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PINNACLE WEST is a Phoenix-based company with consolidated assets of \$7.1 billion and annual revenues of \$3.7 billion. Through our subsidiaries, we generate, sell and deliver electricity and energy-related products and services to retail and wholesale customers in the western United States. We also develop residential, commercial and industrial real estate properties.

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share amounts)	<i>2000</i>	<i>1999</i>	<i>1998</i>	Selected Growth Rates	
				<i>2000 vs. 1999</i>	<i>1999 vs. 1998</i>
INCOME HIGHLIGHTS					
Operating revenues	\$ 3,690,175	\$ 2,423,353	\$ 2,130,586	52.3%	13.7%
Income from					
continuing operations	\$ 302,332	\$ 269,772	\$ 242,892	12.1%	11.1%
BALANCE SHEET HIGHLIGHTS					
Total assets	\$ 7,149,151	\$ 6,608,506	\$ 6,824,546	8.2%	(3.2%)
Common stock equity	\$ 2,382,714	\$ 2,205,733	\$ 2,163,351	8.0%	2.0%
PER SHARE HIGHLIGHTS					
Earnings per share from					
continuing operations – diluted	\$ 3.56	\$ 3.17	\$ 2.85	12.3%	11.2%
Dividends declared per share	\$ 1.425	\$ 1.325	\$ 1.225	7.5%	8.2%
Book value per share – year-end	\$ 28.09	\$ 26.00	\$ 25.50	8.0%	2.0%
STOCK PERFORMANCE					
Stock price per share – year-end	\$ 47 5/8	\$ 30 9/16	\$ 42 3/8		
Stock price appreciation	55.8%	(27.9%)	—		
Total return	62.2%	(25.1%)	2.8%		
Market capitalization – year-end	\$ 4,039,788	\$ 2,592,462	\$ 3,594,457	55.8%	(27.9%)

TO OUR SHAREHOLDERS:

Pinnacle West had a great year in 2000. We produced excellent results under conditions which tested our workforce, our knowledge of the western grid, our resiliency to market fluctuations and our ability to anticipate and act. We met these challenges and our shareholders were rewarded. Sighting on the future remains key. However, as this year's cover suggests, predictive tools have limitations, even those with wide-angle lenses. This is why we insist on preparing for a variety of outcomes.

REAL EARNINGS, REAL ASSETS, REAL GROWTH

In the year 2000, power supplies tightened in the West, and wholesale power prices soared. Natural gas also reached new levels of price and volatility. These conditions collapsed the recently created California energy market, and a new structure is slowly evolving. Anticipating the ultimate resolution to this situation is beyond mere planning tools and expertise.

While these events swirled around us, we increased earnings by 12 percent while lowering customer prices for the sixth time in seven years. Starting in 1994, APS has decreased electric prices a total of 11.4 percent. While others in the West are reacting to crises, we're preparing for the next round of competition, in both the market and regulatory arenas, to provide future value to our shareholders. That's a competitive advantage.

Last year, APS experienced strong customer growth of 3.7 percent, about three times the national average. We also increased the number of customers served per employee, as we did throughout the 1990s when we doubled that number.

Not only are we adding more customers, our customers are more satisfied. In 2000, our customer satisfaction rating rose significantly, and we expect to continue to improve in 2001.

Rapid customer growth and high prices on the wholesale power market didn't stop us from delivering reliable power – and we're working to make sure it never does. We've kept pace with growth and market volatility by planning for and building the distribution and transmission infrastructure needed to serve our customers.

On the generation side, we're meeting new demand growth through our unregulated subsidiary, Pinnacle West Energy. We broke ground on two major generation expansion projects and produced another year of outstanding performance from our fossil and nuclear units.

Increasingly efficient performance from our power plants, due to the employees who run them, helped us meet high demand from our customers, and allowed us to participate in the wholesale market.

Our cash flow is among the strongest in the industry – based on per share cash from operations – and allows us the flexibility to expand generation. Over the next five years, we will be financing a majority of our growth from internal sources and plan to maintain investment-grade credit ratings for our corporate-level securities.

Although the current power market is volatile and the regulatory environment is unsettled, we're confident of who we are, where we are, and where we're headed.



William J. Post, *Chairman*

A FOCUS ON RISK MANAGEMENT

Last year's results prove we can achieve the agility demanded by our changing industry. That means emphasizing the importance of risk management for the entire corporate enterprise.

Our approach to risk management includes buying and selling power, but there's more to it. We limit our risks by emphasizing and strengthening our areas of expertise while pursuing growth opportunities that make sense.

At the holding company level, our power trading and marketing group is adeptly balancing the market risks between delivery and supply. Unlike many utilities, we have not had a "fuel adjustment clause" to manage fuel risk since 1988. We've turned this apparent negative into a positive by fine-tuning the risk management skills needed to thrive in a competitive marketplace.

Our subsidiaries have been doing business in the West for a long time. We know the area, we know the people, we know the challenges. As we said last year, there are places we won't go. Instead, we will use our foundation and our planning capability to capture the benefits of customer growth on all sides of our business.

GROWING AND BUILDING

With APS, our regulated subsidiary, we will increasingly capture the benefits of customer growth with a regulatory Settlement Agreement that allows us to meet future customer needs while benefiting our shareholders.

We focus intensely on the total business, which means generation as much as delivery. As new units at our West Phoenix and Redhawk plants are energized and we build or buy additional generation, we expect Pinnacle West Energy to be a source of earnings growth for our company.

Pinnacle West Energy has received approvals to build and is already in various stages of construction for 2,800 megawatts of new gas-fired capacity. We remain committed to growing our generation business, and capturing the advantages of our geographic location. But there are limits to the price we'll pay for growth. We're striving to balance new capacity with anticipated load growth, while maintaining a solid capital structure.

We are moving forward with plans to transfer generation assets and employees from APS to Pinnacle West Energy. As authorized by the Settlement Agreement, we will transfer our existing generation operations to Pinnacle West Energy by the end of 2002.

APS Energy Services, our competitive sales subsidiary, responds to opportunities to provide energy services

OUR SUCCESS LAST YEAR STEMS FROM OUR FIRM
CONVICTION THAT WE MUST REMAIN NIMBLE IN OUR RESPONSE
TO ALL EVENTS – EXPECTED AND UNEXPECTED.

and commodity energy to customers in Arizona, California and other Western states. APS Energy Services focuses on opportunities to provide these services while maintaining a positive gross margin.

SunCor, our real estate development subsidiary, increased its net income by 90 percent in 2000. SunCor has developed a number of renowned master-planned communities and golf properties in Arizona, New Mexico and Utah.

El Dorado, our investment subsidiary, had a standout performance in 1999 when it brought in strong

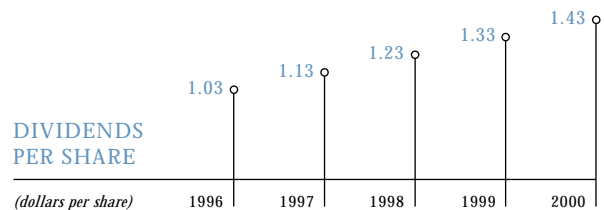
returns, but last year's performance reflects the fading of tech stocks. El Dorado's future investments will focus on opportunities in the energy sector.

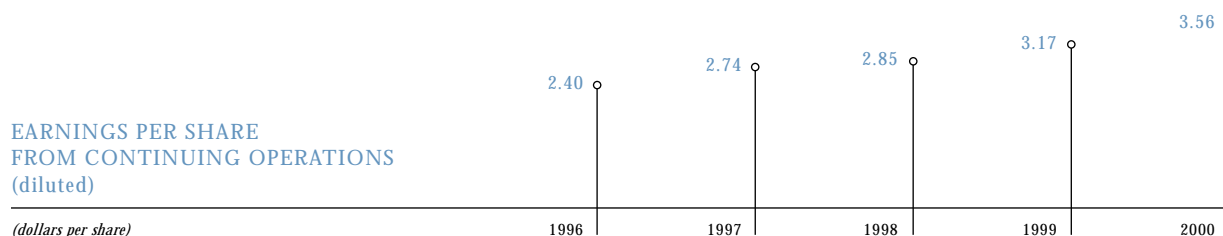
All our businesses are positioned to build long-term shareholder value. For Pinnacle West, this means continuing to outperform our peers. We are in the top quartile of utility companies in shareholder return over the last five-year period, and our goal is to be there for the long term. This proves just how serious we are about shareholder value.

We've averaged earnings increases from continuing operations of 9.4 percent per year for the last five years. That puts us in the top 10 percent of U.S. electric utilities. Over time this long-term earnings growth is reflected in our stock price, which considerably outperformed the S&P 500 Index last year and has outperformed the utility index over the last one- and five-year periods.

ANOTHER LOOK AT REGULATION

In Arizona, we talked and worked with our customers, legislators and regulators to create a workable competitive transition plan. It's working. However, we can't ignore the interconnected nature of the





western electric grid. As one of the largest machines made by man, it has inherent characteristics that are unforgiving and demanding. It must serve markets that require reliable energy at low cost, all under the umbrella of a growing patchwork of regulation.

In California, electric outages have rebalanced priorities. Short-term solutions will have long-term impact, and political objectives can stretch scientific reality only so far. Most important, changes in this industry will not be tolerated if they significantly reduce reliability or increase prices.

The California crisis has validated our approach to competition: Electric prices are important. Retail customer choice may not be as vital as the “obligation to serve.” Customer reliability is our job, and managing risk for our shareholders is fundamental to solid performance.

If deregulation is dead in the West, it’s in part because it never started. However, the injection, and I believe growth, of competition is real and the playing field will be in both the market and regulatory arenas. Playing this long-term, multi-faceted and regional game is something we’re equipped and ready to do. And it’s how we intend to produce superior results for our shareholders.

OUR EXPECTATIONS

After our first full year with a new corporate structure and a new regulatory environment, Pinnacle West is a strong company – operationally, strategically and financially.

Our future rests with the men and women of our company who have worked hard to achieve success in the midst of uncertainty. We’ve cleared several hurdles without breaking stride. Together, we face more uncertainty, more change and more opportunity. I look forward to it.

We’re committed to creating customer satisfaction and shareholder value. If we don’t meet our customers’ expectations, that’s our fault. It’s our job to respond to changing markets, find future opportunities, and continue to make more money for our shareholders.

I’m convinced we’re more than up to the challenge.

William J. Post, *Chairman*



OUR CONTINUED STRONG FINANCIAL PERFORMANCE
UNDERScores OUR COMMITMENT TO
DELIVERING SUPERIOR VALUE FOR OUR SHAREHOLDERS.

FINANCIAL PERFORMANCE

Coming off a very strong financial performance in 1999, our expectations were high for 2000. We weren't disappointed.

In 2000, during a time when the nation's economy was slowing, the Pinnacle West stock price increased 56 percent and earnings from continuing operations per diluted share grew 12 percent.

We also further differentiated ourselves by increasing our indicated annual dividend to \$1.50 per share. This represented a 7 percent increase in a year when

the electric utility industry posted an overall average *decrease* of 4 percent.

Income from continuing operations in 2000 increased to \$302.3 million or \$3.56 per diluted share of common stock. These results compare with \$269.8 million or \$3.17 per diluted share in 1999 – a good year in its own right. These results were accomplished largely through increased sales activity in retail and western U.S. wholesale power markets.

Improved results from our real estate operations also added to our earnings growth. These positive factors



more than offset the completion of the amortization of our investment tax credits at the end of 1999, the effects of electricity price decreases and lower earnings from El Dorado.

The five-year span of 1996 through 2000 was one of steady earnings growth for Pinnacle West.

~ Total return on Pinnacle West stock for the five-year period was 96 percent (an average of 14.4 percent a year) compared with an overall industry five-year return of 79 percent (12.4 percent annually on average).

~ Our earnings from continuing operations per diluted share grew an average of 9.4 percent a year over the five-year period, ranking in the top 10 percent of electric utilities nationwide.

~ The five-year growth of our dividend ranked second among U.S. electric utilities that paid dividends throughout the period – averaging 8.4 percent a year compared with an average annual decrease of one percent for the industry.

Looking forward, we have opportunities to build upon our earnings growth. However, volatile western U.S. energy markets and associated market restructuring could impact future energy costs and prices. With this in mind, we will continue to focus on managing the risks related to our energy needs.

While the financial future cannot be predicted, we feel confident we can achieve our goal of providing long-term superior total returns for our shareholders through a combination of earnings and dividend growth while staying financially strong and flexible.

REGULATORY AND INDUSTRY ISSUES

Our approach to industry regulation is essentially based on two questions – Is it good for customers? Is it good for shareholders?

In 1999, we negotiated a Settlement Agreement with the Arizona Corporation Commission (ACC) that carefully balances customer and shareholder interests during a period of transition to retail competition. Under this agreement, all customers can choose their retail energy supplier beginning in 2001. Customers who remain with APS will receive a series of price reductions totalling 7.5 percent through 2003.

Our shareholders also benefit from the 1999 Settlement Agreement which provides performance-based ratemaking for APS – our electricity delivery

IN 2000, THE COMPANY DISTINGUISHED
ITSELF BOTH FINANCIALLY AND OPERATIONALLY.

company – while allowing us to retain and add to our generation portfolio in the West through Pinnacle West Energy.

The merits of the existing APS Settlement Agreement are substantial and have allowed us to maintain high levels of reliability for our customers, while providing benefits of competition to all APS customers in the form of lower prices.

The agreement allows for a responsible transition to competition that balances the interests of customers and shareholders. However, there are outstanding legal challenges to various aspects of the ACC competition rules and the 1999 Settlement Agreement. We do not believe these challenges will affect our Settlement Agreement with the ACC.

Depending on how the energy situation in California develops, Arizona's deregulated environment may be further impacted at the national level by the Federal Energy Regulatory Commission (FERC) or Congress. Any actions that foster robust and liquid wholesale markets in the West should benefit Arizona electric customers and allow Pinnacle West to continue successfully pursuing our competitive business strategies.

Formation of Regional Transmission Organizations (RTOs) – which the FERC has strongly encouraged but has not mandated – will affect wholesale generation transactions and transmission. APS and other utilities in the Southwest have submitted plans to FERC for an RTO known as Desert Star. While a number of issues remain, Desert Star participants

have agreed on fundamental concepts. The current and planned market structures would allow long-term purchase agreements and would not force utilities to buy through a state-run power exchange.

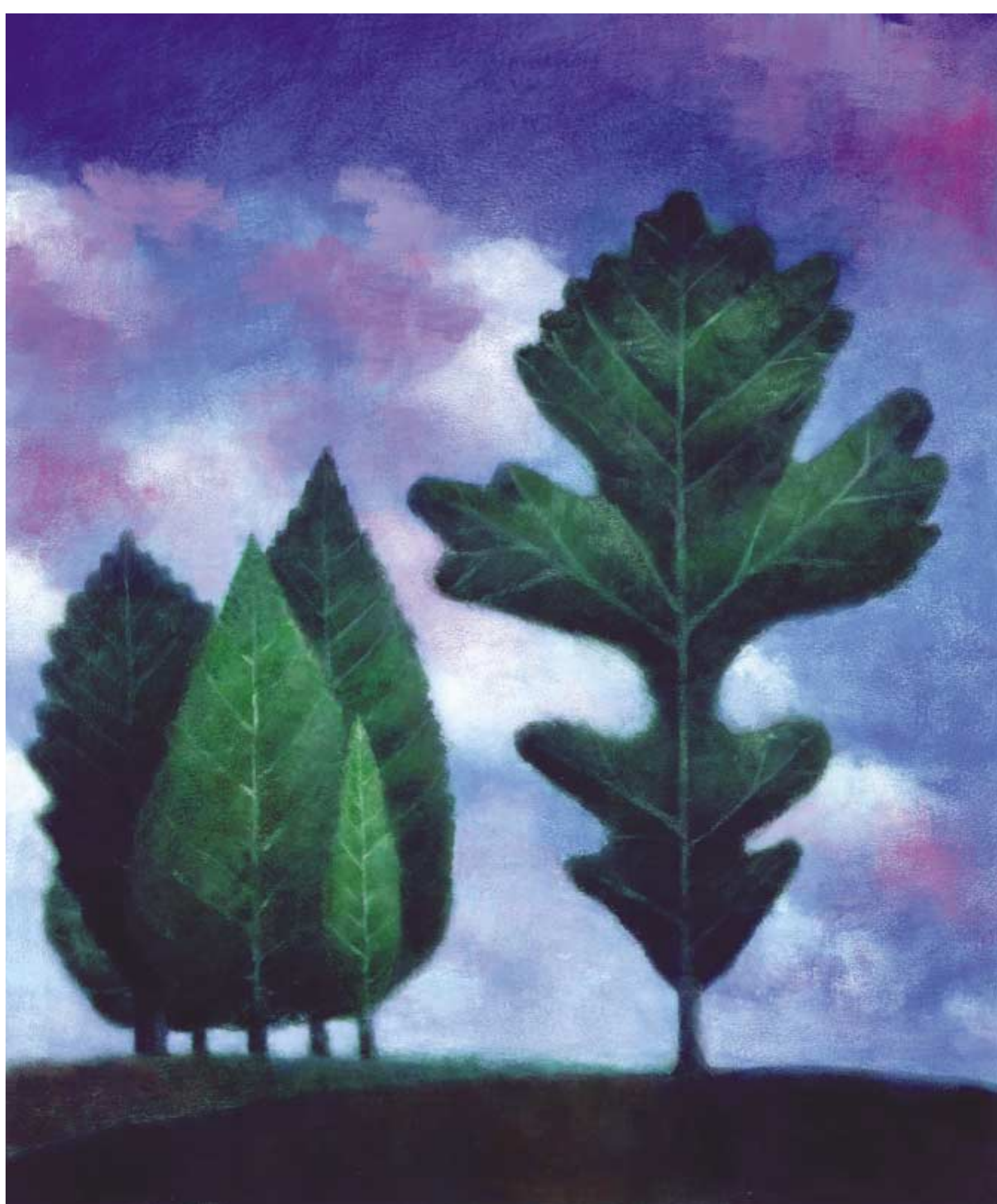
DELIVERY AND GENERATION

Our strategy for delivery and generation is simple yet aggressive. We will continue to serve our regulated customers through our electric energy supplier, APS, and provide electric power to our customers primarily from our own generation.

Our strategy involves managing our enterprise-wide energy risk through our marketing and trading group. This group is a fulcrum for our businesses, helping to optimize the results of delivery and generation by purchasing wholesale power to serve our retail electricity customers, and selling available output from our generating facilities and other energy resources.

Our marketing and trading group's performance in 2000 was integral to our company's earnings growth. Our electric revenues grew by approximately \$1.2 billion in 2000 – a 54 percent increase over 1999. Our fuel and purchase power costs also increased dramatically – rising to \$1 billion. The marketing and trading group displayed foresight, versatility and a unique ability to manage this growth.

The energy needs of our delivery business are currently met through a combination of our existing generation facilities and long-term purchase power agreements. However, when the electricity demands



of our customers exceed our long-term resources, particularly during the hot summer months, marketing and trading supplements our existing resources with short-term wholesale purchases and hedging techniques.

These hedging techniques ensure we have enough energy for our customers, and limit our exposure to volatile wholesale prices. In mid-2000, our hedging efforts allowed us to manage the costs of power and natural gas supplies during times when other electric

transmission and distribution infrastructure while responding to the unprecedented customer growth of the past decade.

Over the last 10 years, APS has added more than 240,000 new customers, an average growth rate of 3.5 percent. Last year we grew by 3.7 percent, nearly three times the national average. To meet the growing energy needs of our customers, we're making significant investments in our delivery system to ensure a safe, reliable supply of energy.

MANAGING THE RISKS OF A VOLATILE POWER MARKET
HAS BECOME CENTRAL TO THE SUCCESS OF OUR
COMPANY. WE MANAGE THESE RISKS BY REMAINING
AGILE AND PLANNING FOR MULTIPLE OUTCOMES.

utilities in the West suffered from high and volatile prices. Similar hedges have been substantially put in place for the summers of 2001 through 2003.

This group also manages the risks related to our wholesale buying and selling counterparties. As the California energy crisis developed, careful scrutiny of counterparties helped us control our exposure to problems that affected others in that market.

Delivery

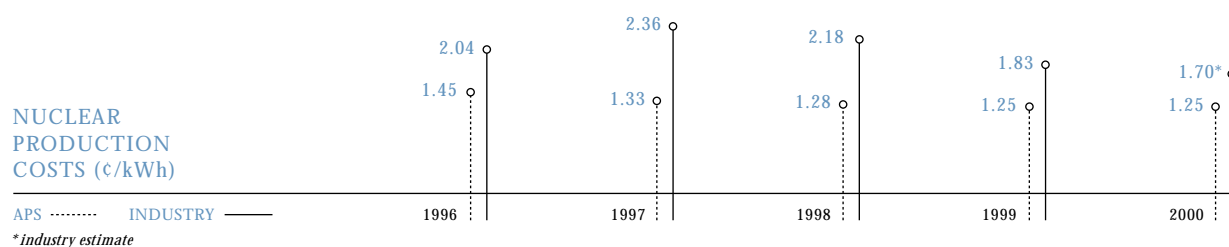
In 2000, for the sixth time in seven years, APS reduced prices to customers. By 2004, residential and small business electric prices will have decreased 16 percent over a 10-year period.

While steadily reducing our prices, we've also set ourselves apart by maintaining high levels of reliability and avoiding rolling blackouts like those that plagued northern California in late 2000 and early 2001. We've been significantly enhancing our

Throughout our delivery company, we have formed teams to find specific ways to improve our service and customer satisfaction. This effort is paying off with improved customer satisfaction ratings.

We have continued to increase our profitability by serving more customers more efficiently through new technology. For example: our state-of-the-art call center has won multiple awards and was recently ranked in the top three among utilities included in a nationwide, independent benchmarking study.

We also can serve customers better and more cost effectively through our Internet site, aps.com. This recently redesigned site has been made simpler to use and more convenient by asking customers how they want to do business with APS. We listened, and now our customers can pay bills, check the status of their accounts and keep up with the latest industry information online.



Generation

Our generation group distinguished itself last year by setting new standards in productivity and efficiency. We produced more energy from our power plants than ever before – a total of 24.1 million megawatt-hours – 7.3 percent more than the previous record. Our fossil generation fleet achieved its best capacity factor ever, including the greatest annual capacity factor from our smaller gas and oil units. Overall base-load capacity factor was 87 percent, with an 83 percent rating for the coal units and 93 percent for our three Palo Verde nuclear units.

The last decade was one of ongoing performance improvement at Palo Verde. Few achievements were more impressive than the steady reduction in average refueling time.

From 1990 to 1999, the average refueling time decreased from 151 days to 37. Last year we became even more efficient, as average refueling time was decreased another 15.6 percent to 32 days.

Our outstanding generation performance and productivity enabled us to maintain reliability in 2000, protecting our company from the potential of tight power supplies and high wholesale prices. Extra generation supply – produced for the most part from our peaking units – allowed our marketing and trading group to sell a significant amount of energy at favorable wholesale prices.

UNREGULATED BUSINESSES

Pinnacle West Energy

Unlike many utility companies that sold their power stations, we embrace generation as a core business. Last year – in its first full year as our competitive generation subsidiary – Pinnacle West Energy began construction on projects that will eventually add nearly 2,800 megawatts of new gas-fired capacity, and began exploring the feasibility of underground gas storage.

The 2,800 megawatts of new capacity consists of six highly efficient combined-cycle units at two sites. These include two new units at our existing West Phoenix plant. The 120-megawatt West Phoenix



AT PINNACLE WEST, WE AIM TO STAND APART
FROM OUR INDUSTRY PEERS. WE'VE DONE SO WITH RECORD
CUSTOMER GROWTH, EARNINGS AND PRODUCTIVITY.

Unit 4 is scheduled to meet an in-service date of June 2001. The 530-megawatt West Phoenix Unit 5 is scheduled to begin operation in mid-2003.

The new Redhawk power plant, located near our Palo Verde Nuclear Generating Station and its region-serving transmission switchyard, is expected to consist of four 530-megawatt units. Construction began on Units 1 and 2 in December of 2000, and commercial operation is scheduled for mid-2002. We received the first combustion turbine for this project in the first quarter of 2001 and expect to energize the new switchyard near the end of the year.

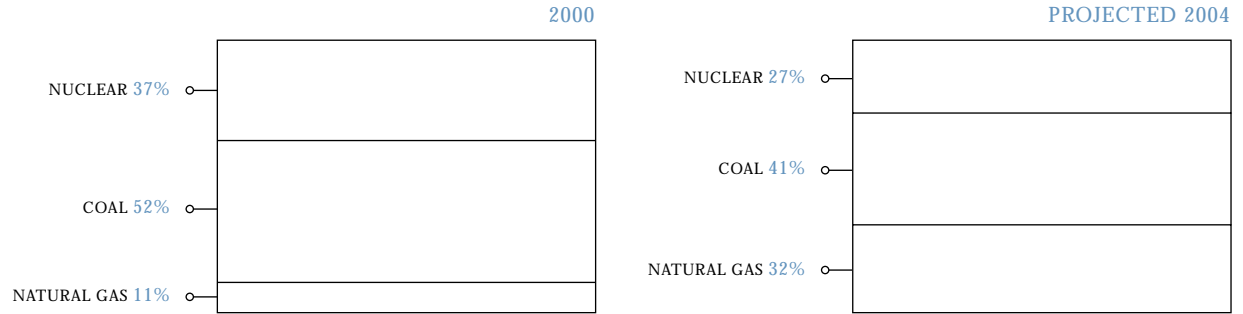
Pinnacle West Energy is exploring the feasibility of developing an underground natural gas storage facility west of Phoenix. Test drilling to confirm geological studies is under way. Such a facility could provide protection from price spikes and supply interruptions for our new plants. This facility could also provide a business opportunity in supplying gas storage capacity to other companies.

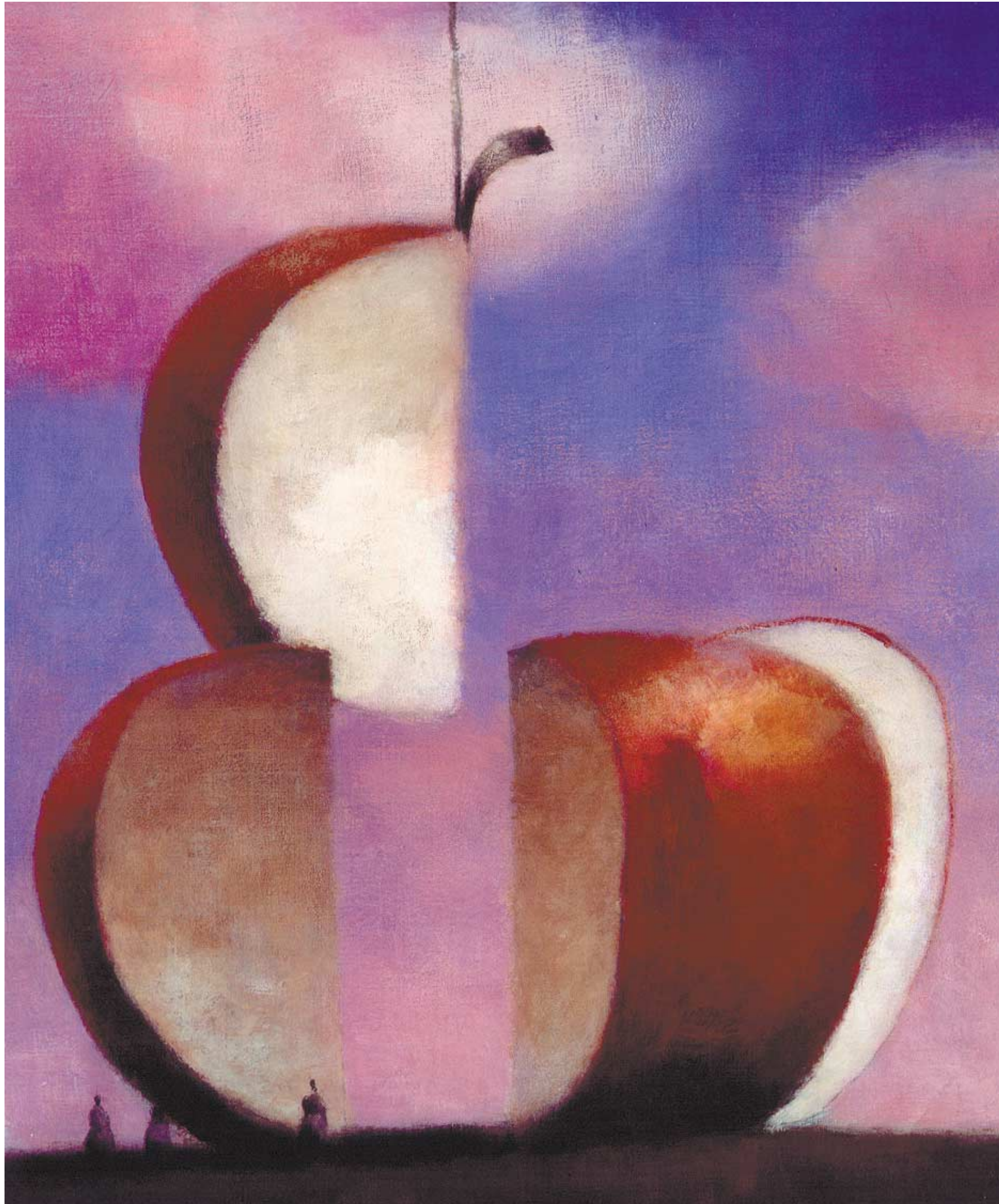
By summer 2001, we will add more than 500 megawatts of generating capacity from our new West Phoenix unit as well as some leased portable units and the reactivation of existing units. A portion of this added capacity has been several years in the planning, but some is being added as a precaution against unforeseen increases in demand. As we expand our gas-fired capacity, we will achieve a desirable balance among the three major fuels – nuclear, coal and natural gas.

By completing new units at West Phoenix and Redhawk and building or buying additional generation, we expect Pinnacle West Energy to be a major earnings growth engine.



GENERATION MIX





CREATING A COMPETITIVE ADVANTAGE, SATISFYING OUR CUSTOMERS AND PRODUCING SHAREHOLDER VALUE ARE THE ULTIMATE GOALS OF ALL PINNACLE WEST BUSINESSES.

APS Energy Services

This subsidiary distinguishes itself from other energy services companies with its emphasis on profitable transactions and its agility when responding to market conditions. APS Energy Services sells commodity energy and energy-related products and services designed to solve the customer's business challenges and tailored to each customer's individual demands and energy use patterns. We expect positive gross margins in all customer relationships, which means we do not attempt to buy market share and will leave markets that are not profitable.

APS Energy Services seeks a workable, competitive market wherever it does business, so one of its major thrusts is shaping market rules so customers can be offered real choices. Among the Pinnacle West family of companies, APS Energy Services is most concerned with competitive and strategic positioning and advocacy of a competitive market. This provides market opportunity not only for APS Energy Services,

but also for Pinnacle West Energy because it profits from more competitive markets as well.

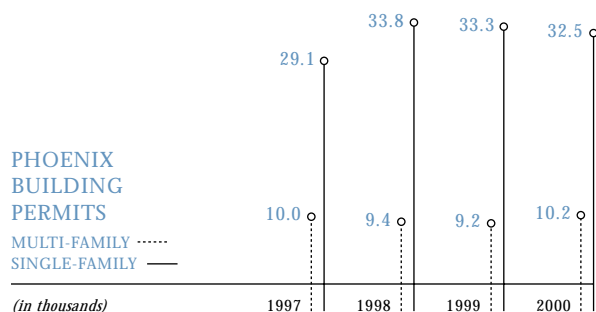
SunCor

SunCor's diversification into four development areas – master-planned communities, homebuilding, golf courses and commercial development – makes it unique. Where most development companies concentrate on only a few types of development, SunCor can respond to market changes by shifting concentration among four areas.

SunCor's strategy is simple – develop and sell its existing properties supplemented by selected new development opportunities. This enables the company to capture profit all along the value chain. Last year the company generated \$11 million in earnings, an increase of \$5 million over 1999.

El Dorado Investment

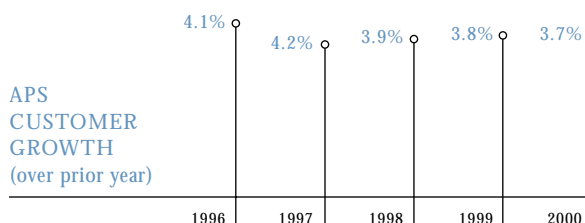
El Dorado, our investment subsidiary, is in the process of harvesting its venture capital investments – which are primarily related to technology – as quickly as prudent. Through its investment in a technology venture capital limited partnership, El Dorado recorded significant “paper” gains in late 1999 and early 2000, but was impacted by the quick decline of the technology sector in mid-to-late 2000. Our investment in this partnership was approximately \$7 million at the end of 2000. Any future investments by this subsidiary are expected to focus on opportunities related to the energy business.



COMMITMENT, CUSTOMERS,
COMMUNITY

Whatever the eventual short-term resolution of the energy problems in California and other areas of the West, it is clear that major investment in generation and transmission infrastructure will be required. In Arizona, where customer growth has been three to four times the national average, we already have embarked on new investment in both areas.

As we invest in the electric infrastructure that serves our communities, we also invest in the communities themselves. Pinnacle West and its subsidiaries embrace the theory that good corporate citizenship is essential to business success. We want the areas we serve to grow, prosper and experience greater success for having Pinnacle West as a community partner.



We are a recognized industry leader by an independent, third party evaluation for our superior environmental performance. Among the utility companies listed in the S&P 500, Pinnacle West ranked in the top 10 percent for environmental performance. Living and working in Arizona, with its sensitive desert environment, we have built our environmental awareness and commitment along with our customer base.

People count on us every day. They rely on the power we produce and deliver, and they count on us to be a good neighbor. That's how we like it. For 115 years, community and industry leadership are goals that have gone hand in hand for our company. That's a tradition we intend to continue.

