

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(dollars and shares in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2009	2008
OPERATING REVENUES		
Regulated electricity segment	\$ 602,578	\$ 622,801
Real estate segment	18,366	26,266
Marketing and trading	--	30,452
Other revenues	8,449	8,737
Total	629,393	688,256
OPERATING EXPENSES		
Regulated electricity segment fuel and purchased power	247,388	269,378
Real estate segment operations	30,281	30,957
Real estate impairment charge	211,306	--
Marketing and trading fuel and purchased power	--	23,986
Operations and maintenance	207,531	193,023
Depreciation and amortization	99,921	95,594
Taxes other than income taxes	34,128	33,152
Other expenses	6,467	5,938
Total	837,022	652,028
OPERATING INCOME (LOSS)	(207,629)	36,228
OTHER		
Allowance for equity funds used during construction	4,992	6,124
Other income	380	3,839
Other expense	(9,741)	(4,896)
Total	(4,369)	5,067
INTEREST EXPENSE		
Interest charges	55,806	54,702
Capitalized interest	(3,834)	(5,679)
Total	51,972	49,023
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(263,970)	(7,728)
INCOME TAXES	(96,174)	(1,541)
LOSS FROM CONTINUING OPERATIONS	(167,796)	(6,187)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS		
Net of income tax expense (benefit) of \$(1,892) and \$1,103	(2,924)	1,714
NET LOSS	(170,720)	(4,473)
Less: Net loss attributable to noncontrolling interests	(14,210)	--
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (156,510)	\$ (4,473)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	100,986	100,521
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	100,986	100,521
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Loss from continuing operations attributable to common shareholders – basic	\$ (1.52)	\$ (0.06)
Net loss attributable to common shareholders – basic	\$ (1.55)	\$ (0.04)
Loss from continuing operations attributable to common shareholders – diluted	\$ (1.52)	\$ (0.06)
Net loss attributable to common shareholders – diluted	\$ (1.55)	\$ (0.04)
DIVIDENDS DECLARED PER SHARE	\$ 0.525	\$ 0.525
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Loss from continuing operations, net of tax	\$ (153,586)	\$ (6,187)
Discontinued operations, net of tax	(2,924)	1,714
Net loss attributable to common shareholders	\$ (156,510)	\$ (4,473)

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	March 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 32,804	\$ 105,245
Customer and other receivables	217,238	292,682
Accrued utility revenues	84,724	100,089
Allowance for doubtful accounts	(2,667)	(3,383)
Materials and supplies (at average cost)	182,961	173,252
Fossil fuel (at average cost)	31,839	29,752
Deferred income taxes	119,694	79,729
Home inventory	15,185	50,688
Assets held for sale	32,015	--
Assets from risk management and trading activities	63,969	32,581
Other current assets	23,802	21,847
Total current assets	801,564	882,482
INVESTMENTS AND OTHER ASSETS		
Real estate investments – net	213,478	415,296
Assets from long-term risk management and trading activities	34,194	33,675
Nuclear decommissioning trust	336,091	343,052
Other assets	96,081	117,935
Total investments and other assets	679,844	909,958
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	12,329,865	12,264,805
Less accumulated depreciation and amortization	4,205,068	4,141,546
Net	8,124,797	8,123,259
Construction work in progress	622,186	572,354
Intangible assets, net of accumulated amortization	143,138	131,722
Nuclear fuel, net of accumulated amortization	99,304	89,323
Total property, plant and equipment	8,989,425	8,916,658
DEFERRED DEBITS		
Deferred fuel and purchased power regulatory asset	--	7,984
Other regulatory assets	825,069	787,506
Other deferred debits	121,864	115,505
Total deferred debits	946,933	910,995
TOTAL ASSETS	\$ 11,417,766	\$ 11,620,093

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	March 31, 2009	December 31, 2008
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 170,057	\$ 261,029
Accrued taxes	27,952	109,798
Accrued interest	45,282	40,741
Short-term borrowings	407,005	670,469
Current maturities of long-term debt	166,931	177,646
Customer deposits	78,181	78,745
Liabilities from risk management and trading activities	63,954	69,585
Other current liabilities	73,194	97,915
Total current liabilities	1,032,556	1,505,928
LONG-TERM DEBT LESS CURRENT MATURITIES	3,529,109	3,031,603
DEFERRED CREDITS AND OTHER		
Deferred income taxes	1,393,921	1,403,318
Deferred fuel and purchased power regulatory liability	49,215	--
Other regulatory liabilities	591,601	587,586
Liability for asset retirements	280,615	275,970
Liabilities for pension and other postretirement benefits	688,803	675,788
Liabilities from risk management and trading activities	136,068	126,532
Other	518,610	520,000
Total deferred credits and other	3,658,833	3,589,194
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, no par value	2,147,245	2,151,323
Treasury stock	(4,405)	(2,854)
Total common stock	2,142,840	2,148,469
Retained earnings	1,234,688	1,444,208
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(46,762)	(47,547)
Derivative instruments	(167,864)	(99,151)
Total accumulated other comprehensive loss	(214,626)	(146,698)
Total Pinnacle West shareholders' equity	3,162,902	3,445,979
Noncontrolling real estate interests	34,366	47,389
Total equity	3,197,268	3,493,368
TOTAL LIABILITIES AND EQUITY	\$ 11,417,766	\$ 11,620,093

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(dollars in thousands)

	Three Months Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (170,720)	\$ (4,473)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:		
Depreciation and amortization including nuclear fuel	110,073	104,418
Deferred fuel and purchased power	28,238	9,722
Deferred fuel and purchased power amortization	28,961	50,709
Allowance for equity funds used during construction	(4,992)	(6,124)
Real estate impairment charge	215,869	--
Deferred income taxes	(3,901)	(44,781)
Change in mark-to-market valuations	3,822	(14,709)
Changes in current assets and liabilities:		
Customer and other receivables	76,390	50,521
Accrued utility revenues	15,365	12,764
Materials, supplies and fossil fuel	(11,796)	(11,418)
Other current assets	(711)	(511)
Accounts payable	(78,090)	(84,556)
Accrued taxes	(81,846)	47,025
Other current liabilities	(20,744)	(16,968)
Expenditures for real estate investments	(1,459)	(10,967)
Other changes in real estate assets	(264)	23,678
Change in margin and collateral accounts – assets	(23,476)	93,449
Change in margin and collateral accounts – liabilities	(162,013)	6,647
Change in unrecognized tax benefits	(1,050)	13,223
Change in other long-term assets	8,897	16,145
Change in other long-term liabilities	17,281	12,060
Net cash flow (used for) provided by operating activities	<u>(56,166)</u>	<u>245,854</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(193,014)	(248,264)
Contributions in aid of construction	18,762	10,040
Capitalized interest	(3,834)	(5,679)
Proceeds from nuclear decommissioning trust sales	129,816	67,177
Investment in nuclear decommissioning trust	(135,264)	(72,362)
Other	1,501	970
Net cash flow used for investing activities	<u>(182,033)</u>	<u>(248,118)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	499,683	43,690
Repayment and reacquisition of long-term debt	(16,386)	(29,295)
Short-term borrowings and payments – net	(263,464)	1,965
Dividends paid on common stock	(51,196)	(52,759)
Common stock equity issuance	815	2,815
Other	(3,694)	(2,940)
Net cash flow provided by (used for) financing activities	<u>165,758</u>	<u>(36,524)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(72,441)	(38,788)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	105,245	56,321
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 32,804	\$ 17,533
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes, net of refunds	\$ 17,602	\$ 9,860
Interest, net of amounts capitalized	\$ 46,040	\$ 45,949

See Notes to Pinnacle West's Condensed Consolidated Financial Statements

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED STATEMENTS OF INCOME

(unaudited)
(dollars in thousands)

	Three Months Ended	
	March 31,	
	2009	2008
ELECTRIC OPERATING REVENUES	\$ 602,660	\$ 625,576
OPERATING EXPENSES		
Fuel and purchased power	247,388	272,053
Operations and maintenance	201,100	188,135
Depreciation and amortization	98,011	93,885
Income taxes	(6,744)	5,157
Other taxes	33,780	32,718
Total	573,535	591,948
OPERATING INCOME	29,125	33,628
OTHER INCOME (DEDUCTIONS)		
Income taxes	1,182	1,115
Allowance for equity funds used during construction	4,992	6,124
Other income	415	2,064
Other expense	(4,358)	(5,888)
Total	2,231	3,415
INTEREST DEDUCTIONS		
Interest on long-term debt	46,395	42,173
Interest on short-term borrowings	2,975	3,849
Debt discount, premium and expense	1,189	1,160
Allowance for borrowed funds used during construction	(3,724)	(3,775)
Total	46,835	43,407
NET LOSS	\$ (15,479)	\$ (6,364)

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
ASSETS		
UTILITY PLANT		
Electric plant in service and held for future use	\$ 12,263,329	\$ 12,198,010
Less accumulated depreciation and amortization	<u>4,192,971</u>	<u>4,129,958</u>
Net	8,070,358	8,068,052
Construction work in progress	619,142	571,977
Intangible assets, net of accumulated amortization	142,743	131,243
Nuclear fuel, net of accumulated amortization	99,304	89,323
Total utility plant	<u>8,931,547</u>	<u>8,860,595</u>
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust	336,091	343,052
Assets from long-term risk management and trading activities	34,194	33,675
Other assets	<u>59,758</u>	<u>60,604</u>
Total investments and other assets	<u>430,043</u>	<u>437,331</u>
CURRENT ASSETS		
Cash and cash equivalents	18,454	71,544
Customer and other receivables	191,574	262,177
Accrued utility revenues	84,724	100,089
Allowance for doubtful accounts	(2,503)	(3,155)
Materials and supplies (at average cost)	182,961	173,252
Fossil fuel (at average cost)	31,839	29,752
Assets from risk management and trading activities	63,969	32,181
Deferred income taxes	119,920	79,694
Other current assets	<u>21,254</u>	<u>19,866</u>
Total current assets	<u>712,192</u>	<u>765,400</u>
DEFERRED DEBITS		
Deferred fuel and purchased power regulatory asset	--	7,984
Other regulatory assets	825,069	787,506
Unamortized debt issue costs	25,466	22,026
Other	88,166	82,735
Total deferred debits	<u>938,701</u>	<u>900,251</u>
TOTAL ASSETS	<u>\$ 11,012,483</u>	<u>\$ 10,963,577</u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	March 31, 2009	December 31, 2008
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,122,292	2,117,789
Retained earnings	1,110,922	1,168,901
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(26,362)	(26,960)
Derivative instruments	(167,173)	(98,742)
Common stock equity	3,217,841	3,339,150
Long-term debt less current maturities	3,349,912	2,850,242
Total capitalization	6,567,753	6,189,392
CURRENT LIABILITIES		
Short-term borrowings	236,176	521,684
Current maturities of long-term debt	942	874
Accounts payable	145,316	233,529
Accrued taxes	236,500	219,129
Accrued interest	44,639	39,860
Customer deposits	77,093	77,452
Liabilities from risk management and trading activities	63,954	69,585
Other current liabilities	66,184	105,655
Total current liabilities	870,804	1,267,768
DEFERRED CREDITS AND OTHER		
Deferred income taxes	1,389,483	1,401,412
Regulatory liabilities	591,601	587,586
Deferred fuel and purchased power regulatory liability	49,215	--
Liability for asset retirements	280,615	275,970
Liabilities for pension and other postretirement benefits	647,831	635,327
Customer advances for construction	138,100	132,023
Liabilities from long-term risk management and trading activities	136,068	126,532
Other	341,013	347,567
Total deferred credits and other	3,573,926	3,506,417
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES AND EQUITY	\$ 11,012,483	\$ 10,963,577

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Financial Statements

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED STATEMENTS OF CASH FLOWS

(unaudited)
(dollars in thousands)

	Three Months Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (15,479)	\$ (6,364)
Adjustments to reconcile net loss to net cash (used for) provided by operating activities:		
Depreciation and amortization including nuclear fuel	108,163	102,696
Deferred fuel and purchased power	28,238	9,721
Deferred fuel and purchased power amortization	28,961	50,709
Allowance for equity funds used during construction	(4,992)	(6,124)
Deferred income taxes	(6,335)	(34,793)
Change in mark-to-market valuations	3,823	(13,458)
Changes in current assets and liabilities:		
Customer and other receivables	71,551	43,922
Accrued utility revenues	15,365	12,764
Materials, supplies and fossil fuel	(11,796)	(11,418)
Other current assets	(2,042)	163
Accounts payable	(70,828)	(63,888)
Other current liabilities	(17,680)	44,391
Change in margin and collateral accounts – assets	(23,876)	93,449
Change in margin and collateral accounts – liabilities	(162,012)	6,648
Change in unrecognized tax benefits	(797)	13,129
Change in other long-term assets	(1,165)	13,200
Change in other long-term liabilities	17,460	10,858
Net cash flow provided by (used for) operating activities	(43,441)	265,605
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(188,973)	(239,808)
Contributions in aid of construction	18,762	10,040
Allowance for borrowed funds used during construction	(3,724)	(3,775)
Proceeds from nuclear decommissioning trust sales	129,816	67,177
Investment in nuclear decommissioning trust	(135,264)	(72,362)
Other	1,500	(1,489)
Net cash flow used for investing activities	(177,883)	(240,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	496,475	--
Repayment of long-term debt	(233)	(246)
Short-term borrowings and payments-net	(285,508)	(27,056)
Dividends paid on common stock	(42,500)	(42,500)
Net cash flow provided by (used for) financing activities	168,234	(69,802)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(53,090)	(44,414)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	71,544	52,151
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 18,454	\$ 7,737
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes, net of refunds	\$ 13,704	\$ 5,704
Interest, net of amounts capitalized	\$ 40,867	\$ 39,946

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Financial Statements