

# Message from our Chairman, President and CEO

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## To our Shareholders:

On behalf of our Board of Directors, management and employees, I invite you to participate in our 2019 Annual Meeting of Shareholders. The meeting will be held at 10:30 a.m. (MST), Wednesday, May 15, 2019. Details regarding how to attend the meeting and the business to be conducted are in the accompanying Notice of Annual Meeting and Proxy Statement.

Pinnacle West achieved another year of strong performance as we continued to focus on delivering on our commitments to the shareholders who trust us with their investment, customers who depend on us, the communities we serve, and our dedicated team members.

## Our Commitment to our Shareholders

Inside the Proxy Statement Summary you will see a number of our shareholder value creation and operational accomplishments. It is an impressive list, and one that I and the senior management team are proud to share with you.

Here are just a few of those achievements:

- Pinnacle West increased the dividend for the 7<sup>th</sup> straight year, by 6% in 2018;
- Total shareholder value increased \$341 million in 2018, \$3.3 billion over the last three years, and \$5.1 billion over the last five years;
- Total shareholder return was 3.6%, 16.7%, 46.2% and 92.7% for the 1, 2, 3 and 5-year periods respectively, outperforming the electric utility industry and the broader market in the 2, 3 and 5-year periods; and
- Our share price reached an all-time intraday high and an all-time closing price high on December 13, 2018.

In addition to delivering strong financial performance, we continue to focus on our sustainability efforts. In its November 6, 2018 report, MSCI ESG Research, LLC (“MSCI”) once again gave us an Environmental, Sustainability and Governance “A” rating. We serve our customers with an energy mix that is 50% clean energy. Our 10 grid-scale solar plants are powered by more than 1 million solar panels and our Palo Verde Generating Station, the largest nuclear power plant in the United States, provides nearly 70% of Arizona’s carbon-free energy. Palo Verde also uses recycled wastewater to cool the plant.

## Our Commitment to our Customers

Our commitment is to provide safe, affordable and reliable electricity for approximately 1.2 million customers throughout Arizona. Placing our Sun Valley to Morgan 500kV transmission line into service, which completed a more than 10-year long program to build a loop around Phoenix, Arizona in order to improve reliability to the valley, is one example of us delivering on that commitment. We also implemented a new rate structure that provides our customers with a number of new options and plans. We successfully migrated approximately 1 million residential customers to the new rates in just a few months.

## Our Commitment to our Communities

In 2018, we donated \$10.8 million to our communities with \$3.6 million invested in education. Our employees pledged \$2.4 million to our 2018 Community Services Fund Campaign (United Way) and contributed 121,000 volunteer hours. Our employees volunteered with a number of organizations, including St. Mary's Food Bank, Children's Museum of Phoenix, Habitat for Humanity and Big Brothers Big Sisters. In 2018 we launched our "Supply My Class-APS's Teacher Awards" program in which 1,000 K-8 teachers received \$500 each to purchase classroom supplies.

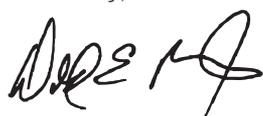
## Our Dedicated Team Members

Our employees are one of our greatest assets and we know it. In 2018 we focused on continuing to invest in our people. We revamped our onboarding process for our new hires during 2018 in order to improve the quality, timing, and delivery of the process for new employees. We also developed a new competency framework that went into effect during the first part of 2019. This new framework will target those competencies we have decided are critical to our vision, our mission and our future, and it allows us to create more robust development plans for our team members. We continued to transfer knowledge and know-how between our team members to increase productivity, reduce cost, retain critical knowledge and minimize risk. We recognize the benefits of diversity in our workforce. Among our new hires in 2018, 36% of our external hires were ethnically or racially diverse, 30% were female and 20% were veterans. Looking at our team at the end of 2018, 31% were ethnically or racially diverse, 23% were female, and more than 20% were veterans. With respect to our employees, a few of our shareholders have inquired about #MeToo issues and our sexual harassment policies. As I recently reemphasized to each of our employees, we will not tolerate inappropriate or unethical behavior in the workplace. Period. We live by our Code of Ethics and our Core, which you can read more about on page 23 of the Proxy Statement.

I am both privileged and proud to lead Pinnacle West. Our men and women are working to shape a better, sustainable future for our customers and our communities, and in that process, they are also building a more valuable company for our shareholders.

Thank you for the confidence you place in Pinnacle West through your investment.

Sincerely,



**Donald E. Brandt**

Chairman of the Board, President  
and Chief Executive Officer



Additional highlighted accomplishments of our Company's 2018 performance are set forth in the Proxy Statement beginning on page 3."