

# Message from our Lead Director

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## Dear Fellow Shareholders,

On behalf of the Board, I thank you for your investment in Pinnacle West. As we approach our 2019 Annual Meeting, I take this opportunity to provide you with an update on how your Board is approaching and addressing key areas of shareholder interest, particularly with respect to governance and succession planning.

## Driving Shareholder Value Creation and Promoting a Sustainable Energy Future

As directors of Arizona's largest and longest-serving electric company, we view operational excellence as paramount to long-term value creation for our shareholders. Our management team continues to drive outstanding operational execution while growing our business and leveraging technology to promote a long-term sustainable energy future. These efforts have resulted in strong returns for our shareholders: our annualized total shareholder return since May 1, 2009, when Don Brandt took over as CEO, is 17.1%, which exceeded the annualized returns of the S&P 1500 Electric Utilities Index of 11.1% and the S&P 500 Index of 13.9%.

## Thoughtful and Systematic Management Succession Planning Process

As you would expect for a company with a highly skilled and long-tenured management team, the Board is very engaged in succession planning to ensure that we are building a sustainable leadership pipeline. CEO and senior leadership succession planning continues to be a focus for the Board, and we have been executing on a very deliberate succession and development plan. Last year we saw some of those succession plans implemented. For example, the Board promoted Jeff Guldner to the position of President of APS where he has responsibility for all aspects of APS excluding nuclear generation. Mark Schiavoni, Executive Vice President and Chief Operating Officer, retired and Daniel Froetscher became our Executive Vice President, Operations of APS. Daniel took over responsibility for all the non-nuclear operations of our business – our fossil plants, transmission and distribution and customer service. In August of 2018 we hired Robert Smith as Senior Vice President and General Counsel of Pinnacle West and APS, taking over the General Counsel position previously held by Mr. Guldner. We have strategically selected successors for our management team who we are confident will lead our Company successfully into the future with continued strong and sustainable performance.

## Robust Board Refreshment Planning Practices

The Board has established strong practices to support regular Board evaluation and refreshment. In 2016, the Board adopted a Director Retirement Policy to facilitate an orderly transition of Board members. Under the policy, 70% of our current independent directors will retire by 2025. Roy Herberger, who retired in May of 2018, was the first director to retire under this policy.

Our plan to refresh the Board and its leadership encompasses the following:

- Development of a matrix of our Board members' current skills and experience;
- Evaluation of the skills and experience leaving our Board;
- Assessment of skills and experience needed to guide the company's future long-term plans; and
- Identification of incoming committee chairs one year in advance of assuming chair leadership to ensure proper transition.

Consistent with our Board refreshment plan, the Board identified Rick Fox as the director to succeed Roy Herberger as the Chairman of the Human Resources Committee. Rick was engaged in advance of Roy's retirement so that the transition of the Chairman position would be, and was, smooth and orderly.

We value diversity and require our outside director search firm to make diversity a focal point of all our searches, with an emphasis on women candidates. However, of equal importance is the experience and skill set an individual brings to the Board. As noted above, we have been through a transition with our senior management; bringing new leaders into place. The Board determined that a director with experience in senior management changes, as well as CEO or similar level experience, was a critical skill set we needed to target in 2018. We found those experiences in Jim Trevathan, who joined our Board in December of 2018.

Jim is an accomplished operating executive who is known for exceptional leadership skills and a strong track record of operational results over a 39-year career. Jim started at Waste Management, Inc. in 1979 and most recently served as Executive Vice President and Chief Operating Officer until his retirement at the end of 2018. Jim brings COO experience, with a focus on safety, environmental issues, customer service, disruptive technologies, and community and regulatory affairs. He also has experience with transitions in management. We are looking forward to working with Jim.



In 2016, the Board adopted a Director Retirement Policy to facilitate an orderly transition of Board members and implemented a plan to refresh the Board and its leadership.”

## Board-Driven Shareholder Engagement

Shareholder input is very valuable to the Board's decision-making. Pinnacle West has an established shareholder engagement program where we engage with our shareholders throughout the year to discuss issues or concerns and to answer questions. We learn a great deal through our engagement program. As you may recall, in 2017 we were disappointed with our say-on-pay vote. We reached out to our shareholders to hear their concerns, particularly with respect to our executive compensation program. We addressed their concerns. In 2018 our say-on-pay vote received a "for" vote of 93%. We thank you for your input and your support.

## Active and Engaged Board

Our independent Board members are expected to be active, engaged and contributing members. Our discussions are focused on oversight of Pinnacle West's business strategy, targeting the Company's critical areas of focus of shareholder value, operational excellence, environment, customer value, employees, security, and the communities we serve. This year we held a combined total of 32 Board and Board committee meetings, including an all-day session at the Palo Verde Generating Station. In addition to the Board meetings, our directors have focused on our shareholder engagement program and participated in meetings held by the Palo Verde Off-Site Safety Review Committee and by the Institute of Nuclear Power Operations.

In September the Board received presentations from engineers enrolled in and recently graduated from the incoming engineer programs with each of the Fossil, Palo Verde, and Transmission and Distribution business units. These presentations provided the Board with significant insights into the programs in place to recruit and retain engineers, as well as the work performed by the engineers and the impacts they have made across the Company.

On behalf of the Board, I thank our shareholders for their time and feedback. I am pleased to provide this additional window into the Board's activities in 2018 and express our commitment to running our business for the long-term value creation for our shareholders. We appreciate your support at our 2019 Annual Meeting.

Sincerely,



**Kathryn L. Munro**  
Lead Director