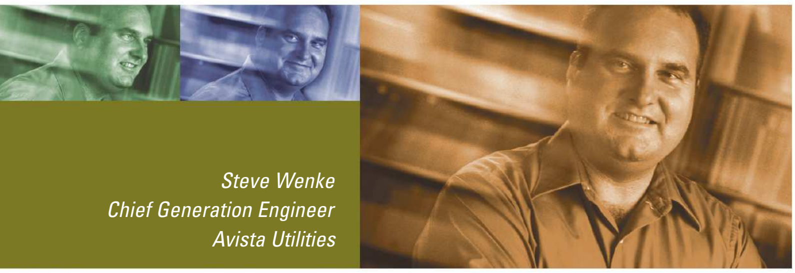


Photo above and top left: Kettle Falls was the first power plant of its kind in the U.S.



Steve Wenke
Chief Generation Engineer
Avista Utilities

Reliability matters to us. By building sufficient generation to meet our customers' needs, we're prepared for the future. It's just one of the ways Avista makes energy work.

Several years ago, we gave ourselves an assignment: acquire adequate power supplies to meet customer needs. In 2003, we made it.

Of course, the quest for efficiency and reliability is nothing new for Avista. Our Kettle Falls Generating Station in northeast Washington, for instance, just celebrated its 20th anniversary. The first wood waste-fired power plant in the country built solely for electric generation, Kettle Falls annually converts 500,000 tons of otherwise unused sawmill residue into 50 megawatts of power. Each megawatt is sufficient to serve about 650 homes.

Now, with the completion of our Coyote Springs 2 plant – notwithstanding a number of technical equipment issues outside our control – we can cover our customers' annual load under a range of conditions with our own generation assets and contract resources. The combined-cycle, natural gas facility near Boardman, Oregon, adds 140 megawatts to our generation capacity. And it offers favorable levels of efficiency, environmental stewardship and risk.

Because a combined-cycle combustion turbine converts waste heat into more power instead of releasing it, we can generate as much as another 50 percent without burning additional fuel – all the while keeping emissions low. And our joint ownership agreement with Mirant gives Avista access to half of Coyote Springs 2's 280 megawatts and splits the operating costs evenly between us.

Clearly, plants like Coyote Springs 2 and Kettle Falls provide multiple benefits, but we especially like the stability they offer. By diversifying our resource mix, we bring our customers increased reliability.

We reinforced that dependability even further last year when we extended our outage management software system to tens of thousands more customers. The information we gather does more than improve our performance during an outage. It tells us how our system is operating and where we can most effectively assign our maintenance and engineering dollars.

At Avista, we believe productive relationships of all kinds – with customers, shareholders, employees and communities – depend on trust. That's why we put so much stock in reliability.

John Hamill
Senior Engineer
Avista Utilities

With our investments in infrastructure, we put energy into the future. So we ask ourselves: "Where will we need it and when?" And then we get ready.

It's no small task.

To achieve the level of reliability we're determined to uphold, we must relate our customers' needs to our existing assets, maintain our equipment while still delivering service and judiciously apply our resources to new infrastructure even in times of financial constraints.

All of that requires careful planning. It's painstaking work, and it led us to initiate a number of projects in 2003.

Perhaps the most ambitious, a $100 million venture, got under way in May. In the first step of a more comprehensive transmission system upgrade, we're converting the 25-mile Beacon-Rathdrum transmission line from a single circuit line to a double circuit line, increasing its capacity more than five times, according to conservative estimates. The resulting reliability improvements benefit customers in two growing areas of our service territory as well as those affected by regional transmission bottlenecks.

Increased demand in other communities spurred our decision to construct substations in Oldtown, Idaho, and Clarkston, Washington. The first, a $1 million, 115 kV facility, will accommodate future load growth and ease the burden on our nearby Priest River, Idaho, substation. The Dry Creek switching station in Clarkston, an $11 million project now in progress, will meet the growing need in the Lewiston-Clarkston area.

At Cabinet Gorge Dam on Idaho and Montana's Clark Fork River we replaced another turbine propeller, boosting the unit's generation capacity from about 56 to 72 megawatts. This is the third of four such cost-effective projects at our second largest hydropower facility, estimated to increase efficiency by about 5 percent.

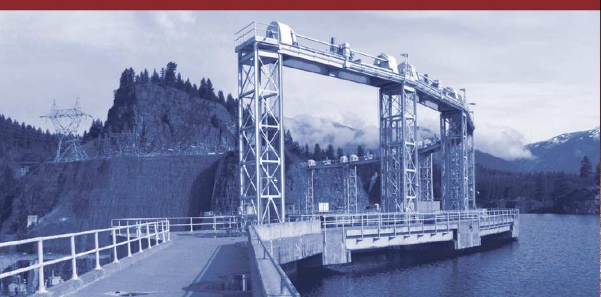
Of course Avista is a growing gas distribution utility too, and we're investing in that side of the business as well.

We installed a six-inch pipeline to serve an addition at Spokane's Sacred Heart Medical Center and a 12-inch, four-mile line to Washington State University in Pullman. We're particularly proud of the latter; thanks to skillful project management, we finished the job in just seven months.

It's one example of what can happen when a company knows where to invest its resources – and how to get a job done.

Infrastructure at work

"In this type of investment, we're increasing reliability so it's a good deal for the customer. It's cost-effective so it's a good deal for the shareholder, and it's also a good deal for the environment because we're generating more electricity with the same amount of water."



Investment in Infrastructure

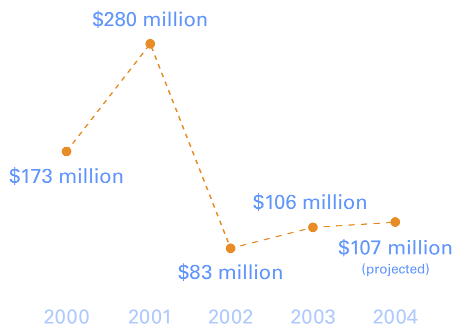
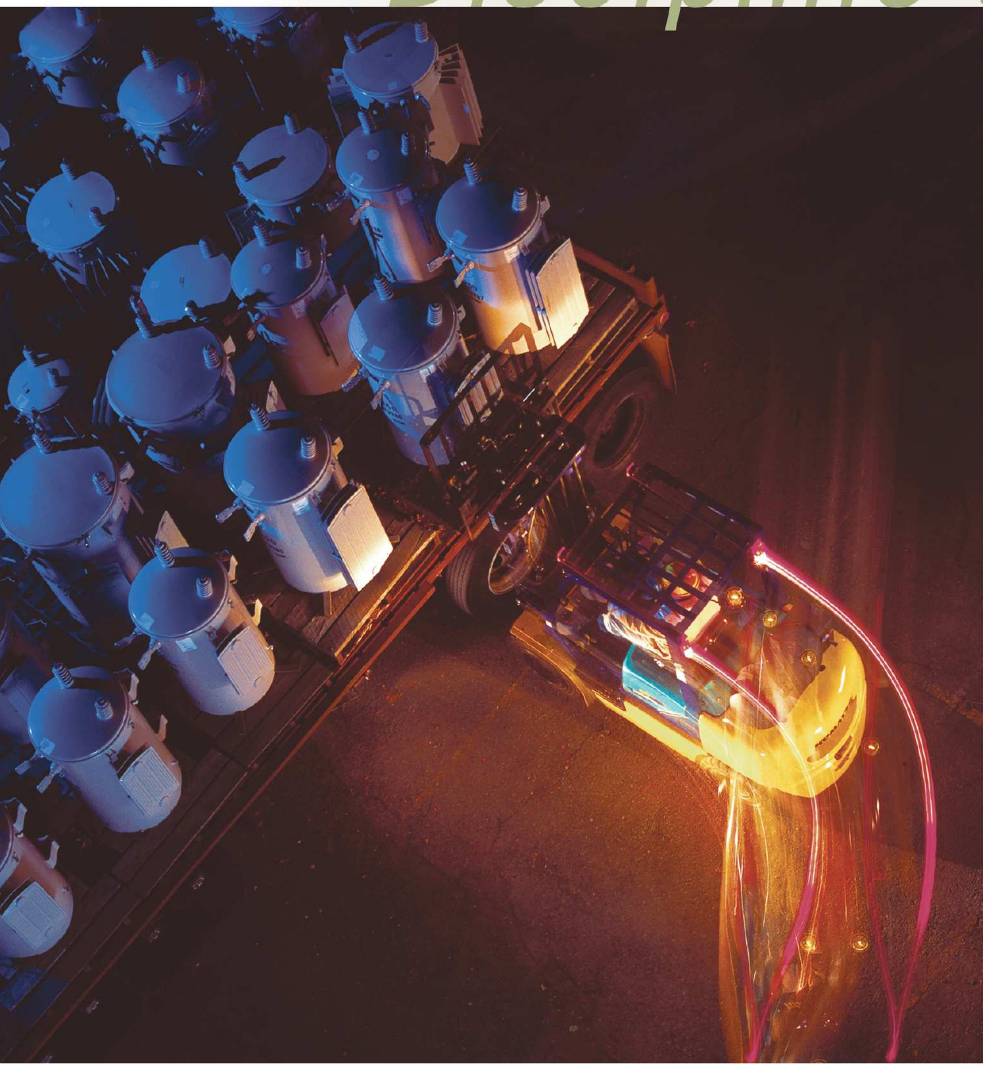


Photo above and top right: Cabinet Gorge is our second largest hydroelectric facility.

Photo right: The North Gate Station supports our ongoing efforts to ensure reliability and build Avista's natural gas business.

Discipline at work



"Our approach to procurement is collaborative. We don't want to save money at the expense of quality or some other consideration. We think about how we can satisfy all the needs of all the areas. We have to be wise about how we spend our money."

Interest Expense
(in thousands)

Photos: The equipment yard underwent scrutiny during our 2003 procurement initiative, improving productivity.

Kathy Nitteberg
Supply Chain Manager
Avista Utilities

By applying steadfast energy to financial discipline, we've strengthened and stabilized our position.

No subject has occupied our attention in the past several years more than this one.

We have real progress to show for it, too. By nearly every measure, Avista gained financial strength in 2003.

We've continued to reduce interest expense, lowering it by almost $13 million in the past two years. Our bond rating is on the mend as well, signaled when Moody's Investors Service changed our outlook to stable from negative in March 2004. Of course, we're aiming for investment grade status and still advancing toward that long-term goal.

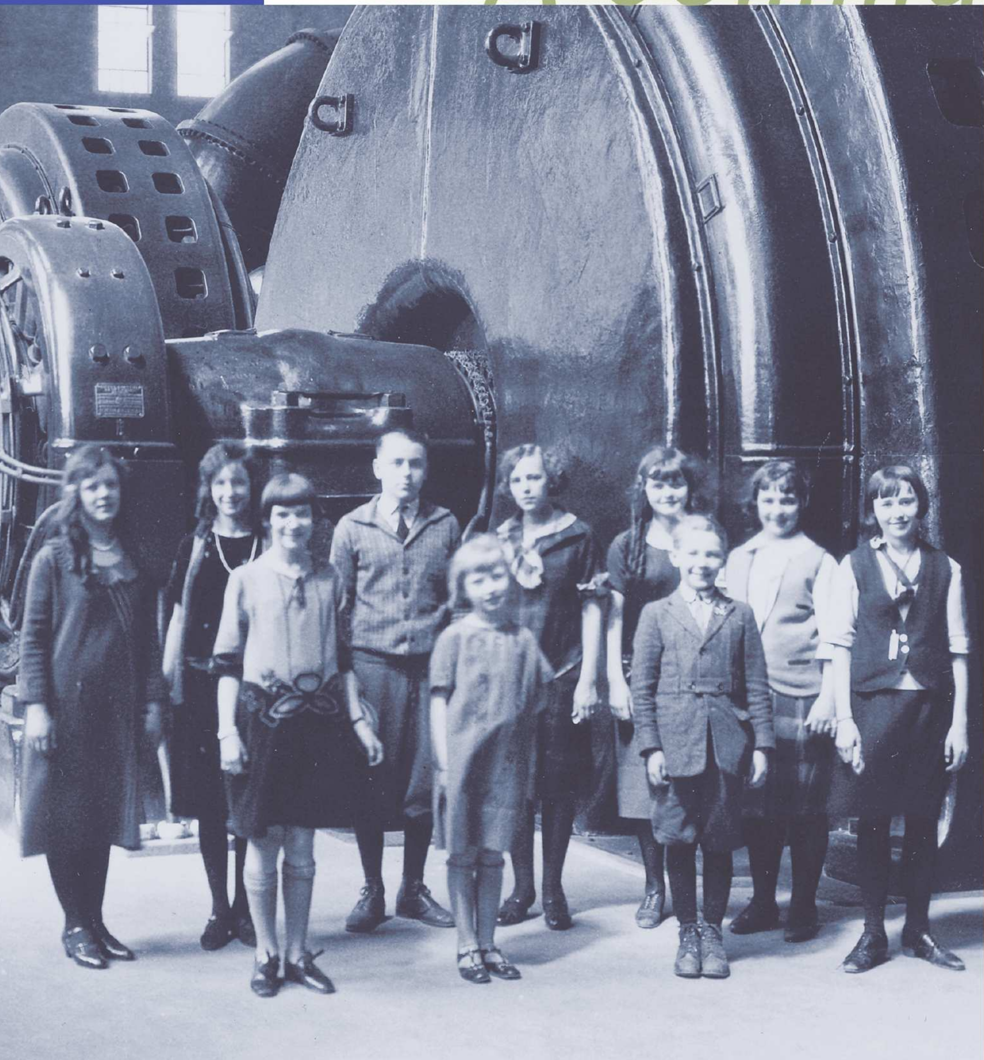
Our banks also indicated their confidence in recent years. When it came time to renew our $225 million credit line in 2003, the banks agreed to extend a $245 million facility. While we don't foresee any immediate need to draw more fully on the credit line, this action underscores the financial community's support for our efforts. We successfully renewed another $110 million credit line, this one at Avista Energy, our energy marketing and resource management subsidiary.

All that headway notwithstanding, the tough work of financial discipline continues. In 2003, we undertook a procurement initiative to consider how we might refine our purchasing processes. The outgrowth of that analysis improved productivity, and we intend to continue that effort in 2004.

Obviously, curtailed spending must be coupled with improved revenue, and we project a general rate case approved in Oregon in 2003 will garner the company an additional $6.3 million in annual revenue. Electric power cost adjustment mechanisms remain in place in Washington and Idaho, allowing us to continue recovering unusually high 2000-2001 power costs, defer certain power supply costs with the opportunity for future recovery and maintain more stable earnings.

Last year was a fine representation of Avista's prudent, disciplined temperament, and you can expect more of the same in the years ahead.

A community and a



At Avista, community involvement inspires us – which is why we've put energy into our community from the very beginning.

Our Stevens Elementary Lunch Buddies program is a good example. Employee volunteers spend one or two lunch hours a month mentoring children and helping them improve their reading skills.

Since the program started, the children's reading scores have gone up, and our employees have the satisfaction of knowing they've really made a difference.

Photo above: School children touring Long Lake Dam, circa 1920

Photo right: Stevens Elementary sixth graders touring Long Lake Dam, 2003

company at work, together

Ken Ogden
Meter Reader / Outside Serviceman

"My daughters play in the girls softball league here in Clarkston, so I volunteered to supervise the umpires and do all the field maintenance. Avista has been extremely supportive. It's nice that the company is not just putting pipes and wires in a ditch, but also really helping the community."

Kellee Quick
Accounting Analyst

"This year, the Green Thumbs committee I'm part of turned a piece of land next to Avista's headquarters into a community garden and raised more than a ton of produce for the Second Harvest Food Bank. We had a marvelous time and felt like the whole company was supporting us."

John Schwendener
Marketing Development Administrator

"Avista is great about giving employees opportunities to get involved. In my case, I got the chance to join the board of SOREDI (Southern Oregon Regional Economic Development, Inc.). It's been really rewarding to be part of SOREDI becoming a cohesive group really focused on economic development in the region."

Jenny Blaylock
Design Engineer and
Project Manager
Avista Utilities

Leadership is more than making plans and setting goals. It's seeing clearly who we are and where we're going – and using that vision to become better all the time.

As a term, leadership is somewhat imprecise. But you know it when you see it.

Believing that leaders must be willing to challenge their own assumptions, we formally tackled that process in 2003. The result, a benchmarking study conducted by an internationally known consulting company, rated Avista's performance for various operational categories and against a group of our peers from across the country.

The study found Avista best in class in hydro operations and nearly best in class in four other areas. We also learned where we could improve, and that information prompted us to embark on the procurement initiative previously discussed.

Without question, having great leaders in place matters more than anything else. To that end we've been working on succession planning in earnest for the past several years, investing in leadership training and development for our employees, to sustain our strength in that sphere.

We invest in our communities, as well, encouraging their prosperity and, in turn, our own. Scott Morris, president of Avista Utilities, serves as the chairman of the Washington State Economic Development Commission, a body formed to provide strategic and policy direction to the State Department of Community, Trade and Economic Development. Many of our employees are equally involved in community activities. And the company's participation in two regional projects puts our resources solidly behind growth in Avista's service territory. The first, VPnet, opens Avista's own broadband communications technology for use by higher education and health care organizations to encourage innovation, collaboration and economic development. The second, a university district conceived for downtown Spokane, will combine research, regional higher education, neighborhood business and healthcare activities in one central location.

Taking the initiative with customers yields equally valuable results, as a recent project at Washington State University attests. WSU, our third-largest customer, proposed the construction of a co-generation plant. We bid on the contract to supply gas and helped assure them the best value for their energy dollar. The resulting plant provides WSU ample steam at a reasonable price.

And that's what leadership looks like.

Leadership at work

"When you tell people what you're going to do and then you do it, they know you're speaking from the heart and that you're looking out for their well-being as well as the company's well-being. It builds trust in relationships."

Photos: We met our growth projections in 2003, and our electric and natural gas customer base increased 2 percent and 3 percent, respectively.

Benchmark Operating Costs Results
(rated according to Federal Energy Regulatory Commission categories and against industry peers nationwide)

Peer Mean Costs

Gas Distribution Operations & Maintenance

Customer Service (exclusive of IT)

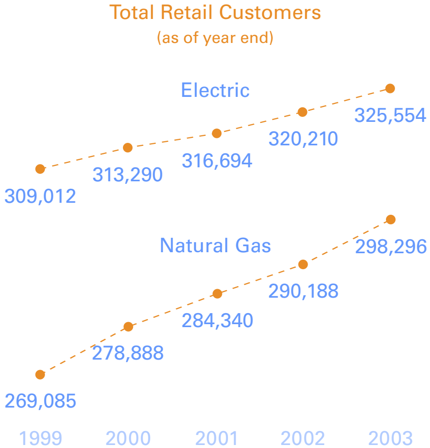
Steam Operations & Maintenance

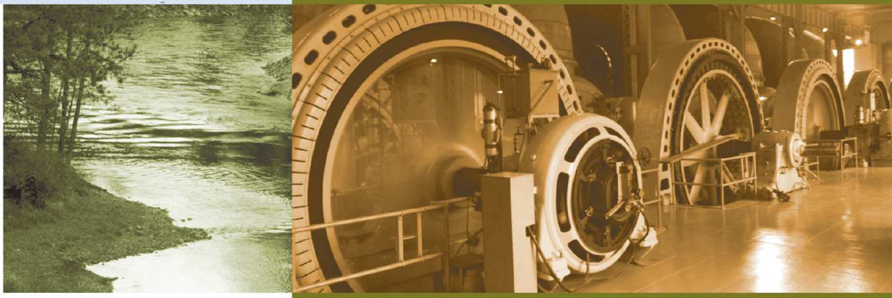
Electric Transmission, Distribution, Operations & Maintenance

Best in Class Hydro Operations

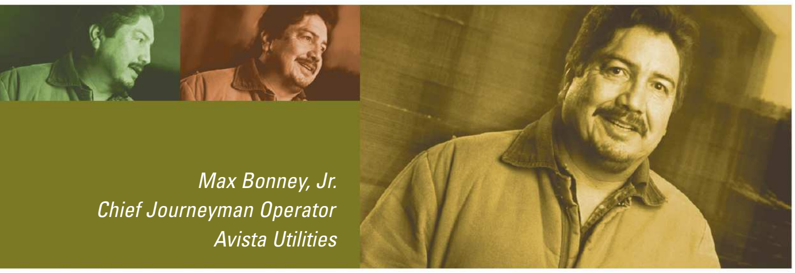
Collaboration at work

"Avista does everything we can to work with people. We keep the public aware and involved in the relicensing process. We're aware of their needs, and we try to work toward those needs. We don't bully our way through. We try to have friendly relationships."





Photos: The nearly 100-year-old Post Falls Dam is one of five Spokane River projects up for relicensing.



Max Bonney, Jr.
Chief Journeyman Operator
Avista Utilities

Different voices, different concerns, different interests working together toward a common goal – that's what collaboration means to us. And the result benefits us all.

Long a guiding principle of our company, collaboration proved its merit in 2003 in a variety of ways – both within the company and without.

We received our fourth consecutive award for environmental stewardship on Idaho and Montana's Clark Fork River, home of our two largest hydroelectric dams. The National Hydropower Association recognized only seven such projects nationally for significant environmental accomplishments above and beyond the provision of clean, renewable power.

The Clark Fork award testifies to our reliance on mutually beneficial solutions, a concept we're applying to the ongoing relicensing process for five Spokane River facilities, even though they represent only 15 percent of our total generation. Our current license expires in 2007, and the new application, which will set terms of operation for the next 40 or 50 years, is due in July 2005.

In preparation, we convened a group of some 100 self-selecting stakeholders. Those stakeholders – American Indian tribes, environmental organizations, recreational enthusiasts, landowners, local, state, and federal agencies, and others – chose the technical consultants and defined the scope of their work.

Such an approach may sound cumbersome, but it fits Avista's collaborative style. And, given that many relicensing processes end up in litigation, it's sound business strategy, as well.

We introduced a new form of collaboration to our customers at Avista Advantage in 2003 – to great effect. This subsidiary, which streamlines utility billing and related business processes for multi-site organizations, recognized the savings possible when customers in deregulated energy markets combine their purchasing power. These commodity pools have already lowered customers' related costs by 10 to 30 percent.

At the utility, we followed a similar model, pulling together employees from all across the company to combine their expertise and apply it to our natural gas business. The Gas Business Council identified ways to improve performance, helped us exceed our growth projections and set the stage for more of the same in 2004. We'll pursue further growth by, among other things, cooperating with developers to bring natural gas service to new residential and multi-family construction.

The cycle of collaboration goes on.

Kevin Holland
Director, Energy Marketing
Avista Energy

To make a decision, to go a certain way, to choose this over that, all comes down to values. For us, living our values is everything.

We don't think it's enough to provide dependable service at reasonable rates. So we pay considerable attention to the way our work can reflect our values and help build lasting relationships.

At Avista Energy, for instance, our success is directly attributable to strong partnerships and an asset-based business model. Our arrangements with Chelan County and Clark County Public Utility Districts give us access to their power and natural gas and provide them with purchasing and marketing expertise. And this is a business where knowledge makes a measurable difference. Few understand the complexities of hydropower – with its variable stream flows, precipitation levels and spill requirements – and how to integrate natural gas and electric market forces as well as we do. That knowledge, coupled with stringent risk management practices, renders Avista Energy an exceptionally well-disciplined energy marketer. It's a profitable one, too, amassing 15 consecutive quarters of positive earnings.

We emphasize good relationships at the individual level, too. At Avista Utilities, our weatherization and heating system conversion program, for instance, is coordinated through community action agencies to upgrade homes for those with limited incomes. And we've honored our customers' interest in buying green power by instituting a wind program. Since more than 2,000 Washington and Idaho customers signed on, we're pursuing an agreement to further diversify our portfolio with wind power, upping our purchase from one megawatt to about 10.

Those are a few things we've done to strengthen customer relationships. To demonstrate the importance we place on shareholder relationships, we raised our annual dividend by 4.2 percent. As we continue to recover financially, we expect to have the capacity to bring our dividend pay-out ratio more in line with industry norms. We anticipate a positive effect on earnings from an Idaho general rate case we filed in February 2004 and from the expiration of expensive natural gas supply contracts during the year.

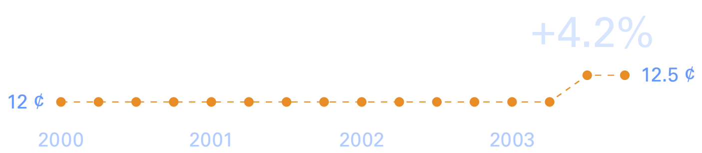
Our work in all these areas moves forward and indeed it never ends. But if 2003 showed us anything, it demonstrated the strength at Avista's core. And that strength will guide us as we find new and better ways to serve our shareholders, our customers, our communities and our employees.

Our values at work

"The relationship between Chelan PUD and Avista Energy is a wonderful example of what a collaborative effort between public and private entities can bring to fruition. Over seven years, we've been able to continually adjust the workings of the contract to capture the most value for both parties."

Photos: Avista Energy's Kevin Holland (right) and Randy Lowe from Chelan County PUD work together on that organization's resources, including the Rocky Reach hydroelectric facility.

Common Stock Dividends Per Share
(paid quaterly)



Independent Auditors' Report

Avista Corporation
Spokane, Washington

We have audited the consolidated balance sheets of Avista Corporation and subsidiaries (the Company) as of December 31, 2003 and 2002, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Such consolidated financial statements and our report thereon dated February 27, 2004, expressing an unqualified opinion (which are not presented herein), are included in Appendix A to the 2003 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, 2003 and 2002, and the related condensed consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2003, 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 ("Note 2"), during 2003, the Company changed its method of accounting for energy trading activities related to the transition from Emerging Issues Task Force Issue No. 98-10 to Statement of Financial Accounting Standards ("SFAS") No. 133, also, as described in Note 2, the Company was required to consolidate WP Funding LP, and deconsolidate Avista Capital I and Avista Capital II related to the adoption of FASB Interpretation No. 46. Additionally, as described in Note 2, during 2003, the Company changed its classification of preferred stock to conform to the requirements of SFAS No. 150, and its classification of asset retirement costs to conform to SFAS No. 143. Additionally, as described in Note 1 to the consolidated financial statements, during 2002, the Company changed its method of accounting for goodwill to conform to SFAS No. 142.

Deloitte + Touche LLP

February 27, 2004
Seattle, Washington

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 2003 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 2003 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,
Chief Financial Officer and Treasurer

Condensed Consolidated Statements of Income

(For the Years Ended December 31 — Dollars in Thousands, Except Per Share Amounts)

	2003	2002	2001
Operating Revenues	$ 1,123,385	$ 1,062,916	$ 1,511,751
Operating Expenses			
Resource costs	576,492	536,714	967,098
Operations and maintenance	138,058	125,930	129,351
Administrative and general	97,494	105,647	103,317
Depreciation and amortization	77,811	71,867	70,506
Taxes other than income taxes	61,827	65,616	57,413
Total operating expenses	951,682	905,774	1,327,685
Income From Operations	171,703	157,142	184,066
Other Income (Expense)			
Interest expense	(91,505)	(104,866)	(105,819)
Interest expense to affiliated trusts	(1,480)	–	–
Capitalized interest	1,092	7,486	10,498
Net interest expense	(91,893)	(97,380)	(95,321)
Other income – net	6,173	17,261	20,081
Total other income (expense) – net	(85,720)	(80,119)	(75,240)
Income From Continuing Operations Before Income Taxes	85,983	77,023	108,826
Income Taxes	35,340	34,849	40,585
Income From Continuing Operations	50,643	42,174	68,241
Loss From Discontinued Operations	(4,949)	(6,719)	(56,085)
Net Income Before Cumulative Effect of Accounting Change	45,694	35,455	12,156
Cumulative Effect of Accounting Change (net of tax)	(1,190)	(4,148)	–
Net Income	44,504	31,307	12,156
Deduct – Preferred stock dividend requirements	1,125	2,402	2,432
Income Available for Common Stock	$ 43,379	$ 28,905	$ 9,724
Earnings Per Common Share, Basic			
Earnings per common share from continuing operations	$ 1.03	$ 0.83	$ 1.39
Loss per common share from discontinued operations	(0.10)	(0.14)	(1.18)
Earnings per common share before cumulative effect of accounting change	0.93	0.69	0.21
Loss per common share from cumulative effect of accounting change	(0.03)	(0.09)	–
Total earnings per common share, basic	$ 0.90	$ 0.60	$ 0.21
Earnings Per Common Share, Diluted			
Earnings per common share from continuing operations	$ 1.02	$ 0.83	$ 1.38
Loss per common share from discontinued operations	(0.10)	(0.14)	(1.18)
Earnings per common share before cumulative effect of accounting change	0.92	0.69	0.20
Loss per common share from cumulative effect of accounting change	(0.03)	(0.09)	–
Total earnings per common share, diluted	$ 0.89	$ 0.60	$ 0.20
Dividends paid per common share	$ 0.49	$ 0.48	$ 0.48

Condensed Consolidated Balance Sheets

(As of December 31 - Dollars in Thousands)	2003	2002
Assets		
Cash and cash equivalents	$ 128,126	$ 173,286
Restricted cash	16,472	12,983
Securities held for trading	18,903	–
Accounts and notes receivable	318,848	320,836
Current energy commodity assets	253,676	365,477
Other current assets	113,355	101,083
Total net utility property	1,944,637	1,749,114
Investment in exchange power – net	38,383	40,833
Nonutility properties and investments – net	89,133	199,579
Noncurrent energy commodity assets	242,359	348,309
Investment in affiliated trusts (1)	13,403	–
Other property and investments – net	17,958	12,702
Regulatory assets for deferred income tax	131,763	139,138
Other regulatory assets	44,381	29,735
Utility energy commodity derivative assets	39,500	60,322
Power and natural gas deferrals	171,342	166,782
Other deferred charges	79,256	79,364
Total Assets	**$ 3,661,495**	**$ 3,799,543**
Liabilities and Stockholders' Equity		
Accounts payable	$ 298,285	$ 339,637
Current energy commodity liabilities	229,642	304,781
Current portion of long-term debt	29,711	71,896
Short-term borrowings	80,525	30,000
Other current liabilities	200,190	196,206
Noncurrent energy commodity liabilities	192,731	314,204
Regulatory liability for utility plant retirement costs	197,697	185,410
Utility energy commodity derivative liabilities	36,057	50,058
Deferred income taxes	492,799	452,457
Other noncurrent liabilities and deferred credits	84,441	106,218
Long-term debt	925,012	902,635
Long-term debt to affiliated trusts (1)	113,403	–
Preferred trust securities (1)	–	100,000
Preferred stock (subject to mandatory redemption) (2)	29,750	33,250
Common stock – net (48,344,009 and 48,044,208 outstanding shares)	613,414	607,018
Retained earnings and accumulated other comprehensive loss	137,838	105,773
Total Liabilities and Stockholders' Equity	**$ 3,661,495**	**$ 3,799,543**

(1) Pursuant to changes in accounting principles, Avista Corporation no longer consolidates the affliated trusts that have issued preferred trust securities.

(2) Pursuant to changes in accounting principles, preferred stock was reclassified from stockholders' equity to liabilities effective July 1, 2003.

Condensed Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents. (For the Years Ended December 31 – Dollars in Thousands)

	2003	2002	2001
Continuing Operating Activities:			
Net income	$ 44,504	$ 31,307	$ 12,156
Loss from discontinued operations	4,949	6,719	56,085
Cumulative effect of accounting change	1,190	4,148	–
Purchases of securities held for trading	(18,865)	–	–
Noncash items included in net income:			
Depreciation and amortization	77,811	71,867	70,506
Provision for deferred income taxes	28,395	(40,287)	79,141
Power and natural gas cost amortizations (deferrals), net	3,829	68,481	(210,540)
Amortization of debt expense	7,972	8,861	5,639
Energy commodity assets and liabilities	22,128	87,403	30,238
Impairment of assets	4,900	–	8,240
Other	(11,214)	(10,763)	(12,096)
Changes in working capital components	(43,035)	99,124	(106,207)
Net Cash Provided by (Used in) Continuing Operating Activities	122,564	326,860	(66,838)
Continuing Investing Activities:			
Utility property construction expenditures (excluding AFUDC)	(102,271)	(64,207)	(119,905)
Other capital expenditures	(3,388)	(18,873)	(160,299)
Changes in other property and investments	(5,724)	1,418	11,561
Repayments received on notes receivable	1,214	33,752	1,000
Proceeds from property sales and sale of subsidiary investments	549	586	75,953
Assets acquired and investments in subsidiaries	(229)	(461)	(23,321)
Net Cash Used in Continuing Investing Activities	(109,849)	(47,785)	(215,011)
Continuing Financing Activities:			
Increase (decrease) in short-term borrowings	50,525	(45,099)	(88,061)
Increase (decrease) in long-term debt	(80,064)	(203,393)	410,249
Redemption of preferred stock	(1,575)	(1,750)	–
Issuance of common stock	6,155	7,035	8,267
Repurchase of common stock under equity compensation plans	(658)	–	–
Cash dividends paid	(24,777)	(25,456)	(25,110)
Other	(4,139)	(15,990)	(19,693)
Net Cash Provided by (Used in) Continuing Financing Activities	(54,533)	(284,653)	285,652
Net Cash Provided by (Used in) Continuing Operations	**(41,818)**	**(5,578)**	**3,803**
Net Cash Provided by (Used in) Discontinued Operations	**(3,342)**	**8,967**	**(28,342)**
Net Increase (Decrease) in Cash and Cash Equivalents	**(45,160)**	**3,389**	**(24,539)**
Cash and Cash Equivalents at Beginning of Period	**173,286**	**169,897**	**194,436**
Cash and Cash Equivalents at End of Period	**$ 128,126**	**$ 173,286**	**$ 169,897**

Financial Summary

The following is a brief discussion and analysis of financial condition and results of operations for 2003. For a more detailed analysis, please refer to Appendix A to the 2003 annual report.

Overall Results of Operations – Income from continuing operations was $50.6 million for 2003 compared to $42.2 million for 2002. The increase was primarily due to a decrease in the net losses for Avista Advantage and the Other business segment, partially offset by decreased net income for Energy Marketing and Resource Management.

Total revenues increased $60.5 million for 2003 compared to 2002. Avista Utilities' revenues increased $34.2 million, or 4 percent, primarily due to increased electric revenues, partially offset by decreased natural gas revenues.The decrease in natural gas revenues was primarily due to natural gas rate decreases implemented during the fourth quarter of 2002 and partially due to decreased therms sold as a result of warmer weather during the first quarter of 2003 as compared to the first quarter of 2002. Natural gas rate increases have been implemented in September and October 2003 in response to increased natural gas costs, which should increase retail natural gas revenues for 2004. The increase in electric revenues reflects an increase in retail revenues, wholesale revenues and sales of fuel. Revenues from Energy Marketing and Resource Management increased $84.5 million, or 38 percent, primarily due to increased revenues on contracts that are not considered derivatives under SFAS No. 133 (primarily the Agency Agreement with Avista Utilities), non-trading derivative contracts and revenues from Avista Energy Canada. Revenues from Avista Advantage increased 17 percent to $19.8 million primarily as a result of customer growth. Revenues from the Other business segment decreased $1.1 million primarily due to decreased revenues from Advanced Manufacturing and Development.

Total resource costs increased $39.8 million for 2003 compared to 2002. Resource costs for Avista Utilities increased $21.4 million primarily due to an increase in the expense for power purchased, natural gas purchased, fuel for generation and other fuel costs, partially offset by a decrease in the net amortization of deferred power and natural gas costs. The increase in power purchased expense and natural gas purchased was primarily due to an increase in prices. Resource costs for Energy Marketing and Resource Management increased $78.5 million due to an increase in costs from contracts that are not accounted for as derivatives under SFAS No. 133 (primarily the Agency Agreement with Avista Utilities), non-trading derivative contracts and resource costs of Avista Energy Canada, partially offset by a change in natural gas inventory valuations.

Intersegment eliminations, which decreases both consolidated operating revenues and resource costs, increased to $145.4 million for 2003 from $85.2 million for 2002 representing increased purchases of natural gas under the Agency Agreement between Avista Utilities and Avista Energy.

Operations and maintenance expenses increased $12.1 million for 2003 compared to 2002 primarily due to increased expenses for Avista Utilities and the $4.9 million impairment of a turbine at Avista Power (Energy Marketing and Resource Management segment), partially offset by decreased expenses for Avista Advantage and the Other business segment. The increase in operations and maintenance expenses for Avista Utilities was partially due to increased pension costs, and expenses for Coyote Springs 2, which commenced operations in mid-2003.

Administrative and general expenses decreased $8.2 million for 2003 compared to 2002 primarily due to decreased expenses for the Other business segment, partially offset by increased expenses for Avista Utilities and Energy Marketing and Resource Management. Administrative and general expenses for the Other business segment decreased due to reduced litigation costs and settlements. The increase for Energy Marketing and Resource Management was primarily a result of increased compensation expenses. The increase for Avista Utilities was consistent with the increase in operations and maintenance expenses. Increased insurance costs also contributed to the increase in administrative and general expenses for Avista Utilities.

Depreciation and amortization increased $5.9 million for 2003 compared to 2002 primarily due to utility plant additions at Avista Utilities and the resulting increase in depreciation expense. Coyote Spring 2 was placed into service in mid-2003 and increased depreciation expense by $2.2 million.

Taxes other than income taxes decreased $3.8 million for 2003 compared to 2002 primarily due to decreased retail natural gas revenues and related taxes for Avista Utilities.

Interest expense decreased $11.9 million for 2003 compared to 2002 primarily due to a decrease in the average balance of debt outstanding. This decrease was partially offset by the inclusion of $1.1 million of preferred stock dividends as interest expense for the second half of 2003 in accordance with SFAS No. 150. During 2003 and 2002, the Company repurchased $52.5 million and $203.6 million of long-term debt, respectively. The Company expects interest expense to continue to decline in 2004 due to the effect of debt repurchases. In September 2003, the Company issued $45.0 million of 6.125 percent First Mortgage Bonds due in 2013. The proceeds were used to repay a portion of the borrowings under the $245.0 million line of credit that were used on an interim basis to fund $46.0 million of maturing 9.125 percent Unsecured Medium-Term Notes and should result in an overall reduction in the Company's interest expense.

Capitalized interest decreased $6.4 million for 2003 compared to 2002. This was primarily due to the fact that the Company did not capitalize any interest related to Coyote Springs 2 subsequent to September 30, 2002 because the project was substantially completed.

Other income-net decreased $11.1 million for 2003 compared to 2002 primarily due to reduced interest income (including accrued interest on power and natural gas deferrals) as well as losses on certain investments in the Other business segment.

Income taxes increased $0.5 million for 2003 compared to 2002. The effective tax rate was 41.1 percent for 2003 compared to 45.2 percent for 2002.

During 2003, Avista Energy recorded as a cumulative effect of accounting change a charge of $1.2 million (net of tax) related to Emerging Issues Task Force (EITF) Issue No. 02-3, which effectively required the transition from EITF Issue No. 98-10 to SFAS No. 133 with respect to accounting for energy trading activities.

Avista Utilities – Net income for Avista Utilities was $36.2 million for 2003, compared to $36.4 million for 2002. The decrease for Avista Utilities was primarily due to an increase in other operating expenses (operations and maintenance, administrative and general, and depreciation and amortization), partially offset by an increase in gross margin and a decrease in interest expense.

The increase in operations and maintenance as well as administrative and general expenses reflects increased pension and insurance costs. The increase was also due to initiatives implemented during the third quarter of 2001 designed to temporarily reduce certain operating expenses to improve liquidity and operating cash flows. These initiatives resulted in significantly reduced expenses for 2001 and the first half of 2002.

Avista Utilities' operating revenues increased $34.2 million and resource costs increased $21.4 million, which resulted in an increase of $12.8 million in gross margin for 2003 as compared to 2002. The gross margin on natural gas sales decreased $0.3 million and the gross margin on electric sales increased $13.1 million. The slight decrease in the gross margin on natural gas sales was primarily due to a slight decrease in retail customer usage. Primarily due to warmer weather during the first three months of 2003, total retail therm sales decreased by 1 percent. The increase in electric gross margin was primarily due to the general electric rate increase of 19.3 percent in Washington base retail rates effective July 1, 2002. This increase was partially offset by the expense of the initial $9.0 million of power supply costs in Washington exceeding the amount included in base retail rates during 2003 as compared to $4.5 million expensed during 2002.

Energy Marketing and Resource Management - Net income for Energy Marketing and Resource Management was $20.7 million (excluding the cumulative effect of accounting change) for 2003 compared to $22.4 million for 2002. This decrease was primarily due to a $3.2 million (net of tax) impairment charge recorded by Avista Power, partially offset by an increase in gross margin for Avista Energy. During 2003, Avista Energy's earnings were positively impacted by the effects of accounting for energy contracts under SFAS No. 133, which resulted in contracts that are not considered derivatives, no longer being accounted for at market value. The transition to SFAS No. 133 increased the volatility of reported earnings due to the fact that certain contracts, which are not considered derivatives, are economically hedged by contracts that are accounted for as derivative instruments at market value under SFAS No. 133. During September 2003, Avista Energy implemented hedge accounting for certain transactions. This should partially mitigate the effects from the transition to SFAS No. 133 and reduce the volatility of reporting earnings on a prospective basis.

Avista Advantage – Avista Advantage's net loss was $1.3 million for 2003 compared to $4.3 million for 2002. Operating revenues for Avista Advantage increased $2.9 million and operating expenses decreased $2.1 million, as compared to 2002. Avista Advantage had a 12 percent increase in the number of billed sites as of December 31, 2003 as compared to December 31, 2002. The decrease in operating expenses reflects improved efficiencies, a reduction in the number of employees and a focus on reducing operating expenses. Total costs per account were reduced by 26 percent for 2003 as compared to 2002.

Other – The net loss from this business segment was $4.9 million for 2003, compared to $12.4 million (excluding the cumulative effect of accounting change) for 2002. The decrease in the net loss was primarily due to an increase in income from operations. Operating revenues from this business segment decreased $1.1 million and operating expenses decreased $12.1 million, respectively, for 2003 as compared to 2002. The increase in income from operations was primarily due to a decrease in litigation costs and settlements. The improvement in income from operations was partially offset by an increase in losses on certain other investments included in this segment.

Discontinued Operations – In July and September 2003, Avista Corp. announced total investments of $12.2 million by private equity investors in a new entity, AVLB, Inc., which acquired the assets previously held by Avista Corp.'s fuel cell manufacturing and development subsidiary, Avista Labs. As of December 31, 2003, Avista Corp. had an ownership interest of approximately 17.5 percent in AVLB, Inc., with the opportunity but no further obligation to fund or invest in this business.

Amounts reported as discontinued operations for 2003 represent the operations of Avista Labs. Amounts reported as discontinued operations for 2002 and 2001 represents the operations of Avista Communications and Avista Labs. The decrease in the loss from discontinued operations from $6.7 million in 2002 to $4.9 million in 2003 was primarily due to the fact that only six months of operations for Avista Labs are included in 2003 and partially due to $1.1 million of net income for Avista Communications in 2002.

Liquidity and Capital Resources – During 2002 and 2003, the Company's overall liquidity improved compared to 2001. The general electric rate case order issued by the WUTC in June 2002 and the PCA surcharge in Idaho is allowing the Company to continue to improve its liquidity. The Company designs operating budgets to control operating costs and capital expenditures. In addition to operating expenses, the Company has continuing commitments for capital expenditures for construction, improvement and maintenance of facilities. In 2001, the Company incurred substantial levels of indebtedness, both short and long-term, to finance these requirements and to otherwise maintain adequate levels of working capital. As a result of improved operating cash flow, during 2002 and 2003, the Company repurchased $256.1 million of long-term debt.

The Company's total debt increased from December 31, 2002 to December 31, 2003 due to the adoption of FASB Interpretation No. 46, the issuance of long-term debt in September 2003 and an increase in short-term borrowings, partially offset by the repurchase and maturity of long-term debt. The decrease in total debt (excluding $168 million of debt resulting from the adoption of FASB Interpretation No. 46) was made possible by positive operating cash flows from both Avista Utilities and Avista Energy. The Company's consolidated common equity increased $38.5 million during 2003 primarily due to net income, other comprehensive income and the issuance of common stock through the Dividend Reinvestment Plan and employee benefit plans, partially offset by dividends.

Pension Plan – As of December 31, 2003, 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 2003, the pension plan funding deficit was reduced as compared to the end of 2002 and as such the Company reduced the additional minimum liability for the unfunded accumulated benefit obligation resulting in an increase to other comprehensive income of $9.7 million, net of taxes. In 2002, the Company recorded an additional minimum liability for the unfunded accumulated benefit obligation resulting in a charge to other comprehensive loss 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 each of 2003 and 2002 and expects to make $15 million in cash contributions during 2004. The Company's goal is to have the pension plan's current obligations fully funded by the end of 2006.

Off-balance Sheet Arrangements – Avista Receivables Corp. (ARC), is a wholly owned, bankruptcy-remote subsidiary of the Company formed in 1997 for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. On May 29, 2002, ARC, the Company and a third-party financial institution entered into a three-year agreement whereby ARC can sell without recourse, on a revolving basis, up to $100.0 million of those receivables. ARC is obligated to pay fees that approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. As of December 31, 2003, $72.0 million in receivables were sold pursuant to the revolving agreement.

Board of Directors *(pictured left to right)*

Jessie J. Knight, Jr.
President and
Chief Executive Officer
San Diego Regional
Chamber of Commerce
Director since 1999

Lura J. Powell, Ph.D.
President and
Chief Executive Officer
Advanced Imaging
Technologies
Richland, Washington
Director since 2003

Roy Lewis Eiguren
Senior Partner
Givens Pursley, LLP
Boise, Idaho
Director since 2002

Gary G. Ely
Chairman of the Board,
President and
Chief Executive Officer
Avista Corp.
Spokane, Washington
Director since 2001

Erik J. Anderson
President
Westriver Capital
Kirkland, Washington
Director since 2000

David A. Clack
Managing Director
Meridian Capital
Spokane, Washington
Director since 1988

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

John F. Kelly
Former Chairman,
President and
Chief Executive Officer
Alaska Air Group
Seattle, Washington
Director since 1997

Michael L. Noël
President
Noel Consulting Company
Prescott, Arizona
Director since 2004

Jack W. Gustavel
Chairman, President and
Chief Executive Officer
Idaho Independent Bank
Coeur d'Alene, Idaho
Director since 2003

R. John Taylor
Chairman and
Chief Executive Officer
AIA Services Corporation
Lewiston, Idaho
Director since 1985

Corporate and Business Unit Officers *(pictured left to right)*

Scott L. Morris
Senior Vice President,
Avista Corp.
President, Avista Utilities

Kelly Norwood
Vice President, Avista Corp.
Vice President State and
Federal Regulation,
Avista Utilities

Roger D. Woodworth
Vice President, Avista Corp.
Vice President, Business
Development and Service
Optimization, Avista Utilities

Karen S. Feltes
Vice President of Human
Resources and Corporate
Secretary, Avista Corp.

Gary G. Ely
Chairman of the Board,
President and Chief Executive
Officer, Avista Corp.

Ronald R. Peterson
Vice President, Avista Corp.
Vice President Energy
Resources and Optimization,
Avista Utilities

Malyn K. Malquist
Senior Vice President, Chief
Financial Officer and Treasurer,
Avista Corp.

Christy Burmeister-Smith
Vice President and Controller,
Avista Corp.

Dennis Vermillion
President and Chief Operating
Officer, Avista Energy

David J. Meyer
Vice President and
Chief Counsel of Regulatory
and Governmental Affairs,
Avista Corp.

(not pictured)
Harry Stephens
President and
Chief Executive Officer,
Avista Advantage

(not pictured)
Gerry D. Crooks
Founder and Chief Strategic
Officer, Avista Advantage

Tribute

In 1967, Terry Syms began her career at Avista as a mailroom clerk. Sixteen years later, she was named the company's first female officer.

During her tenure as vice president, corporate secretary and assistant to the chairman, Terry was a trusted confidant to five board chairmen, bringing knowledge, common sense and a caring heart to her work.

Her leadership extended into the community, where she served on the boards of the Spokane Symphony, the Spokane chapter of the American Red Cross and the Western Securities and Transfer Association (WSTA). The WSTA honored her with its regional and national leadership awards, citing her "vision, values and inspiration."

We wish Terry and her husband, Gene, great 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 Web site. The address is 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 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
800-642-7365
shareowners@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-19
Spokane, Washington 99220-3727
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 13, 2004, at Avista Corp. headquarters, 1411 East Mission Avenue in Spokane, Washington.

The annual meeting also will be webcast. Please go to 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 www.avistacorp.com for one year 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 2003. Our 2003 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.

Avista's energy.

At work for you.

Avista employees featured on the front cover and inside front cover from left to right: Mandy Knapp, Brad Pederson, Laura Moua, Pat Ehrbar, Sally Conley, Brian Hirschkorn, Rick Reed, Rick Davis, Kim Gentle, Tom Dempsey, Michelle Hentschel, Chris Parnell, Darrin Belgarde, and Catherine Markson.

Inside back cover and back cover from left to right: Renee Coelho, Hassel Dotson, Tom Kliewer, Alene Clayton, Nolan Steiner, Diane Rowland, Robin Bekkedahl, Paul Cano, Jody Haag, Trevor Salonen, Virginia Omoto, and Ruben Flores.

The Beacon-Rathdrum transmission upgrade, pictured opposite and on page 1, commenced in May 2003. The upgrade will more than double the amount of energy Avista is able to move in the existing corridor to meet growing demands in this part of our service area.

Special thanks to these talented companies of the Great Inland Northwest for their help with this year's annual report: Anderson Mraz Design, design; Sharman Communications, copywriting; J. Craig Sweat Photography, photography; and Lawton Printing, printing.

2003 Avista

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