

CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands)

Year Ended December 31,	2005	2004 (a)	2003 (a)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 176,267	\$ 243,195	\$ 240,579
Adjustments to reconcile net income to net cash provided by operating activities:			
Silverhawk impairment loss	91,025	–	–
Regulatory disallowance	138,562	–	–
Equity earnings in Phoenix Suns partnership	–	(34,594)	–
Depreciation and amortization including nuclear fuel	381,604	432,161	466,900
Deferred fuel and purchased power	(172,756)	–	–
Allowance for equity funds used during construction	(11,191)	(4,885)	(14,240)
Deferred income taxes	(23,806)	(113,850)	85,462
Change in mark-to-market valuations	(11,670)	(18,915)	17,410
Changes in current assets and liabilities:			
Customer and other receivables	(38,763)	(11,056)	2,346
Materials, supplies and fossil fuel	(16,836)	2,621	(4,629)
Other current assets	(28,215)	25,380	(6,646)
Accounts payable	(6,392)	85,344	(34,303)
Accrued taxes	43,624	175,842	(1,338)
Other current liabilities	1,567	10,561	3,725
Proceeds from the sale of real estate assets	16,218	80,035	130,597
Real estate investments	(88,055)	(62,812)	(51,837)
Change in risk management and trading – assets	(62,100)	(2,549)	46,911
Change in risk management and trading – liabilities	110,393	13,018	(11,613)
Collateral	192,040	12,619	(10,453)
Change in other long-term assets	(35,793)	(36,666)	(6,099)
Change in other long-term liabilities	74,573	55,443	49,251
Net cash flow provided by operating activities	730,296	850,892	902,023
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(633,532)	(538,842)	(713,256)
Purchase of Sundance Plant	(185,046)	–	–
Proceeds from sale of Silverhawk	–	90,967	–
Capitalized interest	(12,018)	(16,311)	(29,444)
Proceeds from the sale of the Phoenix Suns partnership	–	23,101	–
Purchases of investment securities	(2,962,278)	(1,040,955)	(877,660)
Proceeds from sale of investment securities	3,143,481	951,630	785,810
Proceeds from nuclear decommissioning trust sales	186,215	123,795	168,874
Investment in nuclear decommissioning trust	(204,633)	(135,239)	(180,319)
Proceeds from real estate investments	82,719	–	46,781
Other	–	(3,072)	(9,595)
Net cash flow used for investing activities	(585,092)	(544,926)	(808,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	1,088,815	478,328	656,850
Short-term borrowings and payments – net	(46,413)	(15,051)	(173,303)
Dividends paid on common stock	(186,677)	(166,772)	(157,417)
Repayment of long-term debt	(1,288,034)	(604,015)	(368,162)
Common stock equity issuance	298,168	18,291	–
Other	(20,426)	9,690	8,181
Net cash flow used for financing activities	(154,567)	(279,529)	(33,851)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,363)	26,437	59,363
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	163,366	136,929	77,566
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 154,003	\$ 163,366	\$ 136,929
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Income taxes paid, net of refunds	\$ 86,711	\$ 66,447	\$ 32,816
Interest paid, net of amounts capitalized	\$ 181,975	\$ 191,865	\$ 161,581

See Notes to Pinnacle West's Consolidated Financial Statements.

(a) See "Cash and Cash Equivalents" in Note 1 for information regarding revisions and certain reclassifications of prior year amounts.