

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,	2006	2005	2004
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CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 327,255	\$ 176,267	\$ 243,195
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	386,760	381,604	432,161
Deferred fuel and purchased power	(252,849)	(172,756)	-
Deferred fuel and purchased power amortization	265,337	-	-
Allowance for equity funds used during construction	(14,312)	(11,191)	(4,885)
Deferred income taxes	27,738	(23,806)	(113,850)
Change in mark-to-market valuations	28,464	(11,670)	(18,915)
Changes in current assets and liabilities:			
Customer and other receivables	9,189	(38,763)	(11,056)
Materials, supplies and fossil fuel	(9,094)	(16,836)	2,621
Other current assets	10,673	(28,215)	25,380
Accounts payable	(46,055)	(6,392)	85,344
Accrued taxes	(22,329)	43,624	175,842
Other current liabilities	21,763	1,567	10,561
Proceeds from the sale of real estate assets	34,990	16,218	80,035
Real estate investments	(126,229)	(88,055)	(62,812)
Change in risk management and trading - liabilities	(133,197)	110,393	13,018
Collateral	(165,828)	192,040	12,619
Change in pension and other postretirement liabilities	7,488	3,116	23,822
Change in other long-term assets	20,330	(97,893)	(39,215)
Change in other long-term liabilities	23,408	71,457	31,621
Net cash flow provided by operating activities	<u>393,502</u>	<u>730,296</u>	<u>850,892</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(737,779)	(633,532)	(538,842)
Capitalized interest	(20,990)	(12,018)	(16,311)
Purchase of Sundance Plant	-	(185,046)	-
Proceeds from sale of Silverhawk	207,620	-	90,967
Proceeds from the sale of the Phoenix Suns partnership	-	-	23,101
Purchases of investment securities	(1,439,404)	(2,962,278)	(1,040,955)
Proceeds from sale of investment securities	1,406,704	3,143,481	951,630
Proceeds from nuclear decommissioning trust sales	254,651	186,215	123,795
Investment in nuclear decommissioning trust	(275,393)	(204,633)	(135,239)
Proceeds from sale of real estate investments	39,621	82,719	-
Other	(3,763)	-	(3,072)
Net cash flow used for investing activities	<u>(568,733)</u>	<u>(585,092)</u>	<u>(544,926)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of long-term debt	757,636	1,088,815	478,328
Repayment of long-term debt	(527,864)	(1,288,034)	(604,015)
Short-term borrowings and payments - net	9,911	(46,413)	(15,051)
Dividends paid on common stock	(201,220)	(186,677)	(166,772)
Common stock equity issuance	39,548	298,168	18,291
Other	30,427	(20,426)	9,690
Net cash flow provided by (used for) financing activities	<u>108,438</u>	<u>(154,567)</u>	<u>(279,529)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(66,793)	(9,363)	26,437
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	154,003	163,366	136,929
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 87,210	\$ 154,003	\$ 163,366
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Income taxes paid, net of refunds	\$ 157,245	\$ 86,711	\$ 66,447
Interest paid, net of amounts capitalized	\$ 153,503	\$ 181,975	\$ 191,865

See Notes to Pinnacle West's Consolidated Financial Statements.