

CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands)

	Year Ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 243,195	\$ 240,579	\$ 149,408
Adjustment to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations, net of tax	(7,977)	(14,776)	21,410
Cumulative effect of accounting change, net of tax	–	–	65,745
Equity earnings in Phoenix Suns partnership	(34,594)	–	–
Depreciation and amortization	401,105	435,140	422,299
Nuclear fuel amortization	30,446	28,757	31,185
Allowance for equity funds used during construction	(4,885)	(14,240)	–
Deferred income taxes	(113,850)	81,756	191,135
Change in mark-to-market valuations	(18,915)	17,410	(18,146)
Redhawk Units 3 and 4 cancellation charge	–	–	49,192
Changes in current assets and liabilities:			
Customer and other receivables	(17,524)	(12,456)	60,336
Accrued utility revenues	(4,598)	5,875	(18,373)
Materials, supplies and fossil fuel	2,621	(4,629)	(11,599)
Other current assets	24,995	(6,865)	(6,643)
Accounts payable	98,001	(7,125)	17,008
Accrued taxes	175,842	(1,338)	(36,041)
Accrued interest	(13,030)	(1,193)	4,212
Other current liabilities	33,669	8,668	24,755
Proceeds from the sale of real estate assets	80,035	130,597	47,906
Real estate investments	(62,812)	(51,837)	(56,355)
Increase in regulatory assets	(2,702)	(20,971)	(11,029)
Change in risk management and trading – assets	(2,549)	46,911	(11,700)
Change in risk management and trading – liabilities	13,018	(11,613)	(22,783)
Change in customer advances	6,402	7,270	(23,780)
Change in pension liability	23,822	19,074	(3,009)
Change in other long-term assets	(39,710)	13,124	(13,593)
Change in other long-term liabilities	32,075	12,635	9,785
Net cash flow provided by operating activities	842,080	900,753	861,325
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(538,232)	(713,256)	(909,259)
Proceeds from sale of Silverhawk	90,967	–	–
Capitalized interest	(16,311)	(29,444)	(43,749)
Discontinued operations – Real Estate	8,927	27,193	28,917
Discontinued operations – NAC	8,499	(19,971)	(12,259)
Proceeds from the sale of the Phoenix Suns partnership	23,101	–	–
Purchases of investment securities	(1,040,955)	(877,660)	–
Proceeds from sale of investment securities	951,630	785,810	–
Proceeds from commercial real estate properties	–	33,297	9,272
Other	(19,579)	(21,040)	36,635
Net cash flow used for investing activities	(531,953)	(815,071)	(890,443)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	478,328	656,850	674,919
Short-term borrowings and payments – net	(15,051)	(173,303)	(306,079)
Dividends paid on common stock	(166,772)	(157,417)	(137,721)
Repayment of long-term debt	(604,015)	(366,497)	(354,916)
Common stock equity issuance	18,291	–	199,238
Other	11,396	8,181	2,624
Net cash flow (used for) provided by financing activities	(277,823)	(32,186)	78,065
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,304	53,496	48,947
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	131,062	77,566	28,619
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 163,366	\$ 131,062	\$ 77,566
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Income taxes paid/(refunded)	\$ 66,447	\$ 32,816	\$ (17,918)
Interest paid, net of amounts capitalized	\$ 191,865	\$ 161,581	\$ 126,322

See Notes to Pinnacle West's Consolidated Financial Statements.