

CONSOLIDATED STATEMENTS OF INCOME

(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

YEAR ENDED DECEMBER 31,	2006	2005	2004
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OPERATING REVENUES			
Regulated electricity segment	\$ 2,635,036	\$ 2,237,145	\$ 2,035,247
Real estate segment	399,798	338,031	350,315
Marketing and trading	330,742	351,558	400,628
Other revenues	36,172	61,221	42,816
Total	<u>3,401,748</u>	<u>2,987,955</u>	<u>2,829,006</u>
OPERATING EXPENSES			
Regulated electricity segment fuel and purchased power	960,649	595,141	567,433
Real estate segment operations	324,861	278,366	284,194
Marketing and trading fuel and purchased power	290,637	293,091	320,667
Operations and maintenance	691,277	635,827	592,320
Depreciation and amortization	358,644	347,652	391,597
Taxes other than income taxes	128,395	132,040	120,722
Other expenses	28,415	51,987	34,108
Regulatory disallowance (Note 3)	-	138,562	-
Total	<u>2,782,878</u>	<u>2,472,666</u>	<u>2,311,041</u>
OPERATING INCOME	<u>618,870</u>	<u>515,289</u>	<u>517,965</u>
OTHER			
Allowance for equity funds used during construction	14,312	11,191	4,885
Other income (Note 19)	44,016	23,360	53,289
Other expenses (Note 19)	(27,800)	(26,716)	(21,340)
Total	<u>30,528</u>	<u>7,835</u>	<u>36,834</u>
INTEREST EXPENSE			
Interest charges	196,826	185,087	183,527
Capitalized interest	(20,989)	(12,018)	(11,460)
Total	<u>175,837</u>	<u>173,069</u>	<u>172,067</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>473,561</u>	<u>350,055</u>	<u>382,732</u>
INCOME TAXES	<u>156,418</u>	<u>126,892</u>	<u>136,142</u>
INCOME FROM CONTINUING OPERATIONS	<u>317,143</u>	<u>223,163</u>	<u>246,590</u>
Income (loss) from discontinued operations – net of income tax expense (benefit) of \$6,570, (\$29,797) and (\$1,805)	10,112	(46,896)	(3,395)
NET INCOME	<u>\$ 327,255</u>	<u>\$ 176,267</u>	<u>\$ 243,195</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	<u>99,417</u>	<u>96,484</u>	<u>91,397</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	<u>100,010</u>	<u>96,590</u>	<u>91,532</u>
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING			
Income from continuing operations – basic	\$ 3.19	\$ 2.31	\$ 2.70
Net income – basic	3.29	1.83	2.66
Income from continuing operations – diluted	3.17	2.31	2.69
Net income – diluted	3.27	1.82	2.66
DIVIDENDS DECLARED PER SHARE	<u>\$ 2.025</u>	<u>\$ 1.925</u>	<u>\$ 1.825</u>

See Notes to Pinnacle West's Consolidated Financial Statements.