

In 2001,
Pinnacle West produced
near record earnings.

Our dividend growth over
the last five years is
number two industry-wide.

\$RR,ES

In 2001, we increased our annual dividend by 10 cents per share of common stock. Our five-year annualized dividend growth rate was about 8 percent, compared with a negative growth rate for the industry as a whole. We intend to grow our dividend by similar dollar amounts each year, steadily increasing the cash return to our shareholders and maintaining a pace ahead of our industry.

About half of the Company's earnings in 2001 came from power marketing and trading activities. Our Power Marketing group managed a wholesale power market that peaked around \$2 a kilowatt-hour; then, in just a few months, plummeted as low as two cents a kilowatt-hour.

A commitment to provide our customers reliable energy impacted 2001 earnings from APS, our electric utility. We spent more than \$140 million to ensure customers had reliable power throughout the summer of 2001 and future summers. We don't foresee a need to repeat these expenses in 2002.

In its third year of operation, APS Energy Services (APSES), our competitive retail energy services affiliate, continued to carve a niche for itself by providing integrated solutions of commodity energy and energy-related products and services to commercial and industrial customers.

APSES is a relatively new company in an industry experiencing some stop-and-go regulatory transitions, but was able to secure a number of profitable multi-year contracts in the fourth quarter of 2001. These contracts allowed APSES to more than double its gross margin in 2001 while keeping operating expenses flat.

In early 2001, El Dorado, our investment subsidiary, sold a substantial portion of its holdings in a technology venture capital limited partnership. By doing so, El Dorado is continuing a strategy of liquidating its existing portfolio as quickly as prudent. Looking ahead, we expect El Dorado to make limited strategic investments in companies offering energy-related technologies and services.

EARNINGS PER SHARE FROM CONTINUING OPERATIONS (Diluted)



DIFFERENTIATING FACTOR:

In the last three years, we've increased earnings per share more than 10 percent a year on average.

| | | |
|------|----|--------|
| 2001 | —● | \$3.85 |
| 2000 | —● | \$3.56 |
| 1999 | —● | \$3.17 |
| 1998 | —● | \$2.85 |
| 1997 | —● | \$2.74 |

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