



2018 SHAREHOLDER ENGAGEMENT

PINNACLE WEST
CAPITAL CORPORATION



FORWARD LOOKING STATEMENTS

This presentation contains forward-looking statements based on current expectations, including statements regarding our earnings guidance and financial outlook and goals. These forward-looking statements are often identified by words such as “estimate,” “predict,” “may,” “believe,” “plan,” “expect,” “require,” “intend,” “assume,” “project” and similar words. Because actual results may differ materially from expectations, we caution you not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. These factors include, but are not limited to: our ability to manage capital expenditures and operations and maintenance costs while maintaining high reliability and customer service levels; variations in demand for electricity, including those due to weather seasonality, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation; power plant and transmission system performance and outages; competition in retail and wholesale power markets; regulatory and judicial decisions, developments and proceedings; new legislation, ballot initiatives and regulation, including those relating to environmental requirements, regulatory policy, nuclear plant operations and potential deregulation of retail electric markets; fuel and water supply availability; our ability to achieve timely and adequate rate recovery of our costs, including returns on and of debt and equity capital investments; our ability to meet renewable energy and energy efficiency mandates and recover related costs; risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty; current and future economic conditions in Arizona, including in real estate markets; the development of new technologies which may affect electric sales or delivery; the cost of debt and equity capital and the ability to access capital markets when required; environmental, economic and other concerns surrounding coal-fired generation, including regulation of greenhouse gas emissions; volatile fuel and purchased power costs; the investment performance of the assets of our nuclear decommissioning trust, pension, and other postretirement benefit plans and the resulting impact on future funding requirements; the liquidity of wholesale power markets and the use of derivative contracts in our business; potential shortfalls in insurance coverage; new accounting requirements or new interpretations of existing requirements; generation, transmission and distribution facility and system conditions and operating costs; the ability to meet the anticipated future need for additional generation and associated transmission facilities in our region; the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations; and restrictions on dividends or other provisions in our credit agreements and ACC orders. These and other factors are discussed in Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which you should review carefully before placing any reliance on our financial statements, disclosures or earnings outlook. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

PINNACLE WEST: WHO WE ARE

We are a vertically integrated, regulated electric utility in the growing Southwest United States

Our Business

Pinnacle West operates Arizona Public Service ("APS"), our principal subsidiary



\$17B

Consolidated Assets

Arizona's largest and longest-serving electric company, providing affordable and reliable electricity for approximately 1.2M customers



Our Plants

APS co-owns and operates power plants in the Southwest, with **full operational control and responsibility for:**

FOUR CORNERS

A 2-unit coal-fired power plant

1,540 MW²

CHOLLA

A 3-unit coal-fired power plant

767 MW²

PALO VERDE

The largest nuclear power plant in the U.S.

3,990 MW²

APS shares ownership of Palo Verde with six other utilities, but maintains sole management responsibility for the nation's largest nuclear plant

Largest clean-air generator in the United States

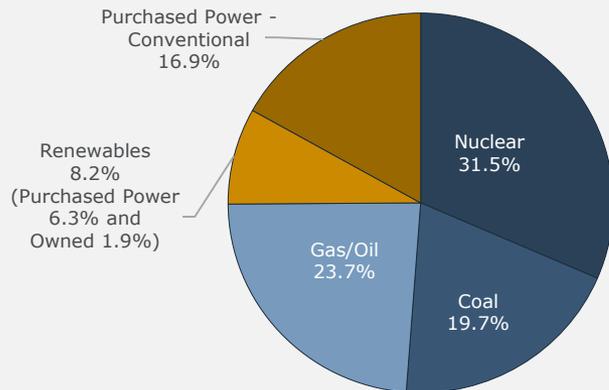
25

Years as the nation's largest power producer of any kind

>\$1B

Annual budget managed solely by APS

Our Energy Sources¹



¹ APS's sources of energy by type used to supply energy to native load customers during 2017
² Net generation rating; APS owns 29.1% of Palo Verde, 63.0% of Four Corners and 50.5% of Cholla

A STRATEGY TO DRIVE VALUE

The **Core** is the foundation for our strategic and business initiatives



The **APS Strategic Business Plan** is anchored by four themes that align with industry trends shaping our future and the way we do business

Consumer Engagement

- ✓ Deliver value-added programs and services that derive from consumer insights and strengthen our brand for the future

Flexible Resources

- ✓ Develop new initiatives and businesses that leverage our core capabilities

Employees

- ✓ Adopt sustainable programs to invest in our people today and in the future

Innovation

- ✓ Integrate new technologies to enhance performance, reliability and the overall experience of our customers and employees

INVESTMENT PROPOSITION

We are executing on our financial and operational objectives...

Operational Excellence

- ✓ Top decile safety performance in the U.S. electric utilities industry
- ✓ APS operates the Palo Verde Generating Station
- ✓ Disciplined cost management

Financial Strength

- ✓ Annual dividend growth of 6%, subject to declaration at Board of Directors' discretion
- ✓ Strong credit ratings and balance sheet
- ✓ Average annual rate base growth of 6-7%

Leverage Economic Growth

- ✓ Arizona's long-term growth fundamentals remain largely intact, including population growth, job growth and economic development
- ✓ By 2032 we expect to add approximately 550,000 new customers¹

...while also working to ensure Pinnacle West and Arizona have a sustainable energy future

Integrating Technology to Modernize the Grid

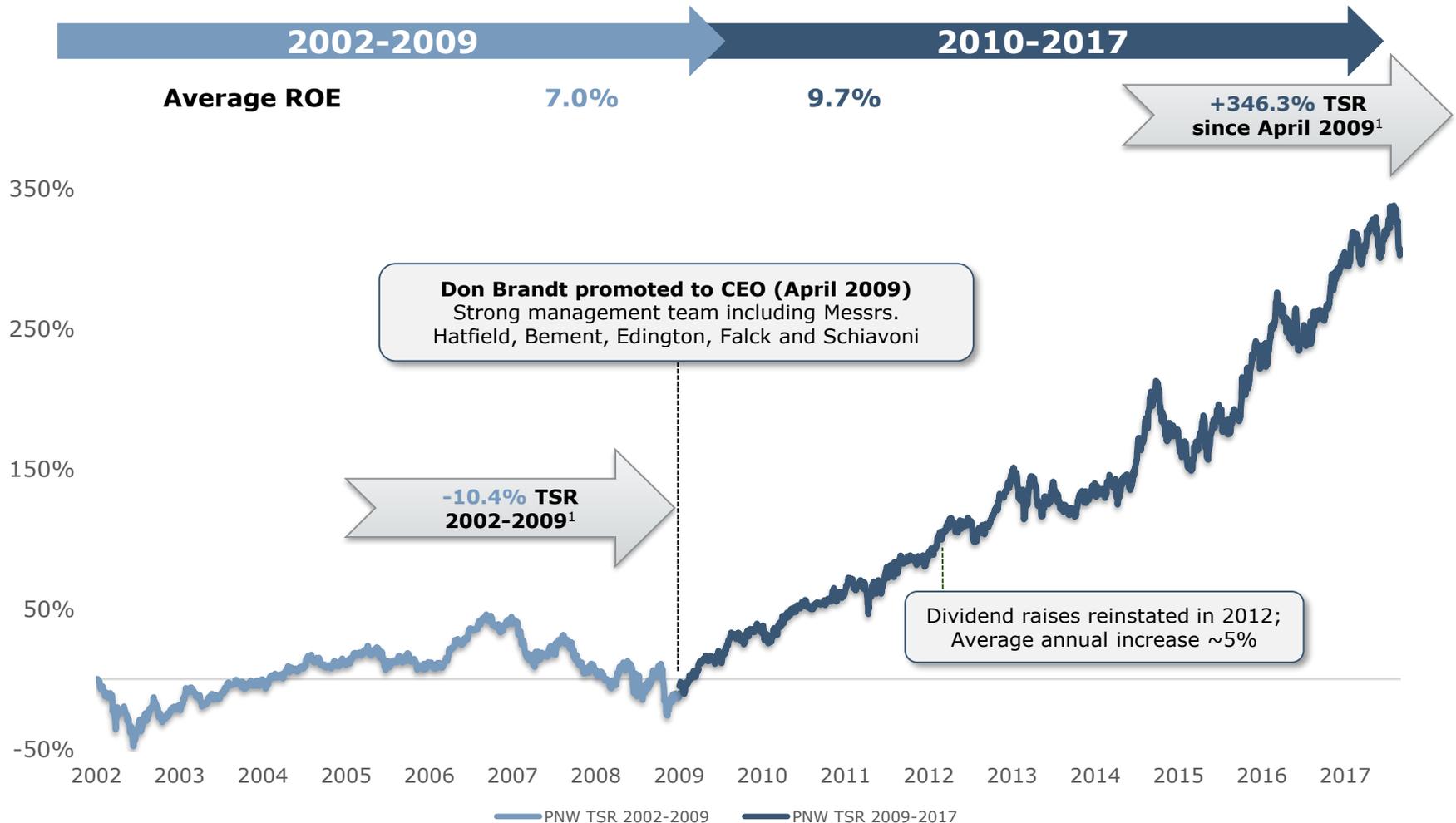
- ✓ At the forefront of utilities studying and deploying advanced infrastructure to enable reliable and cost-efficient integration of emerging technologies into the grid and with customers

Taking Steps to Address Rate Design

- ✓ Worked with Arizona Corporation Commission and key stakeholders to modernize rates
- ✓ Comprehensive rate review agreement approved in August 2017, enabling investment in smarter, cleaner energy infrastructure

LEADERSHIP AND PERFORMANCE TRANSFORMATION

Our skilled management team has driven exceptional performance since taking over



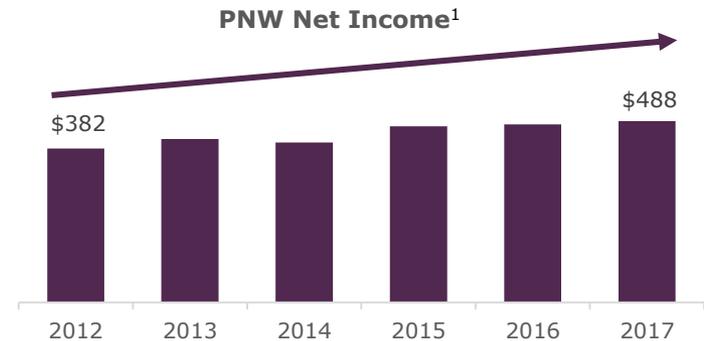
¹ Total shareholder return reflects dividend adjusted share price between the periods of April 30, 2002-April 30, 2009 and April 30, 2009-December 31, 2017.

PERFORMANCE RESULTS

Consistent performance with a strong outlook for the future

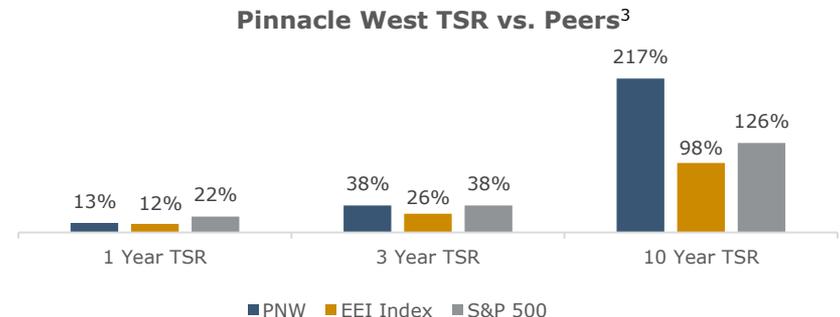
Strong earnings performance

- ✓ Track-record of earnings growth
- ✓ Favorable rate case decision in August 2017 supports revenue generation and infrastructure investment
- ✓ Strong long-term fundamentals in Arizona (population growth, economic development)



Delivering value to our shareholders

- ✓ In 2017, **Pinnacle West increased its dividend by 6%**, representing the **6th straight year of increases²**
- ✓ Our **TSR has outperformed peers over both short- and long-term periods³**



¹ In millions; "Net Income" represents Consolidated Net Income Attributable to Common Shareholders.

² Future dividends subject to declaration at Board of Directors' discretion.

³ Represents the S&P 500 and the Edison Electric Institute over 1-, 3-, and 10-year periods as of December 31, 2017.

SUSTAINABILITY

APS's vision is to create a sustainable energy future for Arizona

Progress and Achievements

Five critical areas of our sustainability efforts

Carbon Management

- 50% of our diverse energy mix is **carbon-free**
- Plan to **reduce carbon intensity by 23%** over the next 15 years
- MSCI Environmental Sustainability and Governance **A rating**¹

Energy Innovation

- **More than 1,300 MW** of installed solar capacity
- Plan to add over **500 MW of energy storage** in next 15 years

Safety & Security

- **70% reduction in OSHA recordable injuries** over past 10 years
- Remain **top decile for safety** performance in U.S. electric utilities industry

Water Resources

- **14% reduction** in groundwater use since 2014
- **20 billion gallons of water recycled** each year to cool Palo Verde

People

- Average **employee tenure of 13 years** due to strong talent strategy
- More than 20% of our employees are **veterans**
- Palo Verde hosted a nuclear **Women in Leadership** forum

✓ **Nuclear and Operating Committee charter was amended in 2018 to assign oversight of sustainability initiatives and strategy**

✓ **We continue to be recognized for our sustainability leadership**

Obtained a "Leadership" rating from CDP for climate change and water management—one of only two U.S. utilities to earn the highest rating in both categories

SHAREHOLDER ENGAGEMENT

We have an established engagement program to maintain a dialogue with our shareholders

- Following our 2017 Annual Meeting, we met with shareholders representing approximately 40% of our shares outstanding to seek specific feedback on our executive compensation program as well as our broader governance and sustainability practices
- **In response to the feedback received, the Board made several changes:**

Compensation

- **Increased the proportion of performance shares** in our CEO's and Executive Vice Presidents' 2018 long-term incentive awards from 60% to 70%
- **Revised 2018 metrics** in certain key business units to better align with our priorities and emphasize top-quartile or above performance
- Adopted a formal **clawback policy**
- **Made several enhancements to our 2018 proxy disclosure:**
 - **Clarified how our performance metrics** support and align with our long-term strategy
 - Redesigned **annual incentive disclosure**
 - Added detail on how we select our **peer group**

Sustainability

- Added specific **responsibility for oversight of sustainability matters** to the charter of the Nuclear and Operating Committee

Governance

- **Included a director key skills and experience matrix** in the 2018 Proxy Statement

EXECUTIVE COMPENSATION

Following discussions with shareholders in 2017, the Board approved several changes to further align pay and performance

2017 COMPENSATION PROGRAM

Pay Element	Measurement Period	Performance Link
Base Salary	Cash	-
Annual Incentive	Cash	Earnings
		Business Unit Performance
Long-Term Incentive	Performance Shares (60%)	Relative TSR (50%)
		Relative Operational Performance (50%)
	Restricted Stock Units (40%)	Vest Ratably Over 4 Years

2018 ENHANCEMENTS

Earnings goals set for 2018 reflect the August 2017 approval of our comprehensive rate review and represent meaningful year-over-year increases

Certain business unit metrics revised for 2018 to better align with priorities and emphasize top quartile or above performance

Performance share allocation increased to 70% for our CEO and EVPs starting in 2018

Adopted a formal clawback policy and further enhanced our disclosure in key areas

DETERMINING PERFORMANCE GOALS

Combined rigorous pay-setting approach and performance-based program establishes strong pay and performance alignment

Earnings

Setting 2017 Goals

- Earnings growth impacted by base rate approved by regulators
- When setting 2017 goals, decision regarding our comprehensive rate review, initiated in June 2016, still pending
- Without a rate adjustment, we expected 2017 earnings to be relatively flat to 2016

August 2017:
Rate review approved

Setting 2018 Goals

- 2018 earnings goals reflect 2017 approval of rate review
- Given increase in revenues enabled by the rate adjustment, meaningful year-over-year increases in 2018 earnings goals

Business Unit Performance

Goals are set based on our annual business planning process and **reviewed for relevance and appropriate alignment with our business strategy**

Several metrics are set with reference to industry-wide benchmarks, **and are typically set at the top quartile**

Non-benchmarked metrics are **designed to drive favorable trends based on historical internal data**

Relative Long-Term Metrics

100% tied to *relative* performance against industry peers

90th percentile performance required for maximum payouts

Annual

Long-Term

POSITIONING FOR THE FUTURE

The Board is focused on succession planning to ensure a sustainable leadership pipeline

Succession Planning Context

- Given our need for **specialized experience**, we maintain strong management succession planning practices and are focused on **developing and retaining talent within our Company**
- 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**
- The Board and Human Resources Committee believed that a performance-contingent award was critical to retaining a retirement-eligible CEO for what was perceived to be a **multiple-year succession planning period**
 - The performance goals are structured to incentivize **continued financial performance while ensuring that succession- and development-related milestones are met**

Structure and Performance Criteria of CEO Award

Hurdle	Tranche 1	Tranche 2	
Minimum 8.00% ROE Condition (2017) <i>No portion of award payable if ROE condition not met</i>	Earnings threshold (2017 calendar year)	Earnings threshold (2018 calendar year)	<i>No portion of award payable if neither earnings thresholds are met¹</i>
	Succession planning and development: year 1 milestones	Succession planning and development goals	<i>Full award subject to goals being satisfied</i>

¹ If only one earnings threshold is met, 50% of the award may be earned subject to additional adjustments based on succession planning & development performance

2018 DIRECTOR NOMINEES

Our directors possess the deep and diverse skills and experience necessary to provide effective oversight on our strategy and operations

Don Brandt
Chairman, President & CEO, Pinnacle West & APS

Kathy Munro
Principal, BridgeWest, LLC

Denis Cortese
Director, Health Care Delivery & Policy Program, ASU

Rick Fox
Independent Consultant

Michael Gallagher
Chairman Emeritus, Gallagher & Kennedy, P.A.

Dale Klein
Professor of Mechanical Engineering, University of Texas at Austin; Former Chairman of the U.S. Nuclear Regulatory Commission

Humberto Lopez
Chairman of the Board, HSL Properties Inc.

Bruce Nordstrom
President & CPA, Nordstrom Associates, P.C.

Paula Sims
Professor of Practice and Executive Coach, UNC Kenan-Flagler Business School

David Wagener
Managing Partner, Wagener Capital Management

Robust Lead Director Role

Kathy Munro

- Serves as liaison between Chairman and independent directors
- Advises Chairman on appropriate schedule of Board meetings, and reviews/provides input on Board meeting agendas
- Oversees Board and committee self-assessments
- Available for engagement with shareholders/other interested parties

- ✓ **90% independent**
- ✓ **30% of our Director nominees are gender or ethnically diverse**

Robust Board succession planning practices:

- Process in place to ensure composition of Board reflects knowledge, skills, expertise and diversity
- Director retirement policy in place to better facilitate board refreshment and transition

- ✓ **3 new directors since 2014**

