

PEOPLE NEED
POWER



Quanta Services, Inc.
2002 ANNUAL REPORT



QUANTA HAS IT

**QUANTA SERVICES, INC. PERFORMS
SPECIALIZED CONTRACTING SERVICES
THAT DELIVER END-TO-END NETWORK**

**SOLUTIONS FOR THE ELECTRIC POWER, NATURAL GAS,
TELECOMMUNICATIONS AND CABLE TELEVISION INDUSTRIES.**

**ACROSS THE COUNTRY, QUANTA PROVIDES ALL THE
PEOPLE, EQUIPMENT AND EXPERTISE TO DESIGN, INSTALL,
MAINTAIN AND REPAIR VIRTUALLY ANY TYPE OF TRANSMISSION
INFRASTRUCTURE, FROM POWER AND PHONE LINES TO GAS
PIPELINES AND BROADBAND NETWORKS.**



THE POWER TO **CONNECT**

**WHETHER IT'S A POWER LINE, A GAS LINE,
A PHONE LINE OR A DATA LINE, QUANTA FORMULATES
THE APPROACH, DESIGNS THE NETWORKS,
DIGS THE TRENCHES, LAYS THE CABLES, ERECTS THE TOWERS AND STRINGS
THE WIRES THAT CONNECT PEOPLE TO THE ENERGY AND COMMUNICATIONS
RESOURCES THEY NEED. DEMAND FOR THESE RESOURCES PUTS ADDED STRAIN
ON EXISTING INFRASTRUCTURE, AND INCREASES THE TECHNICAL REQUIREMENTS
FOR NEW TRANSMISSION NETWORKS. IN THIS CRITICAL FIELD, NO SINGLE
COMPANY CAN MATCH QUANTA'S ABILITY TO HELP DELIVER THE ELECTRICITY, GAS,
VOICE, DATA, VIDEO AND INFORMATION RESOURCES THAT KEEP PEOPLE CONNECTED.**

THE POWER TO **COMMUNICATE**

**AS A RESULT OF QUANTA'S EXPERTISE,
INDIVIDUALS, FAMILIES AND BUSINESSES CAN
COMMUNICATE WITH EACH OTHER AND CONNECT TO**

**THE CONTINUOUSLY EXPANDING WORLD OF INFORMATION AND ENTERTAINMENT
RESOURCES. QUANTA'S COMBINATION OF STRONG AND EXPERIENCED MANAGEMENT,
TECHNICAL EXPERTISE, PROPRIETARY TECHNOLOGIES, HIGHLY SKILLED WORKFORCE
AND GEOGRAPHIC REACH IS UNIQUE IN THE INDUSTRY. WHETHER IT'S ACROSS THE STREET
OR ACROSS THE NATION, QUANTA HAS THE TECHNOLOGY AND EXPERIENCE TO DESIGN,
BUILD, REPAIR AND MAINTAIN THE INFRASTRUCTURE THAT KEEPS PEOPLE IN TOUCH.**





THE POWER TO **CONTROL**

**LIKE MANY BUSINESSES TODAY,
QUANTA'S CUSTOMERS NEED TO CONTROL
THE COSTS OF THEIR OPERATIONS. QUANTA**

**PROVIDES ALL THE CAPABILITIES NEEDED TO MANAGE ITS CUSTOMERS'
TRANSMISSION NETWORK ASSETS IN A COST-EFFECTIVE MANNER.
QUANTA'S OUTSOURCING PARTNERSHIP WITH PUGET SOUND ENERGY
IS ESTIMATED TO SAVE THE UTILITY MORE THAN \$15 MILLION PER
YEAR. THIS STRATEGIC APPROACH ENABLES CUSTOMERS TO REDUCE
OPERATING COSTS, MAXIMIZE EFFICIENCIES AND CAPITALIZE MORE
EFFECTIVELY ON CORE COMPETENCIES, ACHIEVING BETTER CONTROL
OF THE VARIABLES THAT DETERMINE THEIR BUSINESS SUCCESS.**

2002. Unprecedented challenges.

Letter to Shareholders

We knew 2002 would be a very tough year for Quanta Services; but the year produced unprecedented and unforeseeable challenges. As the year began, the previously booming telecommunications industry was already in the midst of a contraction that continues to this day. The electric power industry, struggling to reinvent itself in an increasingly deregulated environment, was rocked by energy trading scandals. Investor confidence in corporate management was profoundly shaken by a series of high-profile accounting scandals, questionable financial practices and bankruptcies. In fact, of the 20 largest bankruptcies in U.S. history, seven occurred in 2002, and three of our customers were among them. The overall economy was down, depressing demand for the services our customers provide, regardless of whether they are “discretionary” (like cable television and cellular services) or “mandatory” (like electric power and natural gas). From an accounting standpoint, new accounting standards (specifically, FASB 142) meant that many public companies had to take significant goodwill write-offs during 2002, depressing as-reported financial performance and reinforcing skepticism among investors.

In the midst of these difficult challenges, we found ourselves the target of a determined proxy battle waged by a far larger corporation. Because we believed the take over terms offered by that corporation represented a distinct loss of value for our stockholders, we fought vigorously to maintain the company's independence. Based on the opinions of many knowledgeable analysts, our prospects for maintaining independence were slim. The battle was expensive, both in terms of actual cost (approximately \$12 million) and in the share of management expertise diverted from core operations.

We not only survived these challenges, but I believe we have emerged as a stronger organization. And one whose vision — to be the preeminent nationwide provider of the services needed to design, install, repair and maintain all types of transmission network infrastructure — remains today as sound as when we formed the company in 1997.

Here's how we strengthened the company last year:

Reduced costs.

By improving organizational efficiencies and redeploying resources from telecommunications to electric power work, we took costs out of our operations. In response to both specific market conditions and the overall economic slowdown, we also reduced our workforce by approximately 15%.

Reduced long-term debt.

Despite decreased revenues and the substantial cost of the proxy battle, we reduced our debt by \$116 million, and also renegotiated our credit facilities.

Maintained a positive cash flow.

We recorded free cash flow of \$72 million, and cash flow from operations of \$121.5 million. Given specific market conditions and an economy in recession, this represented a noteworthy achievement.

Secured a major investment.

Following an in-depth evaluation of our business strategy, First Reserve made a substantial investment in Quanta. This decision came from a respected organization whose due diligence and commitment have provided an external vote of confidence in the future of our business.

Introduced a major new product.

The new, larger Linemaster® robotic arm is a device for manipulating power lines carrying up to 345,000 volts of electricity. In combination with our other energized techniques, the Linemaster gives us the ability to install, maintain or upgrade live transmission and distribution lines. This means faster and more cost-effective maintenance for the utility, and no interruption in service for the consumer.

Reorganized into two divisions to improve operations.

As of January first of this year, John Wilson became President of Electric Power and Gas Operations, and Luke Spalj became President of Telecommunications and

Cable Operations. I believe their efforts will help to take Quanta's focus, coordination and communication to the next level, ensuring that the organization continues to be far more than the sum of its operating units. As part of this new structure, we also consolidated 12 operations where there were regional or operational synergies.

What we're doing this year.

Each of our key markets continues to face significant challenges.

Regulated or not, electric utility companies must continue to reduce costs. In general, while generation capacity has grown, delivery has lagged as a result of increasing bottlenecks in the transmission network. The Federal Energy Regulatory Commission is considering regulatory changes that could lead to the formation of independent transmission companies to ensure that the transmission network receives the attention it needs.

Sharing the turmoil in the energy markets, companies providing natural gas are striving to reduce costs while working harder to guarantee the continued safe operation of their pipelines. New legislation continues to stiffen the requirements for pipeline testing and maintenance.

In terms of large-scale network buildouts, telecommunications will not return in the foreseeable future to its pace of several years ago. With an overabundance of long-haul capacity, the focus will be on completing "last mile" connections in cities and introducing fiber in rural settings and in specific environments like university campuses.

Linked as it is to the telecommunications industry, the cable television market is facing restructuring through mergers and increasingly intense financial challenges.

Every one of these markets is saddled with the continuous challenge of maintaining, replacing or upgrading infrastructure that is aging, decreasing in efficiency and increasing in cost, while also protecting against the risk of sudden and potentially catastrophic failure.

To optimize our response to these conditions, we will:

Intensify our focus on outsourcing solutions.

As our experience with Puget Sound Energy has shown, outsourcing is a powerful way for companies to decrease costs associated with infrastructure services while enabling them to devote more attention to core activities. Our extensive capabilities allow us to function as asset managers for the enormous investments organizations have made in transmission network infrastructure.

Continuously adjust our resources to exploit areas of opportunity.

Our track record of exceptional responsiveness to restoration needs following storms proves that we can provide needed services, manpower and equipment immediately, without significant impact on ongoing projects. Our market standing and strong reputation position us to leverage and capture growth opportunities such as the increased demand for our proprietary energized services and growing need to upgrade our national power transmission grid.

•
Redirect our telecommunications activities and reduce costs.

We will continue to shift our telecommunications focus from long-haul to last mile applications. Our efforts to reduce costs and increase efficiencies throughout our operations remain a priority.

•
Leverage our expertise in gas line testing and maintenance.

We will continue to exploit the value of our maintenance, repair and inspection services to the gas transmission industry to help address increasingly stringent testing and maintenance requirements.

•
Keep on working.

We will remain vigilant for the opportunities afforded by changes in technology and government regulation, two of the most significant market drivers in the industries we serve.

Operationally, we expect our new organizational structure to improve our responsiveness to changing market needs and the speed and efficiency with which we deliver solutions. The combination of strong regional operating companies with the connections, expertise and financial muscle of our corporate entity continues to work for us.

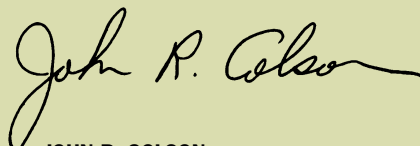
The vision remains clear.

The downturn in the telecommunications industry, turmoil in the energy markets, economic recession, proxy battle costs, goodwill write-offs and customer bankruptcies are not excuses: they formed the environment in which we operated. We are more committed than ever to increasing stockholder value. The actions we took to respond to the environment proved the depth of that commitment and have, I believe, helped us become stronger and more competitive. These events have demonstrated once again the value of the vision on which Quanta was built:

- To assemble and deploy the resources to provide end-to-end services for all types of transmission network infrastructure.
- To serve markets that are critical to sustaining and enhancing the quality of life for individuals, communities and businesses.

Regardless of where they are or what they're doing, people need the power to connect, the power to communicate and the power to control costs. I believe no company in the country is better equipped than Quanta to deliver that power.

Sincerely,



JOHN R. COLSON
Chairman and Chief Executive Officer



FOR MORE
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Visit our website
QUANTASERVICES.COM

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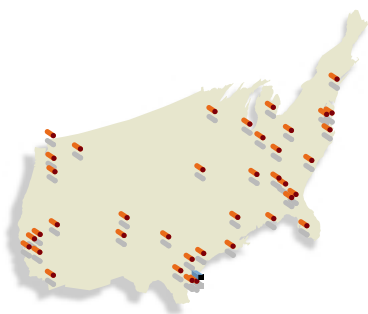
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SELECTED FINANCIAL
DATA
IN THOUSANDS
EXCEPT PER SHARE INFORMATION

YEAR ENDED DECEMBER 31,	2002	2001
Revenues	\$ 1,750,713	\$ 2,014,877
Cost of services	1,513,940	1,601,039
Gross profit	236,773	413,838
Selling, general & administrative expenses	225,725	194,575
Goodwill impairment	166,580	—
Goodwill amortization	—	25,998
Income (loss) from operations	(155,532)	193,265
Interest expense	(35,866)	(36,072)
Other, net	(2,446)	(227)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	(193,844)	156,966
Provision (benefit) for income taxes	(19,710)	71,200
Income (loss) before cumulative effect of change in accounting principle	(174,134)	85,766
Cumulative effect of change in accounting principle, net of tax	445,422	—
Net income (loss)	(619,556)	85,766
Dividends on preferred stock, net of forfeitures	(11)	930
Non-cash beneficial conversion charge	8,508	—
Net income (loss) attributable to common stock	\$ (628,053)	\$ 84,836
Basic earnings (loss) per share before cumulative effect of change in accounting principle	\$ (2.26)	\$ 1.11
Cumulative effect of change in accounting principle, net of tax	(5.51)	—
Basic earnings (loss) per share	\$ (7.77)	\$ 1.11
Diluted earnings (loss) per share before cumulative effect of change in accounting principle	\$ (2.26)	\$ 1.10
Cumulative effect of change in accounting principle, net of tax	(5.51)	—
Diluted earnings (loss) per share	\$ (7.77)	\$ 1.10
Shares used in computing earnings (loss) per share:		
Basic	80,815	77,256
Diluted	80,815	78,238



DIRECTORS

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Private Investor

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Quanta Services, Inc.

TERRENCE P. DUNN^{1, 2}
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President, Potelco, Inc.

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- 1 Audit Committee
- 2 Compensation Committee
- 3 Nominating Committee

* Officers subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934.

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