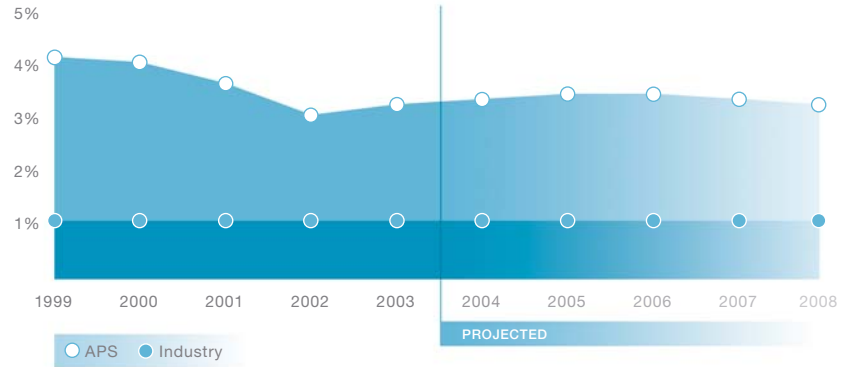
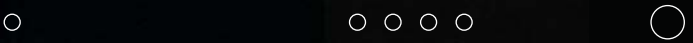


APS RETAIL CUSTOMER GROWTH 1999 TO 2008

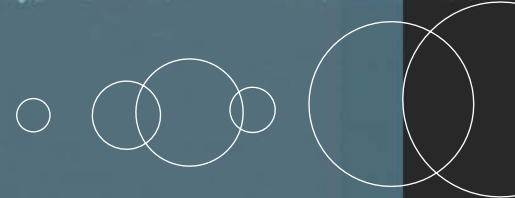


Our customer base will continue to grow rapidly – about three times the industry average.



LOOKING AHEAD_ growth 2008

APS' unique customer growth continues to be the envy of the industry. By the end of 2008 the company adds about 170,000 new customers, and serves a total of more than 1.1 million Arizona customers. Electric system peak load expands as well, growing by about 25 percent.



Whether 2003 or 2008, customer growth is the fuel that powers our industry's financial engine. In this area, APS has few peers. In 2003, our customer growth was again rapid and unique. APS experienced 3.3 percent customer growth (roughly 30,000 new customers). This was about three times the industry average.

The epicenter of this growth is found in the heart of our service territory – the Greater Phoenix area. In 2003, approximately 3.4 million residents called the Phoenix area home – a 17 percent increase from just five years earlier. In 2003, the Phoenix metro area also issued more than 47,000 building permits, the highest number of permits in the last 18 years.

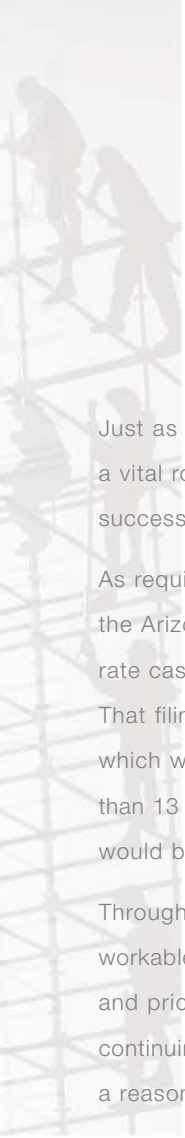
Of course, growth benefits the company's bottom line only if it is met with sufficient resources. In 2003, our company completed a 530-megawatt unit at the West Phoenix Power Plant. By the end of 2004, the company will have added nearly 2,400 megawatts of new generating capacity (including about 1,800 megawatts in Arizona) in the last four years.

In addition to increasing our generating capabilities, we continue to expand our transmission and distribution system. In 2003, we energized a new 37-mile 500-kilovolt transmission line that runs from the Palo Verde Nuclear Generating Station to the Phoenix area. Completion of the line allowed more than 1,200 megawatts of additional power to flow into Arizona's largest metropolitan area and played a vital role in APS' ability to avoid severe delivery problems during the summer of 2003.

Renewable energy resources will clearly be a large part of Arizona's energy future. Construction is currently underway on the Prescott (Ariz.) Airport Solar Power Plant, which will be one of the largest photovoltaic solar plants in the world. We are also a major participant in a new biomass plant in northeastern Arizona, which can take the by-products of negative situations – Arizona's vast Rodeo-Chedeski fires of 2002 and our state's devastating bark beetle infestation – and convert them into fuel. Most recently, APS announced it will partner with Western Wind Energy Corporation to establish Arizona's first commercial wind farm.

No other electric utility in the U.S. can match our dividend growth over the last 10 years. In that period, Pinnacle West's average dividend growth rate was 8.4 percent per year, ranking us number one industry-wide. In 2003, our annual dividend was increased 10 cents per share for the 10th consecutive year. We recognize that dividends underpin stock performance. Our track record in growing our dividend has been a distinguishing investment characteristic for our company.





Just as Pinnacle West's previous planning efforts played a vital role in 2003, today's planning will help ensure the successes and manage the challenges of 2008.

As required by a 1999 Settlement Agreement approved by the Arizona Corporation Commission, APS filed a general rate case in mid-2003 – our first in well over a decade.

That filing requested a 9.8 percent retail revenue increase, which would be the company's first price increase in more than 13 years. Even with the requested increase, APS' rates would be about 6 percent below what they were in 1993.

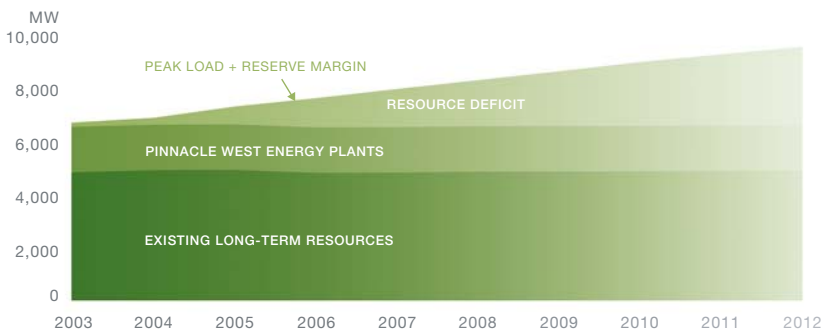
Through the regulatory process, our goal is to find a workable structure that helps ensure long-term reliability and price stability for our customers, and supports continuing growth in the state of Arizona while providing a reasonable return for our shareholders.

In 2003, APS implemented the last of a series of rate reductions that have lowered customer prices an average of 16 percent since 1993. This decrease represented the largest cumulative price decrease among investor-owned utilities nationwide during that time period, and saved our customers well over \$1 billion.

Providing reliable electricity is at the top of our agenda as we plan for Arizona's energy future. As APS' customer base has grown, individual energy usage has also risen dramatically. From 1991 to 2003, household usage of electricity in Arizona has increased an average of 23 percent. In 2003, APS' peak energy load demand rose more than 9 percent over the previous year. APS' peak load, over the last two years, has grown more than 600 megawatts, approximately equal to the output of one of our units at our new Redhawk Power Plant.

We completed a large-scale maintenance project at the Palo Verde Nuclear Generating Station in the fall of 2003, to improve the efficiency and reliability of our lowest-cost power source. Two 800-ton steam generators were successfully replaced in Unit 2, completing more than five years of planning and careful management of the manufacture and transportation of the generators from Italy. During the replacement process, plant employees set a world record for the lowest collective radiation exposure during a steam generator replacement.

APS ELECTRIC SYSTEM LOAD AND RESOURCES 2003 TO 2012



Moving forward, our customer demand will grow, and so will our need for new power resources.

LOOKING AHEAD_ planning 2008

The major expansion of Phoenix's Civic Plaza and Convention Center, combined with development of a 12,000-student Arizona State University campus and construction of the city's state-of-the-art light rail transportation system brings a new energy to Phoenix's downtown area.



LOOKING AHEAD_ performance 2008

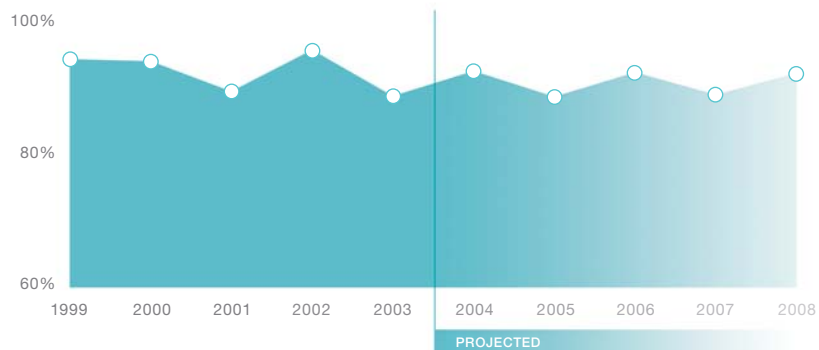
New transmission technology is pioneered that allows the company to increase electric conductor capacity in its transmission lines. The new technology allows the lines to handle increased power flow, providing greater energy efficiency.

03

04

05

APS NUCLEAR GENERATION CAPACITY FACTOR 1999 TO 2008



Our nuclear generation performance has consistently outpaced the industry.

It's likely that in our 117 years as a company, no employees have been asked to accomplish more than our current staff. They are the embodiment of "doing more with less." In the last five years, APS has added more than 150,000 customers, while our workforce numbers have remained virtually the same. Added demands have pushed us to find ways to work more efficiently. The result has been an energetic, innovative and purposeful workforce.

One example of our company's strong productivity comes from the Palo Verde Nuclear Generating Station west of Phoenix. In 2003, Palo Verde marked its 12th consecutive year as the largest power producer of any kind in the United States.

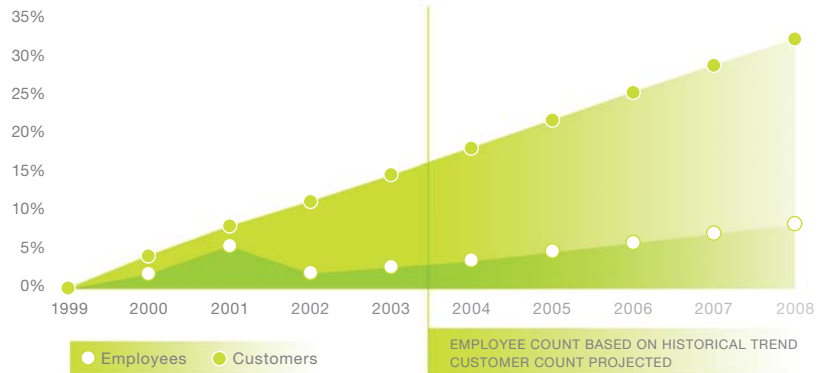
In addition, our gas-fired plants – including our new units at West Phoenix and Redhawk – operated at about 90 percent availability, and the combined capacity factor for our Four Corners and Cholla power plants ranked near the top of the industry.

Taking advantage of opportunities in a favorable real estate market, SunCor Development Co., Pinnacle West's real estate subsidiary, delivered solid performance, reporting 2003 net income of \$56 million, compared with net income of \$19 million for 2002. SunCor's performance is expected to augment the company's earnings pending the outcome of APS' rate case.

APS Energy Services continued to deliver solid earnings, while building a stellar customer reputation. Commodity electricity sales to key California businesses and government customers remained strong, and the company saw significant growth in energy services and energy efficiency sales in Arizona, California and Nevada. Northwind, the company's district cooling and heating operations expanded from downtown Phoenix, adding operation of a site in Tucson, Ariz.



RETAIL CUSTOMER AND EMPLOYEE GROWTH
Cumulative percent increase 1999 to 2008



Our employees continue to serve more customers, more efficiently.

Focusing on the needs of customers has resulted in steadily improving customer satisfaction scores as measured by the J.D. Power and Associates Electric Utility Residential Customer Satisfaction Study. In 2003, APS ranked second among electric utilities in the West, and earned the highest score among investor-owned utilities in the region. APS improved its scores in all five of the survey's factors, which measure customer attitudes about power quality and reliability, company image, price and value, billing and payment, and customer service.

Our utility Web site – aps.com – continues to reduce operating costs, while providing customers another convenient way to work with our company. Customers can connect and disconnect their service, receive and pay their electricity bills and get helpful information online. The site handles more than 70,000 payments each month, far surpassing company goals. Such performance helped the site earn its second consecutive Best Energy Web Site WebAward from the Web Marketing Association, a national organization of Internet marketing, advertising, public relations and design professionals.

A company-wide emphasis on safety in 2003 resulted in decreased preventable recordable injuries – the third such reduction in as many years. Employees at the West Phoenix and Yucca power plants contributed to this improvement by working 22 and 19 years, respectively, without a lost-time accident.

Dedication to a safe and healthy workforce is one of the reasons Pinnacle West earned a spot on AARP's list of "Best Employers for Workers Over 50." The advocacy organization recognized the company's efforts to retain older employees by promoting continuing education and flexible schedules. Pinnacle West was one of two Arizona employers on the national list.

We take a very broad view of business performance, which includes not only earnings and stock price, but also the value of safety, environmental and social performance, customer service and integrity. In 2003, our performance in these areas earned Pinnacle West a "10" rating, on a scale of 1 to 10, from governance ratings agency GovernanceMetrics International, which ranked 1,000 U.S. electric utilities in the area of Corporate Governance.



LOOKING AHEAD_ people 2008

To counteract the loss of experience and talent as many employees reach retirement age, Pinnacle West adopts a new human performance improvement initiative. The approach results in fewer employee injuries, as well as improved cost per customer, system reliability and customer satisfaction.