

Financial Overview

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**Analyst Conference
October 18, 2002**



**PINNACLE WEST
CAPITAL CORPORATION**

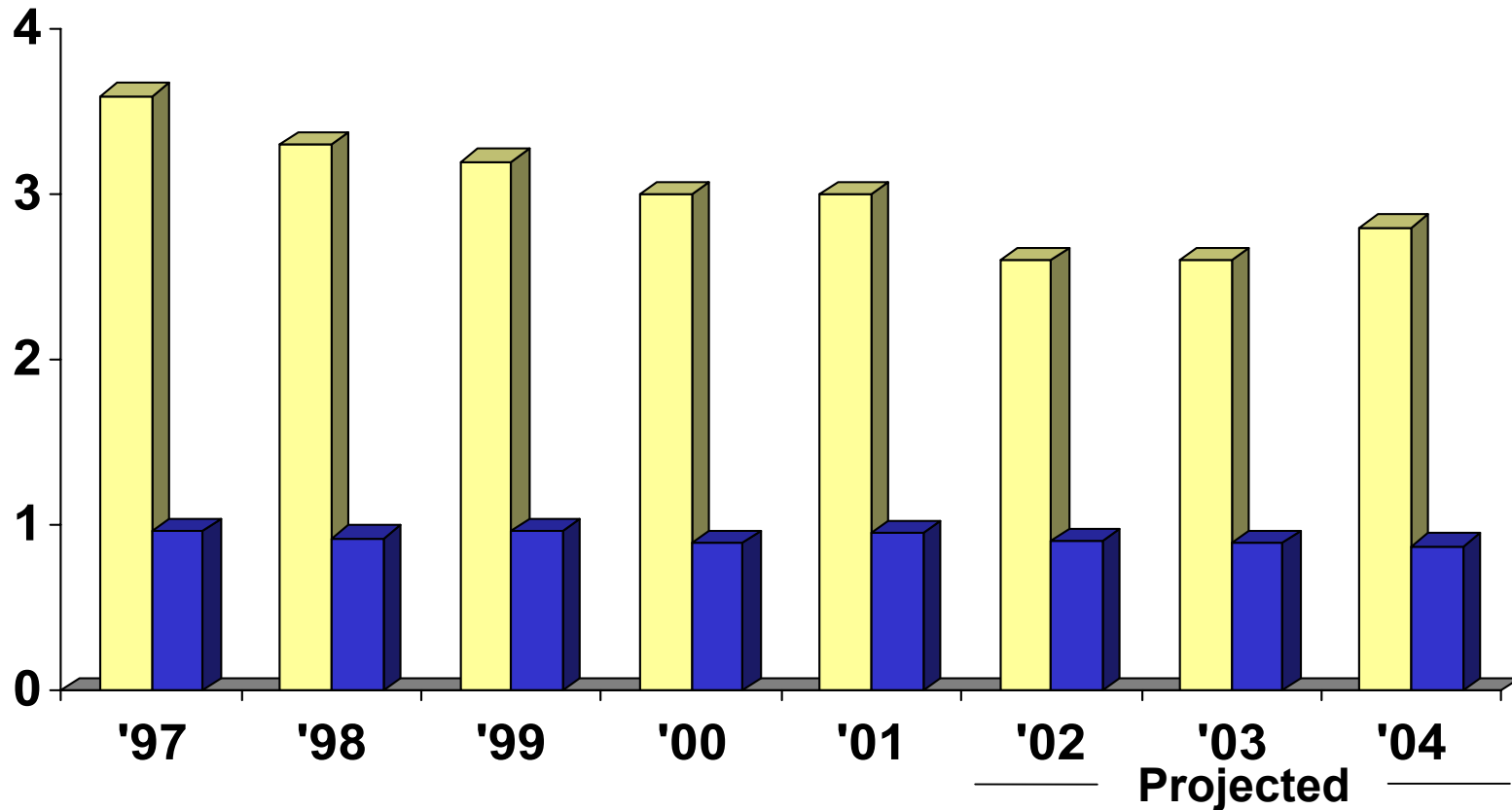
Pinnacle West Financial Focus

- **Manage business strategies for superior long-term shareholder value creation**
- **Continue superior long-term combined earnings and dividend growth**
- **Improve balance sheet strength**
- **Ensure adequate liquidity**

Economic Outlook

Arizona Vs. U.S. Population Growth

Percentage
Change

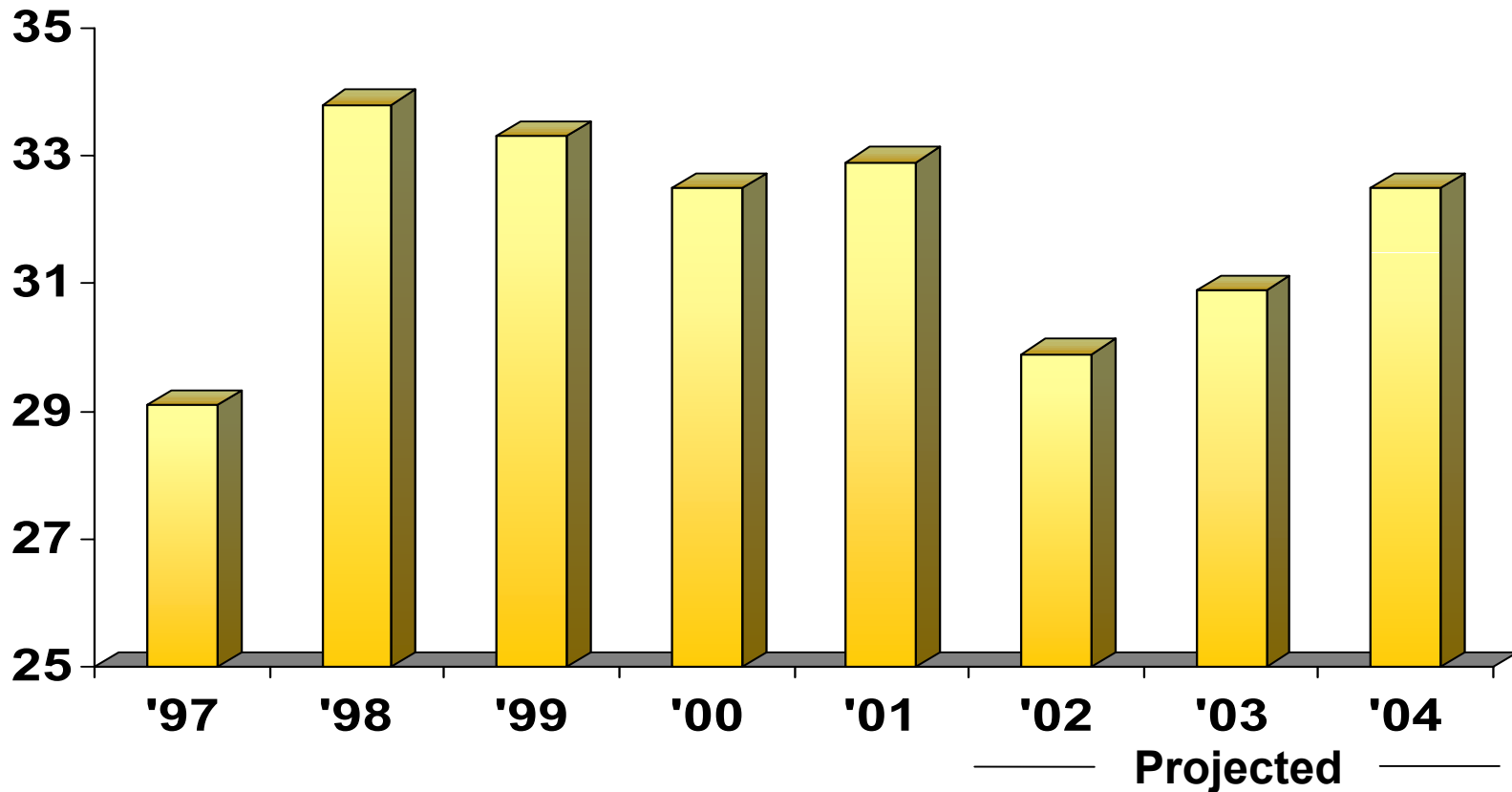


■ Arizona

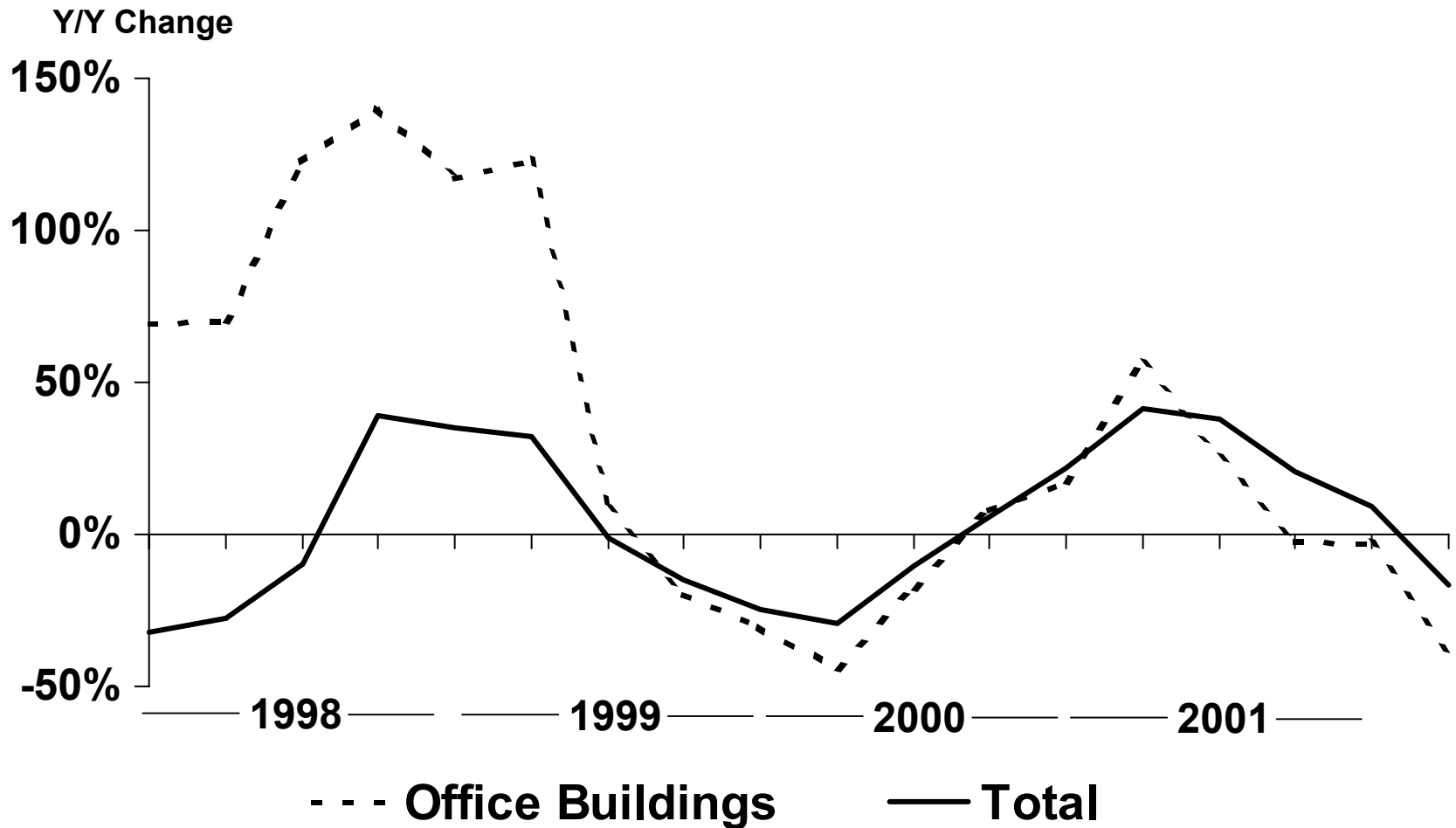
■ U.S.

Phoenix Single-Family Building Permits

Thousands



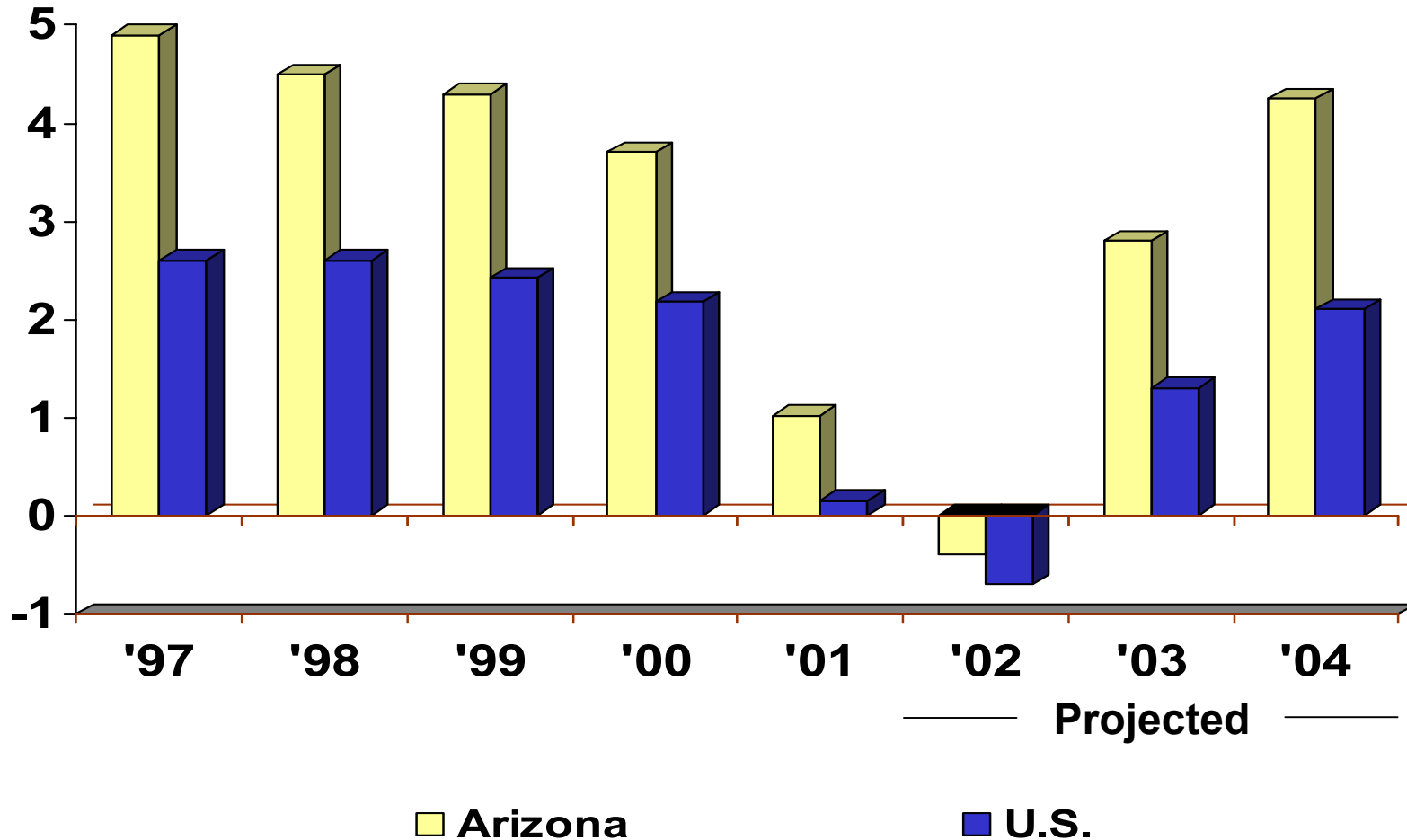
Maricopa County Real Non-Residential Investment Activity



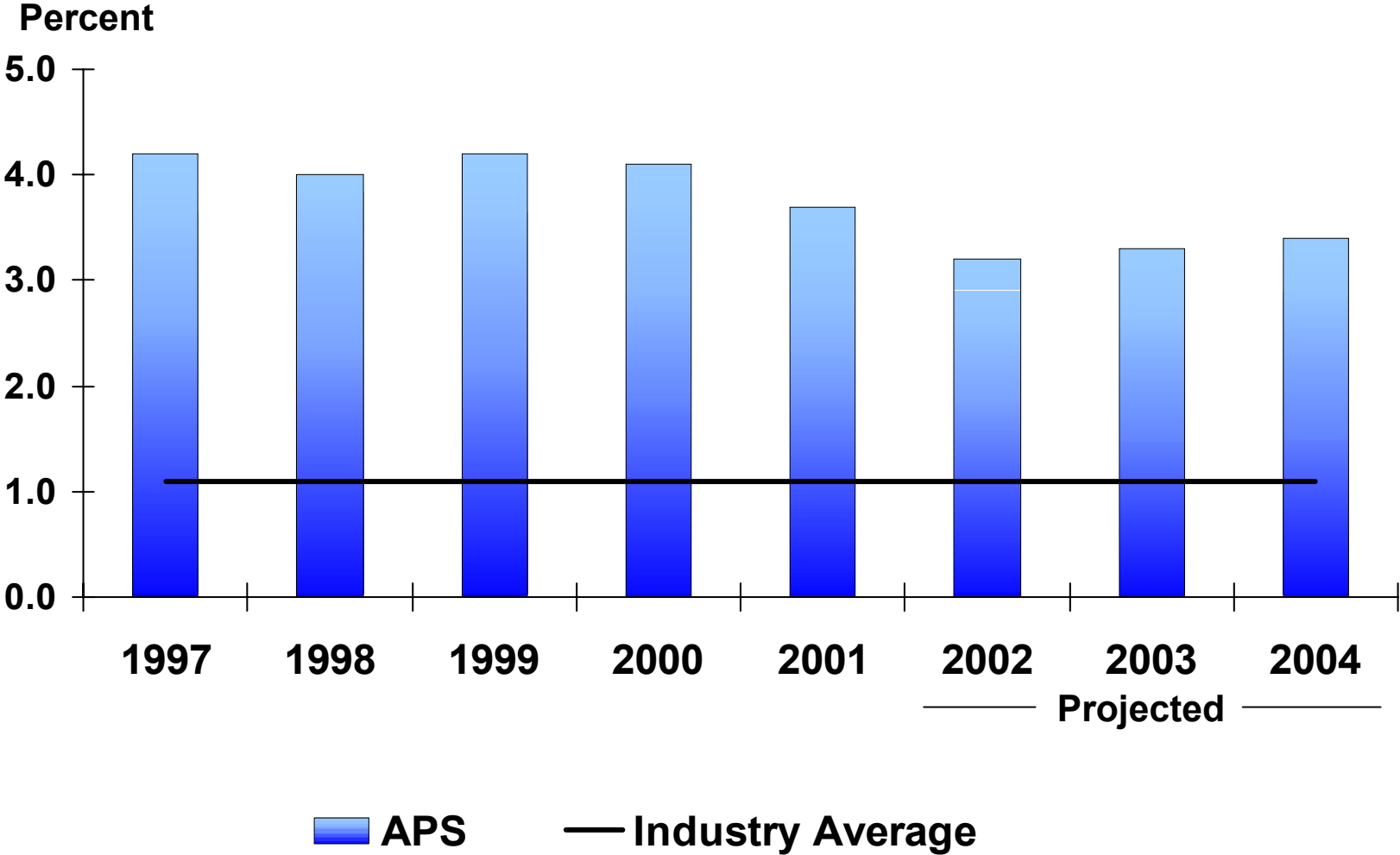
* Year-to-date March 2002

Arizona vs. U.S. Wage and Salary Employment Growth

Percentage
Change



Superior APS Retail Customer Growth



Pinnacle West Earnings Drivers * 2002 vs. 2001 (After-tax)

■ Regulated

- Customer sales growth (RNF) \$32M**
- Fuel, purchased power, reliability and outages 80M**
- Off system sales (68M)**
- Severance costs (22M)**
- Pension/OPEB expense (6M)**
- Depreciation and other (10M)**

* Estimated change in income before accounting change

Pinnacle West Earnings Drivers *

2002 vs. 2001 (After-tax)

■ Other Unregulated

- Marketing and Trading** **\$(62M)**
- Unregulated generation** **(11M)**
- Holding company costs** **(7M)**
- APS Energy Services** **20M**
- SunCor/El Dorado** **(1M)**

* Estimated

Pinnacle West Earnings Drivers * 2003 vs. 2002 (After-tax)

■ Regulated

- Customer sales growth (RNF) \$44M**
- No severance costs 22M**
- O&M target reductions 18M**
- Pension/OPEB expense (13M)**
- Higher gas and power costs (59M)**
- Depreciation and other (13M)**

* Estimated

Pinnacle West Earnings Drivers * 2003 vs. 2002 (After-tax)

■ Unregulated

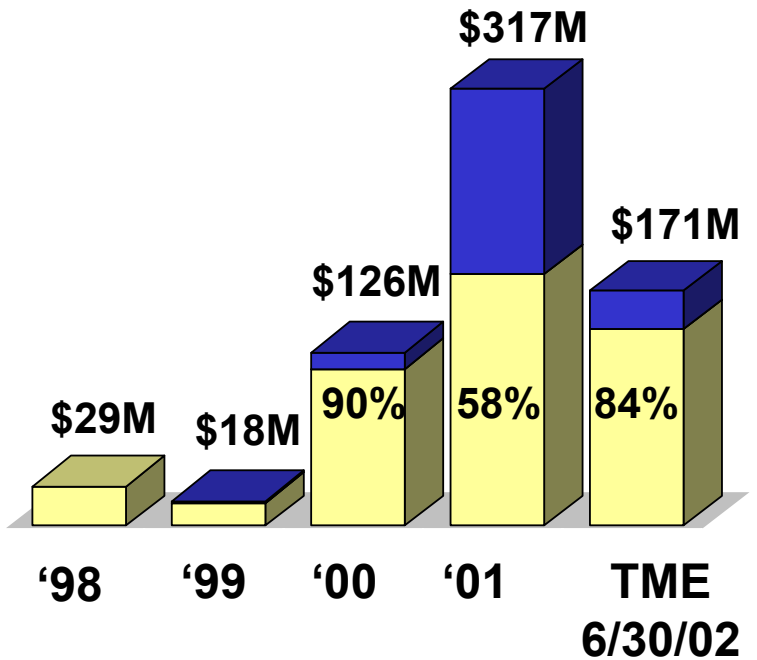
- Marketing and Trading -**
- Unregulated generation -**
- Holding company costs -**
- SunCor & El Dorado +**

Neutral

* Estimated

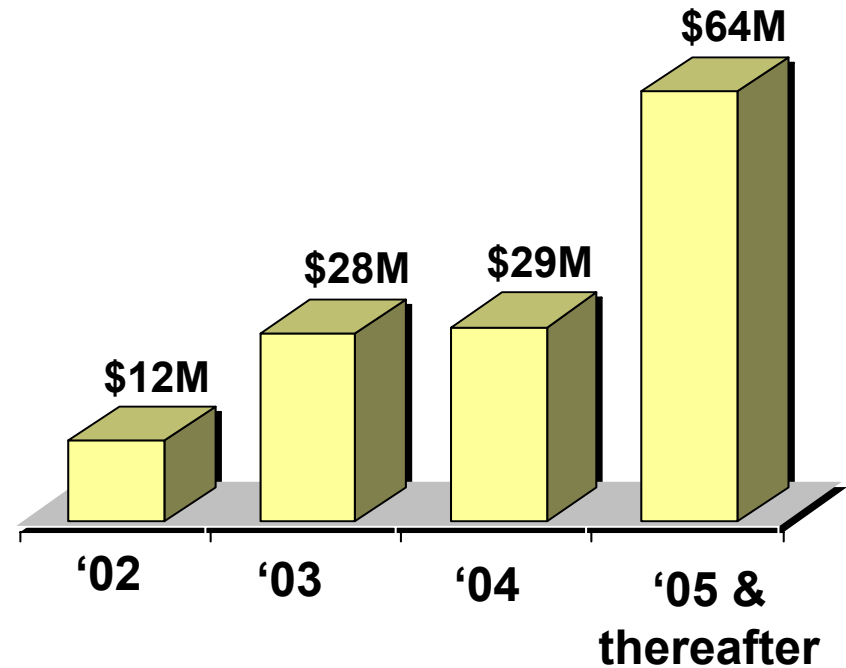
Pinnacle West Power Marketing and Trading Results

Gross Margin



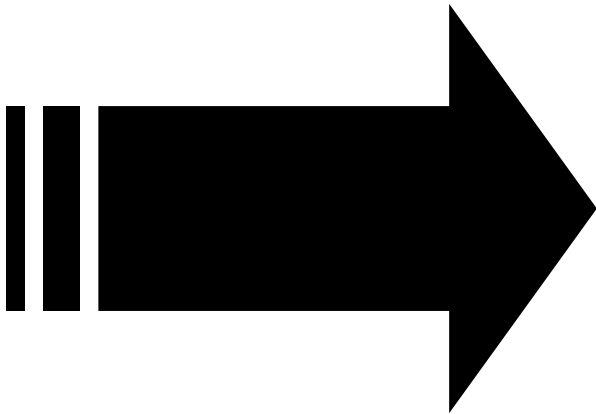
- Net change in mark-to-market
- Realized gain

Estimated Realized MTM Gains*



* Based on accumulated mark-to-market gains as of 6/30/02

Limited capital devoted to Power Marketing and Trading business



< 3.5% of Total Assets

Accounting Topics

Asset Retirement Obligation - FAS 143

- **Effective 1/2003;
Expect no material
impact to earnings**

Stock Options - FAS 123

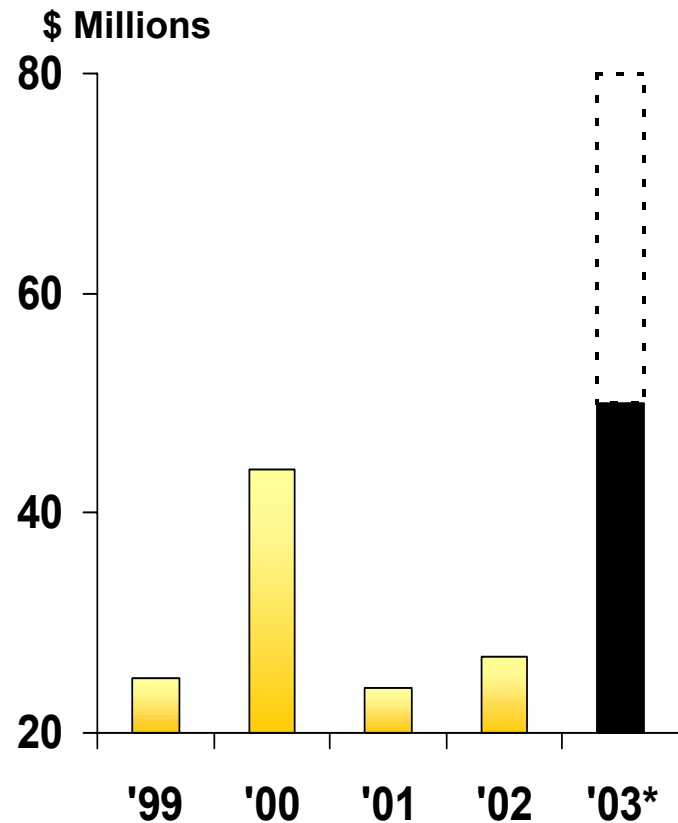
- **Elected to adopt
July 1, 2002**
- **Applied on a
prospective basis**
- **Estimated earnings
effect of under \$0.5M
in 2002; normalized
level of \$1.5M**

Final Accounting Guidance - Trading Contracts (EITF 02-3)

- **Applies to previously recorded gross revenues and purchased power costs for electricity trading under EITF 98-10**
- **New guidance adopted July 2002 requires trading contracts to be recorded on net basis in revenues**
- **Gross margins are not impacted by reporting change**
- **All reporting based on generally accepted accounting principles**

Pension Contributions

- **Company contributions in recent years were optional**
- **Cash contributions will likely be required in 2003**



* Estimated range

Other Benefit Cost Impacts

■ Pension

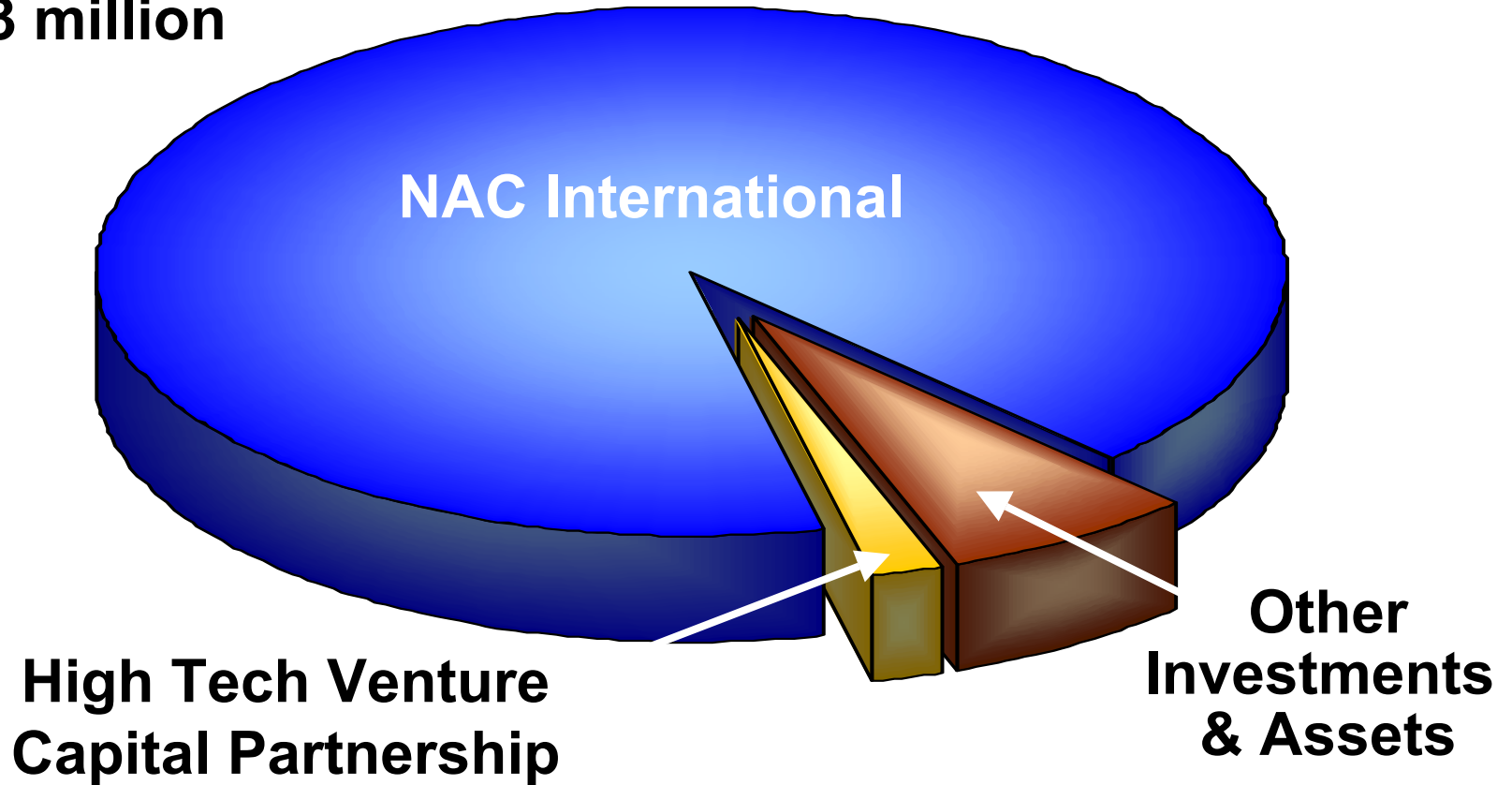
- Lower investment returns are expected to impact other comprehensive income with a \$60 - \$100 million charge to equity**

■ Pension and OPEB expense

- Estimated incremental after-tax pension and OPEB effects of approximately \$5 million in 2002 and between \$10-\$15 million in 2003**

El Dorado Investment Company

Projected assets as of 12/31/02
\$33 million



NAC International

- **Spent nuclear fuel storage and transportation business**
 - **Recapitalization and consolidation to PNW in 3Q 2002**
 - **Recovery plan designed to mitigate ongoing financial support**

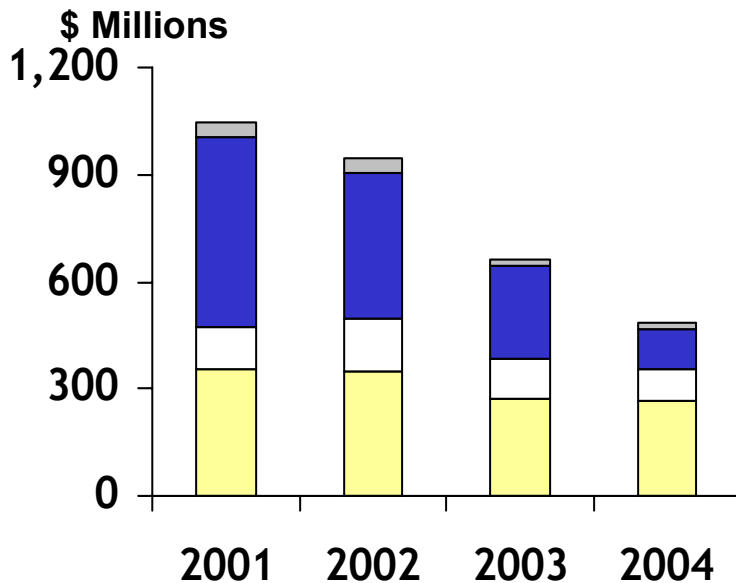
Current Financing Plans With Regulatory Shift

- **Financing application**
 - **PWEC dedicated generation assets**
 - **APS balance sheet strength**
- **Access capital markets within 90 days of approval of financing application**
- **Preserves flexibility to seek appropriate regulatory treatment**

Financial Benchmarks

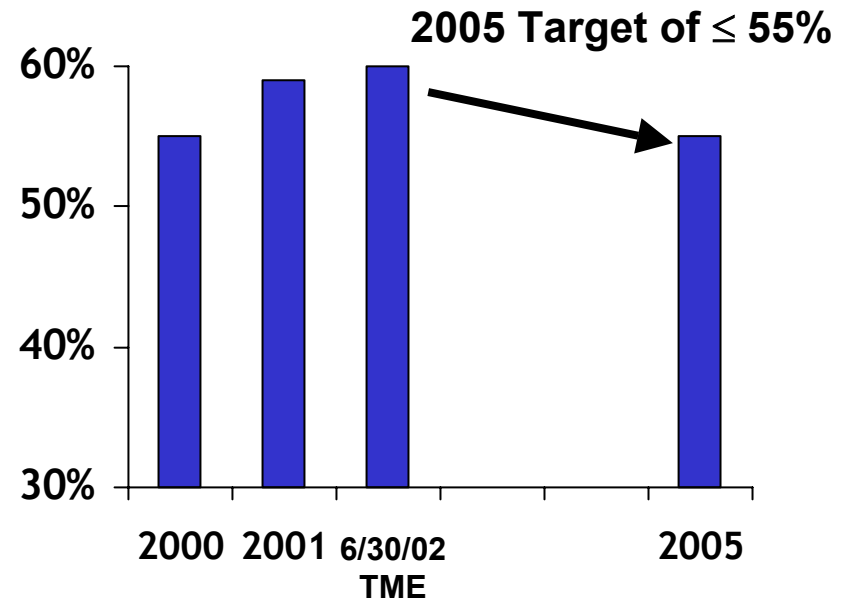
Pinnacle West Balancing Growth and Financial Strength

Capital Expenditures



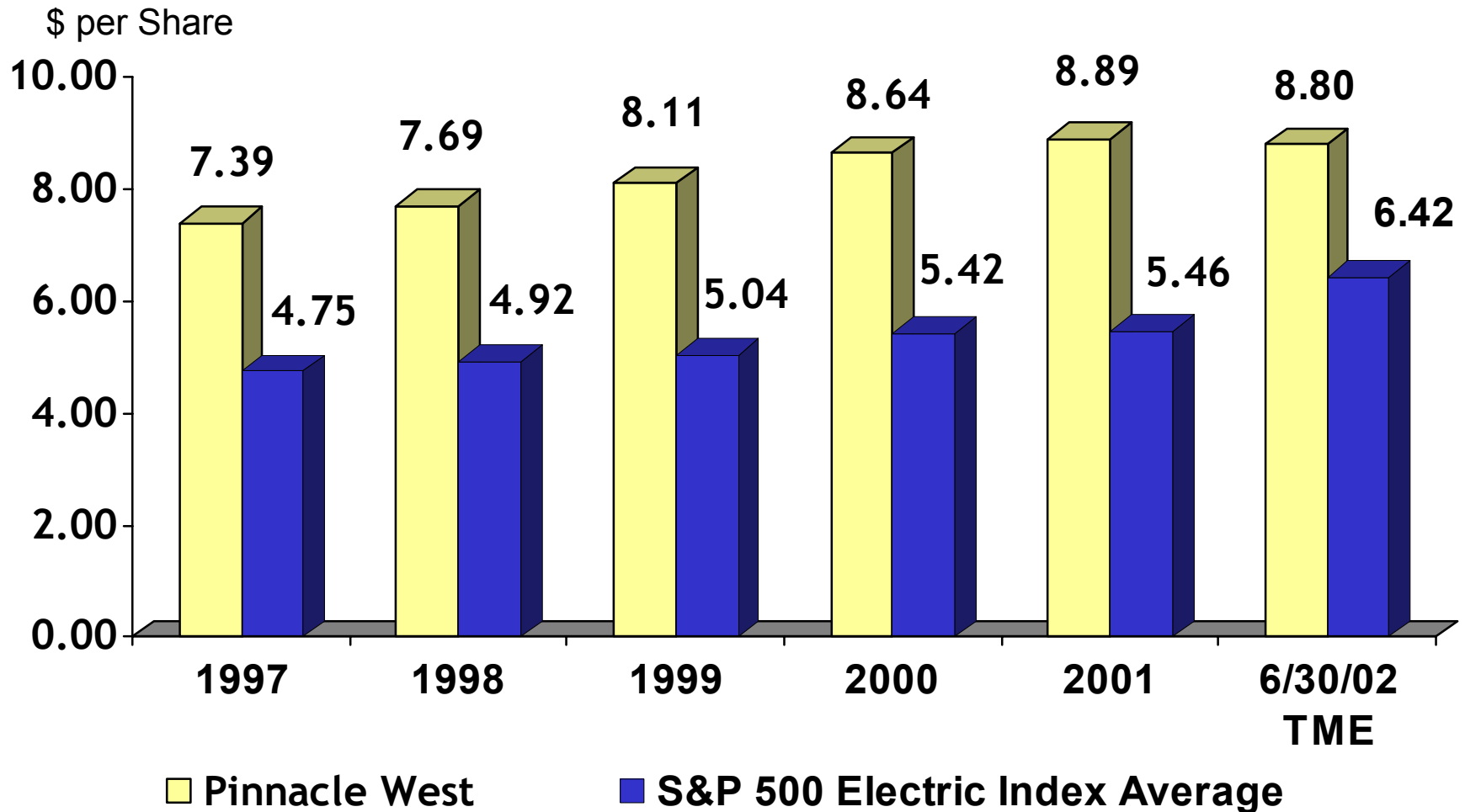
- Other
- Generation Expansion
- Existing Generation
- Delivery

Consolidated Debt Ratio*

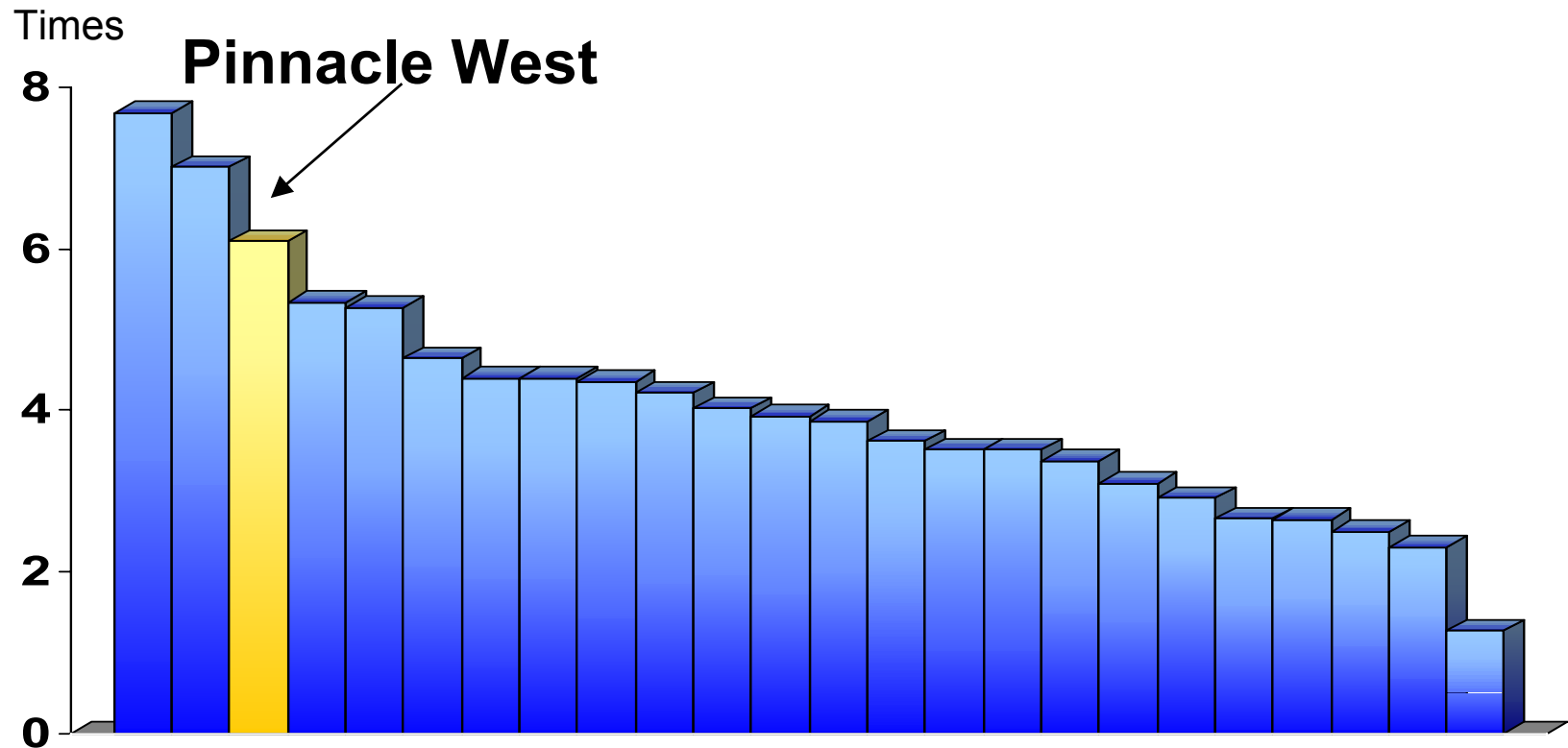


* Includes Palo Verde sale/leaseback

Pinnacle West versus Industry Cash Flow Per Share

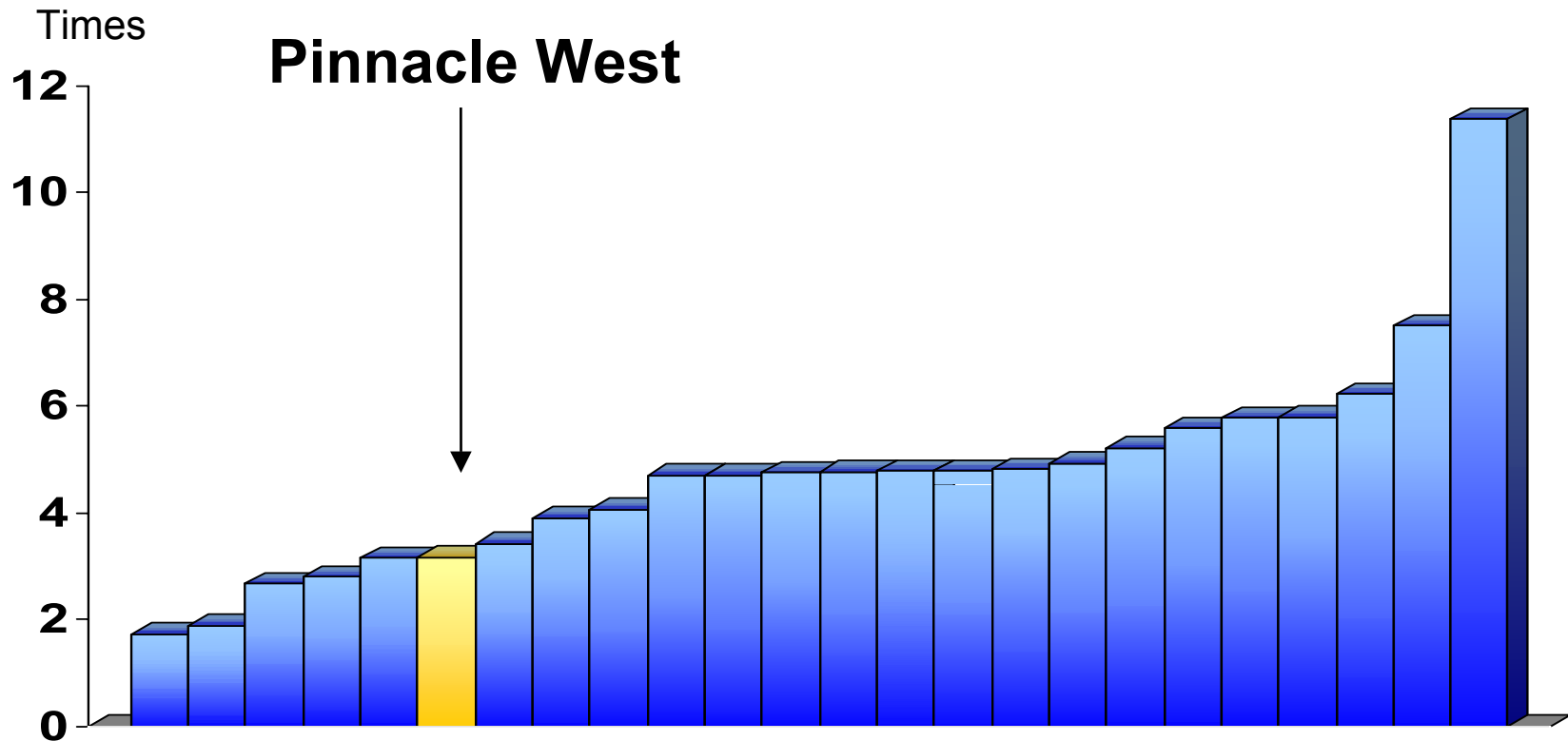


Pinnacle West versus Industry * EBITDA Interest Coverage



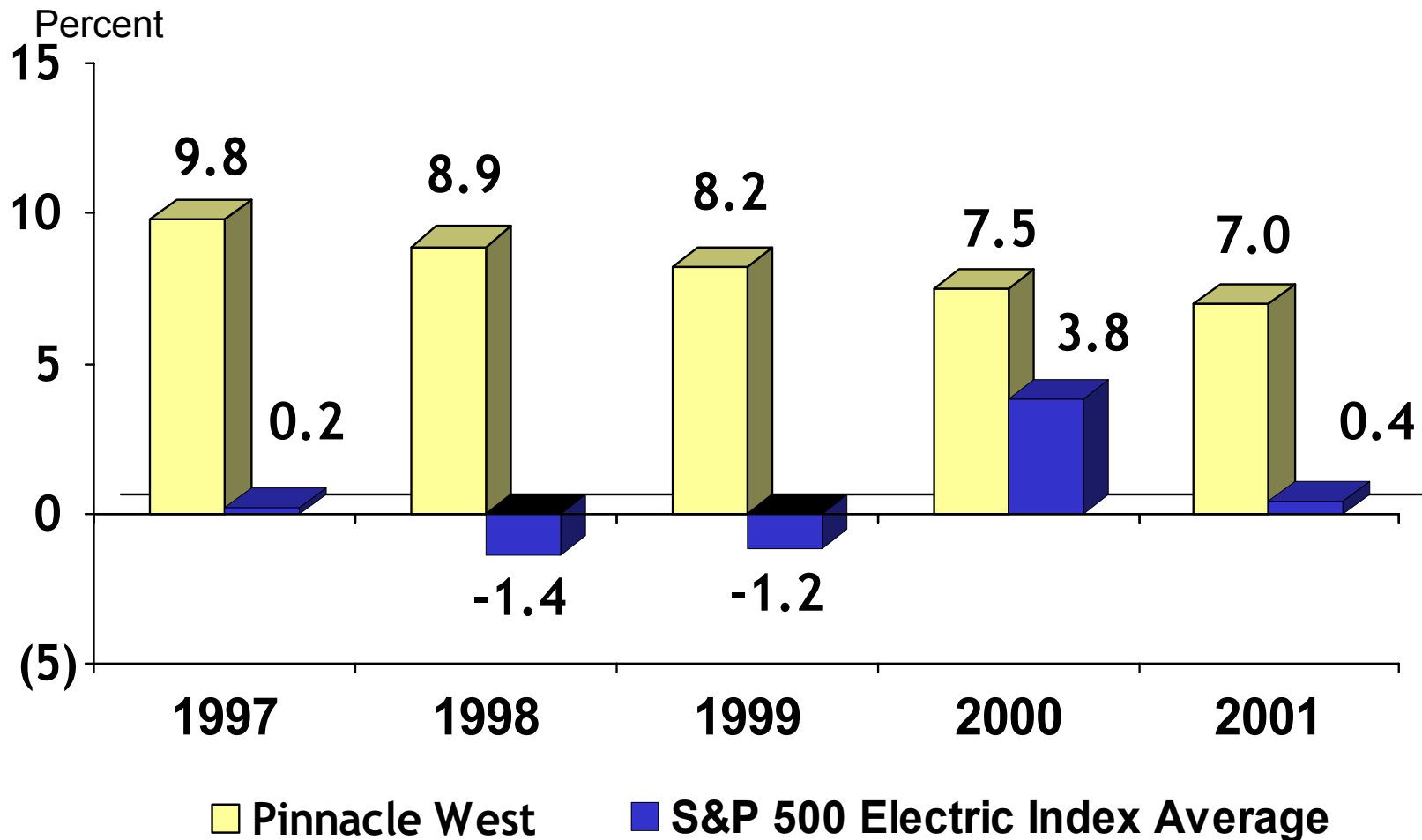
* S&P 500 Electric Index at 6/30/02

Pinnacle West versus Industry * Total Debt to EBITDA

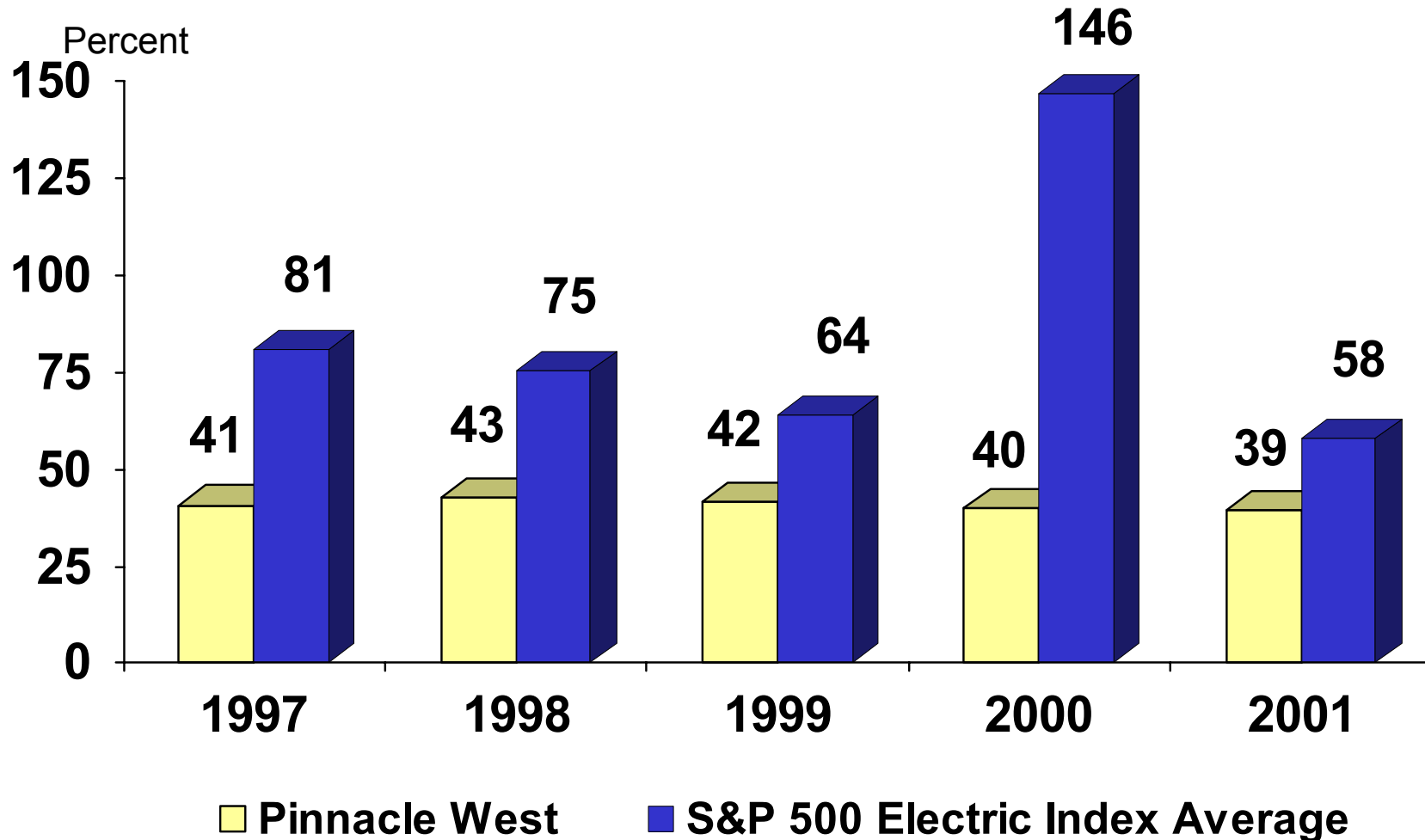


* S&P 500 Electric Index at 6/30/02

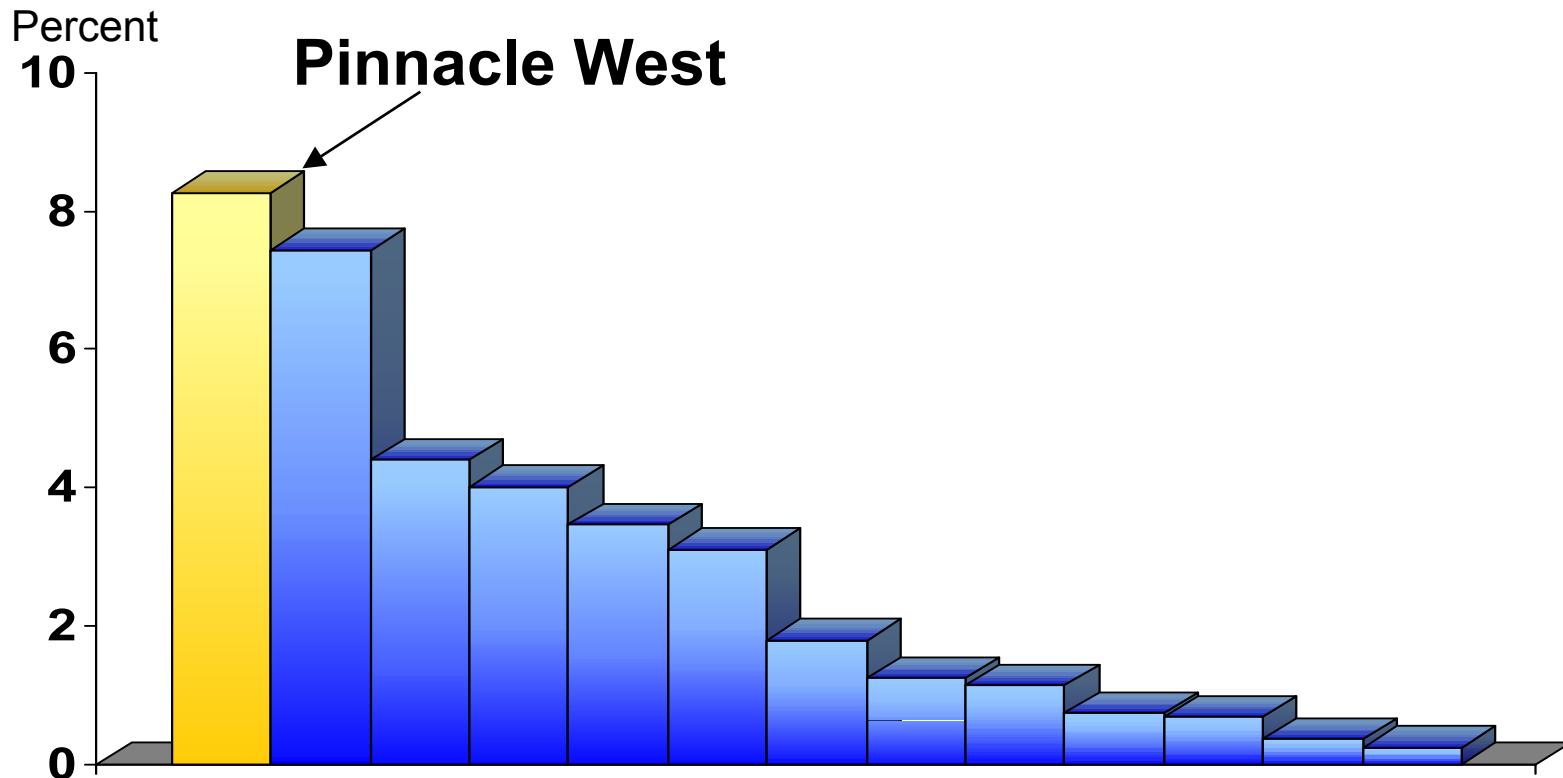
Pinnacle West versus Industry Annual Dividend Growth



Pinnacle West versus Industry Dividend Payout

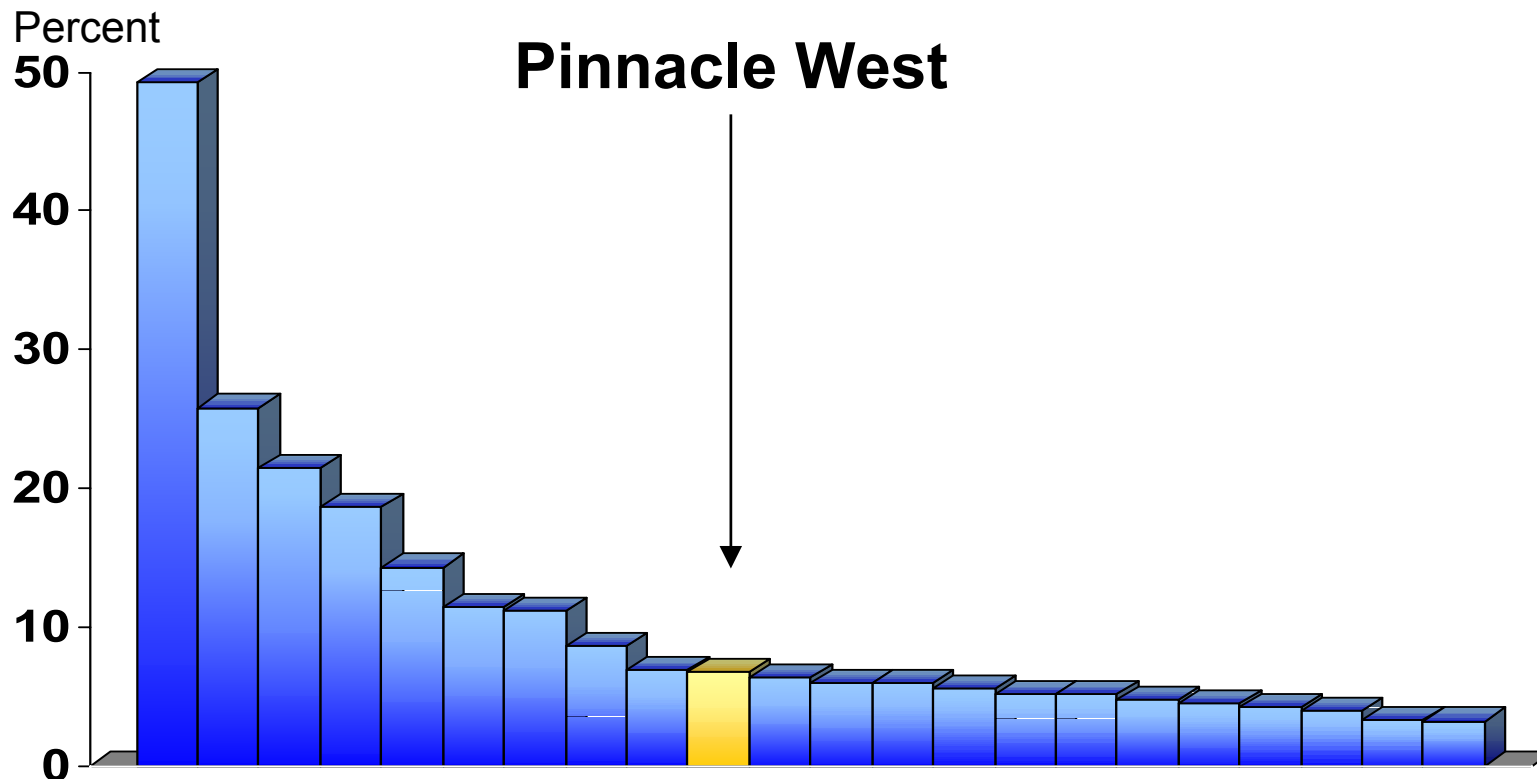


Pinnacle West versus Industry * Dividend Growth - 5 Year CAGR



*** Reflects S&P 500 Electric Index companies
with positive CAGR from 1996 - 2001**

Pinnacle West versus Industry * Dividend Yield



*** Reflects S&P 500 Electric Index companies
with declared dividends 12 months ended 6/30/02;
stock price as of 10/8/02**

Financial Summary

- **Commitment to strong dividend growth policy**
- **Solid cash flow results**
- **Focused on core business**
- **Maximize long-term asset values**
- **Active management of financial and business risks**