

**PINNACLE WEST CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(dollars and shares in thousands, except per share amounts)

	Year Ended December 31,		
	2009	2008	2007
<b>OPERATING REVENUES</b>			
Regulated electricity segment	\$ 3,149,187	\$ 3,127,383	\$ 2,918,163
Real estate segment	103,152	74,549	189,726
Marketing and trading	--	66,897	138,247
Other revenues	44,762	41,729	48,018
Total	<u>3,297,101</u>	<u>3,310,558</u>	<u>3,294,154</u>
<b>OPERATING EXPENSES</b>			
Regulated electricity segment fuel and purchased power	1,178,620	1,284,116	1,140,923
Real estate segment operations	102,381	100,102	168,911
Real estate impairment charge	258,453	18,108	--
Marketing and trading fuel and purchased power	--	45,572	100,462
Operations and maintenance	875,357	807,852	728,340
Depreciation and amortization	404,331	390,093	371,877
Taxes other than income taxes	123,663	125,336	128,210
Other expenses	32,523	34,171	38,925
Total	<u>2,975,328</u>	<u>2,805,350</u>	<u>2,677,648</u>
<b>OPERATING INCOME</b>	<u>321,773</u>	<u>505,208</u>	<u>616,506</u>
<b>OTHER</b>			
Allowance for equity funds used during construction	14,999	18,636	21,195
Other income	5,669	12,797	25,362
Other expense	(14,269)	(31,576)	(25,857)
Total	<u>6,399</u>	<u>(143)</u>	<u>20,700</u>
<b>INTEREST EXPENSE</b>			
Interest charges	233,859	215,684	207,827
Capitalized interest	(10,745)	(18,820)	(23,063)
Total	<u>223,114</u>	<u>196,864</u>	<u>184,764</u>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	105,058	308,201	452,442
<b>INCOME TAXES</b>	37,827	76,897	152,006
<b>INCOME FROM CONTINUING OPERATIONS INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	67,231	231,304	300,436
Net of income tax expense (benefit) of \$(8,917), \$6,999 and \$4,486	(13,676)	10,821	6,707
<b>NET INCOME</b>	<u>53,555</u>	<u>242,125</u>	<u>307,143</u>
Less: Net loss attributable to noncontrolling interests	(14,775)	--	--
<b>NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ 307,143</u>
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC</b>	101,161	100,691	100,256
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED</b>	101,264	100,965	100,835
<b>EARNINGS PER WEIGHTED – AVERAGE COMMON SHARE OUTSTANDING</b>			
Income from continuing operations attributable to common shareholders – basic	\$ 0.81	\$ 2.30	\$ 3.00
Net income attributable to common shareholders – basic	0.68	2.40	3.06
Income from continuing operations attributable to common shareholders – diluted	0.81	2.29	2.98
Net income attributable to common shareholders – diluted	0.67	2.40	3.05
<b>DIVIDENDS DECLARED PER SHARE</b>	\$ 2.10	\$ 2.10	\$ 2.10
<b>AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:</b>			
Income from continuing operations, net of tax	\$ 82,006	\$ 231,304	\$ 300,436
Discontinued operations, net of tax	(13,676)	10,821	6,707
Net income attributable to common shareholders	<u>\$ 68,330</u>	<u>\$ 242,125</u>	<u>\$ 307,143</u>

See Notes to Pinnacle West's Consolidated Financial Statements.

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

	December 31,	
	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 145,378	\$ 105,245
Customer and other receivables	301,915	292,682
Accrued utility revenues	110,971	100,089
Allowance for doubtful accounts	(6,153)	(3,383)
Materials and supplies (at average cost)	176,020	173,252
Fossil fuel (at average cost)	39,245	29,752
Deferred income taxes	53,990	79,729
Income tax receivable	26,005	--
Home inventory	3,282	50,688
Assets from risk management activities	50,619	32,581
Other current assets	27,465	21,847
Total current assets	928,737	882,482
<b>INVESTMENTS AND OTHER ASSETS</b>		
Real estate investments – net	119,989	415,296
Assets from risk management activities	28,855	33,675
Nuclear decommissioning trust	414,576	343,052
Other assets	110,091	117,935
Total investments and other assets	673,511	909,958
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant in service and held for future use	12,848,138	12,264,805
Less accumulated depreciation and amortization	(4,340,645)	(4,141,546)
Net	8,507,493	8,123,259
Construction work in progress	467,700	572,354
Intangible assets, net of accumulated amortization of \$294,724 and \$282,196	164,380	131,722
Nuclear fuel, net of accumulated amortization of \$64,544 and \$55,343	118,243	89,323
Total property, plant and equipment	9,257,816	8,916,658
<b>DEFERRED DEBITS</b>		
Deferred fuel and purchased power regulatory asset	--	7,984
Other regulatory assets	781,714	787,506
Income tax receivable	65,103	--
Other deferred debits	101,274	115,505
Total deferred debits	948,091	910,995
<b>TOTAL ASSETS</b>	<b>\$ 11,808,155</b>	<b>\$ 11,620,093</b>

See Notes to Pinnacle West's Consolidated Financial Statements.

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

	December 31,	
	2009	2008
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 240,637	\$ 261,029
Accrued taxes	104,011	109,798
Accrued interest	54,596	40,741
Short-term borrowings	153,715	670,469
Current maturities of long-term debt	277,693	177,646
Customer deposits	71,026	78,745
Liabilities from risk management activities	55,908	69,585
Other current liabilities	125,574	97,915
Total current liabilities	1,083,160	1,505,928
<b>LONG-TERM DEBT LESS CURRENT MATURITIES</b>	3,370,524	3,031,603
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	1,496,095	1,403,318
Deferred fuel and purchased power regulatory liability	87,291	--
Other regulatory liabilities	679,072	587,586
Liability for asset retirements	301,783	275,970
Liabilities for pension and other postretirement benefits	811,338	675,788
Liabilities from risk management activities	62,443	126,532
Customer advances	136,595	132,023
Coal mine reclamation	92,060	91,201
Unrecognized tax benefits	142,099	68,904
Other	200,015	227,872
Total deferred credits and other	4,008,791	3,589,194
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Common stock, no par value; authorized 150,000,000 shares; issued 101,527,937 at end of 2009 and 100,948,436 at end of 2008	2,153,295	2,151,323
Treasury stock at cost; 93,239 shares at end of 2009 and 59,827 at end of 2008	(3,812)	(2,854)
Total common stock	2,149,483	2,148,469
Retained earnings	1,298,213	1,444,208
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(50,892)	(47,547)
Derivative instruments	(80,695)	(99,151)
Total accumulated other comprehensive loss	(131,587)	(146,698)
Total Pinnacle West shareholders' equity	3,316,109	3,445,979
Noncontrolling real estate interests	29,571	47,389
Total equity	3,345,680	3,493,368
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 11,808,155	\$ 11,620,093

See Notes to Pinnacle West's Consolidated Financial Statements.

**PINNACLE WEST CAPITAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 53,555	\$ 242,125	\$ 307,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	443,160	423,969	403,896
Deferred fuel and purchased power	(51,742)	(80,183)	(196,136)
Deferred fuel and purchased power amortization	147,018	183,126	231,106
Deferred fuel and purchased power regulatory disallowance	--	--	14,370
Allowance for equity funds used during construction	(14,999)	(18,636)	(21,195)
Real estate impairment charge	280,188	53,250	--
Deferred income taxes	105,492	158,024	(58,027)
Change in mark-to-market valuations	(6,939)	9,074	17,579
Changes in current assets and liabilities:			
Customer and other receivables	12,292	73,446	58,793
Accrued utility revenues	(10,882)	7,388	4,057
Materials, supplies and fossil fuel	(12,261)	(25,453)	(29,776)
Other current assets	(9,186)	8,734	(10,040)
Accounts payable	(27,328)	(69,439)	(42,004)
Accrued taxes and income tax receivable – net	(31,792)	(13,149)	20,764
Home inventory	33,833	48,041	(56,883)
Other current liabilities	29,274	(5,130)	22,657
Expenditures for real estate investments	(2,957)	(21,168)	(121,316)
Other changes in real estate assets	(4,216)	18,211	82,521
Change in margin and collateral accounts – assets	(12,806)	17,450	(37,371)
Change in margin and collateral accounts – liabilities	35,654	(132,416)	19,284
Change in long term income tax receivable	(131,984)	--	--
Change in unrecognized tax benefits	137,898	(94,551)	25,178
Change in other regulatory liabilities	110,642	(12,129)	7,133
Change in other long-term assets	(47,899)	6,104	(23,826)
Change in other long-term liabilities	7,050	36,880	40,029
Net cash flow provided by operating activities	<u>1,031,065</u>	<u>813,568</u>	<u>657,936</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(764,609)	(935,577)	(960,390)
Contributions in aid of construction	53,525	60,292	41,809
Capitalized interest	(10,745)	(18,820)	(23,063)
Proceeds from sale of investment securities	--	--	69,225
Purchases of investment securities	--	--	(36,525)
Proceeds from nuclear decommissioning trust sales	441,242	317,619	259,026
Investment in nuclear decommissioning trust	(463,033)	(338,361)	(279,768)
Proceeds from sale of commercial real estate investments	43,370	94,171	58,139
Other	(4,667)	5,517	(1,807)
Net cash flow used for investing activities	<u>(704,917)</u>	<u>(815,159)</u>	<u>(873,354)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	867,469	96,934	230,571
Repayment and reacquisition of long-term debt	(435,127)	(181,491)	(162,060)
Short-term borrowings – net	(516,754)	331,741	304,911
Dividends paid on common stock	(205,076)	(204,247)	(210,473)
Common stock equity issuance	3,302	3,687	24,089
Other	171	3,891	(2,509)
Net cash flow provided by (used for) financing activities	<u>(286,015)</u>	<u>50,515</u>	<u>184,529</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>40,133</b>	<b>48,924</b>	<b>(30,889)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>105,245</b>	<b>56,321</b>	<b>87,210</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 145,378</b>	<b>\$ 105,245</b>	<b>\$ 56,321</b>
<b>Supplemental disclosure of cash flow information</b>			
<b>Cash paid during the period for:</b>			
Income taxes, net of (refunds)	\$ (52,776)	\$ 24,233	\$ 204,643
Interest, net of amounts capitalized	\$ 203,860	\$ 191,085	\$ 193,533

See Notes to Pinnacle West's Consolidated Financial Statement

**ARIZONA PUBLIC SERVICE COMPANY**  
**STATEMENTS OF INCOME**  
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
ELECTRIC OPERATING REVENUES	\$ 3,149,500	\$ 3,133,496	\$ 2,936,277
OPERATING EXPENSES			
Fuel and purchased power	1,178,620	1,289,883	1,151,392
Operations and maintenance	852,563	787,270	710,077
Depreciation and amortization	399,455	383,098	365,430
Income taxes	158,661	113,799	155,735
Other taxes	122,358	124,046	127,648
Total	2,711,657	2,698,096	2,510,282
OPERATING INCOME	437,843	435,400	425,995
OTHER INCOME (DEDUCTIONS)			
Income taxes	6,087	6,538	4,578
Allowance for equity funds used during construction	14,999	18,636	21,195
Other income	10,808	6,231	16,727
Other expense	(18,001)	(30,569)	(21,630)
Total	13,893	836	20,870
INTEREST DEDUCTIONS			
Interest on long-term debt	199,907	170,071	161,030
Interest on short-term borrowings	6,315	13,432	9,564
Debt discount, premium and expense	4,675	4,702	4,639
Allowance for borrowed funds used during construction	(10,386)	(14,313)	(12,308)
Total	200,511	173,892	162,925
NET INCOME	\$ 251,225	\$ 262,344	\$ 283,940

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

**ARIZONA PUBLIC SERVICE COMPANY**  
**BALANCE SHEETS**  
(dollars in thousands)

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Electric plant in service and held for future use	\$ 12,781,256	\$ 12,198,010
Less accumulated depreciation and amortization	4,326,908	4,129,958
Net	<u>8,454,348</u>	<u>8,068,052</u>
Construction work in progress	460,748	571,977
Intangible assets, net of accumulated amortization of \$293,450 and \$280,633	164,183	131,243
Nuclear fuel, net of accumulated amortization of \$64,544 and \$55,343	118,243	89,323
Total utility plant	<u>9,197,522</u>	<u>8,860,595</u>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Nuclear decommissioning trust	414,576	343,052
Assets from risk management activities	28,855	33,675
Other assets	68,839	60,604
Total investments and other assets	<u>512,270</u>	<u>437,331</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	120,798	71,544
Customer and other receivables	280,226	262,177
Accrued utility revenues	110,971	100,089
Allowance for doubtful accounts	(6,063)	(3,155)
Materials and supplies (at average cost)	176,020	173,252
Fossil fuel (at average cost)	39,245	29,752
Assets from risk management activities	50,619	32,181
Deferred income taxes	53,990	79,694
Other	25,724	19,866
Total current assets	<u>851,530</u>	<u>765,400</u>
<b>DEFERRED DEBITS</b>		
Deferred fuel and purchased power regulatory asset	--	7,984
Other regulatory assets	781,714	787,506
Income tax receivable	65,498	--
Unamortized debt issue costs	20,959	22,026
Other	73,909	82,735
Total deferred debits	<u>942,080</u>	<u>900,251</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 11,503,402</u></u>	<u><u>\$ 10,963,577</u></u>

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

**ARIZONA PUBLIC SERVICE COMPANY**  
**BALANCE SHEETS**  
(dollars in thousands)

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CAPITALIZATION</b>		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,126,863	2,117,789
Retained earnings	1,250,126	1,168,901
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits	(29,114)	(26,960)
Derivative instruments	(80,682)	(98,742)
Common stock equity	3,445,355	3,339,150
Long-term debt less current maturities	3,180,406	2,850,242
Total capitalization	6,625,761	6,189,392
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	--	521,684
Current maturities of long-term debt	197,176	874
Accounts payable	213,833	233,529
Accrued taxes	158,051	219,129
Accrued interest	54,099	39,860
Customer deposits	70,780	77,452
Liabilities from risk management activities	55,908	69,585
Other	124,995	105,655
Total current liabilities	874,842	1,267,768
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	1,582,945	1,401,412
Deferred fuel and purchased power regulatory liability	87,291	--
Other regulatory liabilities	679,072	587,586
Liability for asset retirements	301,783	275,970
Liabilities for pension and other postretirement benefits	766,378	635,327
Customer advances for construction	136,595	132,023
Liabilities from risk management activities	62,443	126,532
Coal mine reclamation	92,060	91,201
Unrecognized tax benefits	140,638	67,846
Other	153,594	188,520
Total deferred credits and other	4,002,799	3,506,417
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 11,503,402</b>	<b>\$ 10,963,577</b>

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

**ARIZONA PUBLIC SERVICE COMPANY**  
**STATEMENTS OF CASH FLOWS**  
(dollars in thousands)

	Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 251,225	\$ 262,344	\$ 283,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel	438,284	416,709	395,890
Deferred fuel and purchased power	(51,742)	(80,183)	(196,136)
Deferred fuel and purchased power amortization	147,018	183,126	231,106
Deferred fuel and purchased power regulatory disallowance	--	--	14,370
Allowance for equity funds used during construction	(14,999)	(18,636)	(21,195)
Deferred income taxes	192,914	145,157	(44,478)
Change in mark-to-market valuations	(6,939)	7,792	(6,758)
Changes in current assets and liabilities:			
Customer and other receivables	2,603	40,782	19,825
Accrued utility revenues	(10,882)	6,784	4,057
Materials, supplies and fossil fuel	(12,261)	(25,453)	(29,776)
Other current assets	(9,427)	128	(8,056)
Accounts payable	(22,129)	(5,915)	(2,797)
Accrued taxes	(61,078)	(12,377)	13,802
Other current liabilities	26,907	20,527	20,231
Change in margin and collateral accounts – assets	(13,206)	17,850	11,252
Change in margin and collateral accounts – liabilities	35,654	(132,416)	27,624
Change in regulatory liabilities	110,642	(12,129)	7,541
Change in long-term income tax receivable	(132,379)	--	--
Change in unrecognized tax benefits	137,478	(92,064)	27,773
Change in other long-term assets	(53,734)	14,340	(23,577)
Change in other long-term liabilities	4,770	48,894	41,177
Net cash flow provided by operating activities	<u>958,719</u>	<u>785,260</u>	<u>765,815</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(754,301)	(910,189)	(924,166)
Contributions in aid of construction	53,525	60,292	41,809
Capitalized interest	(10,386)	(14,313)	(12,308)
Proceeds from sale of investment securities	--	--	69,225
Purchases of investment securities	--	--	(36,525)
Proceeds from nuclear decommissioning trust sales	441,242	317,619	259,026
Investment in nuclear decommissioning trust	(463,033)	(338,361)	(279,768)
Other	(4,667)	5,517	1,211
Net cash flow used for investing activities	<u>(737,620)</u>	<u>(879,435)</u>	<u>(881,496)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of long-term debt	863,780	--	--
Short-term borrowings – net	(521,684)	303,684	218,000
Equity infusion	--	7,601	39,548
Dividends paid on common stock	(170,000)	(170,000)	(170,000)
Repayment and reacquisition of long-term debt	(343,941)	(27,717)	(1,586)
Net cash flow provided by (used for) financing activities	<u>(171,845)</u>	<u>113,568</u>	<u>85,962</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	49,254	19,393	(29,719)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	71,544	52,151	81,870
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 120,798</u>	<u>\$ 71,544</u>	<u>\$ 52,151</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 13,555	\$ 56,728	\$ 186,183
Interest, net of amounts capitalized	\$ 181,597	\$ 167,592	\$ 165,279

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