

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars and shares in thousands, except per share amounts)

	Three Months Ended September 30,	
	2011	2010
OPERATING REVENUES		
Regulated electricity	\$ 1,124,049	\$ 1,116,211
Other revenues	792	499
Total	<u>1,124,841</u>	<u>1,116,710</u>
OPERATING EXPENSES		
Regulated electricity fuel and purchased power	337,896	353,904
Operations and maintenance	210,035	219,658
Depreciation and amortization	106,350	104,177
Taxes other than income taxes	34,223	37,528
Other expenses	1,320	1,169
Total	<u>689,824</u>	<u>716,436</u>
OPERATING INCOME	<u>435,017</u>	<u>400,274</u>
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	7,378	5,524
Other income (Note 11)	441	4,261
Other expense (Note 11)	(3,052)	(3,894)
Total	<u>4,767</u>	<u>5,891</u>
INTEREST EXPENSE		
Interest charges	62,034	60,419
Allowance for borrowed funds used during construction	(6,939)	(6,163)
Total	<u>55,095</u>	<u>54,256</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>384,689</u>	<u>351,909</u>
INCOME TAXES	131,416	122,347
INCOME FROM CONTINUING OPERATIONS	<u>253,273</u>	<u>229,562</u>
INCOME FROM DISCONTINUED OPERATIONS		
Net of income tax expense of \$6,216 and \$5,859 (Note 13)	9,512	9,477
NET INCOME	<u>262,785</u>	<u>239,039</u>
Less: Net income attributable to noncontrolling interests (Note 7)	7,426	5,119
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ 255,359</u>	<u>\$ 233,920</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	109,128	108,632
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	109,861	109,094
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Income from continuing operations attributable to common shareholders – basic	\$ 2.25	\$ 2.07
Net income attributable to common shareholders – basic	2.34	2.15
Income from continuing operations attributable to common shareholders – diluted	2.24	2.06
Net income attributable to common shareholders – diluted	2.32	2.14
DIVIDENDS DECLARED PER SHARE	\$ --	\$ --
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Income from continuing operations, net of tax	\$ 245,838	\$ 224,434
Discontinued operations, net of tax	9,521	9,486
Net income attributable to common shareholders	<u>\$ 255,359</u>	<u>\$ 233,920</u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars and shares in thousands, except per share amounts)

	Nine Months Ended September 30,	
	2011	2010
OPERATING REVENUES		
Regulated electricity	\$ 2,570,692	\$ 2,527,052
Other revenues	2,795	4,715
Total	2,573,487	2,531,767
OPERATING EXPENSES		
Regulated electricity fuel and purchased power	793,952	821,244
Operations and maintenance	675,654	639,580
Depreciation and amortization	319,550	307,806
Taxes other than income taxes	112,002	100,933
Other expenses	4,536	3,572
Total	1,905,694	1,873,135
OPERATING INCOME	667,793	658,632
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	18,697	16,417
Other income (Note 11)	2,630	3,851
Other expense (Note 11)	(7,921)	(8,768)
Total	13,406	11,500
INTEREST EXPENSE		
Interest charges	183,251	181,937
Allowance for borrowed funds used during construction	(14,371)	(12,254)
Total	168,880	169,683
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	512,319	500,449
INCOME TAXES	176,229	165,882
INCOME FROM CONTINUING OPERATIONS	336,090	334,567
INCOME FROM DISCONTINUED OPERATIONS		
Net of income tax expense of \$7,121 and \$14,873 (Note 13)	10,860	23,141
NET INCOME	346,950	357,708
Less: Net income attributable to noncontrolling interests (Note 7)	20,041	15,005
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 326,909	\$ 342,703
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	109,003	105,846
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	109,683	106,318
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Income from continuing operations attributable to common shareholders – basic	\$ 2.90	\$ 3.02
Net income attributable to common shareholders – basic	3.00	3.24
Income from continuing operations attributable to common shareholders – diluted	2.88	3.01
Net income attributable to common shareholders – diluted	2.98	3.22
DIVIDENDS DECLARED PER SHARE	\$ 1.575	\$ 1.575
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS:		
Income from continuing operations, net of tax	\$ 316,001	\$ 319,533
Discontinued operations, net of tax	10,908	23,170
Net income attributable to common shareholders	\$ 326,909	\$ 342,703

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(dollars in thousands)

	September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 564,712	\$ 110,188
Customer and other receivables	365,868	324,207
Accrued unbilled revenues	184,169	103,292
Allowance for doubtful accounts	(4,126)	(7,981)
Materials and supplies (at average cost)	203,118	181,414
Fossil fuel (at average cost)	25,403	21,575
Deferred income taxes	107,732	124,897
Income tax receivable (Note 6)	--	2,483
Assets from risk management activities (Note 8)	27,713	73,788
Deferred fuel and purchased power regulatory asset (Note 3)	31,611	--
Other regulatory assets (Note 3)	55,852	62,286
Other current assets	29,183	28,362
Total current assets	1,591,235	1,024,511
INVESTMENTS AND OTHER ASSETS		
Assets from risk management activities (Note 8)	32,316	39,032
Nuclear decommissioning trust (Note 17)	488,551	469,886
Other assets	63,731	116,216
Total investments and other assets	584,598	625,134
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	13,423,406	13,201,960
Accumulated depreciation and amortization	(4,684,760)	(4,514,204)
Net	8,738,646	8,687,756
Construction work in progress	618,728	459,361
Palo Verde sale leaseback, net of accumulated depreciation (Note 7)	133,832	137,956
Intangible assets, net of accumulated amortization	176,401	184,952
Nuclear fuel, net of accumulated amortization	134,232	108,794
Total property, plant and equipment	9,801,839	9,578,819
DEFERRED DEBITS		
Regulatory assets (Note 3)	977,975	986,370
Income tax receivable (Note 6)	68,201	65,103
Other	126,515	113,061
Total deferred debits	1,172,691	1,164,534
TOTAL ASSETS	\$ 13,150,363	\$ 12,392,998

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(dollars in thousands)

	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 281,647	\$ 236,354
Accrued taxes (Note 6)	191,507	104,711
Accrued interest	56,174	54,831
Short-term borrowings	--	16,600
Current maturities of long-term debt	876,363	631,879
Customer deposits	71,772	68,322
Liabilities from risk management activities (Note 8)	60,667	58,976
Deferred fuel and purchased power regulatory liability (Note 3)	--	58,442
Other regulatory liabilities (Note 3)	94,374	80,526
Other current liabilities	150,764	139,063
Total current liabilities	1,783,268	1,449,704
LONG-TERM DEBT LESS CURRENT MATURITIES		
Long-term debt less current maturities	2,963,457	2,948,991
Palo Verde sale leaseback lessor notes less current maturities (Note 7)	83,130	96,803
Total long-term debt less current maturities	3,046,587	3,045,794
DEFERRED CREDITS AND OTHER		
Deferred income taxes	1,955,458	1,863,861
Regulatory liabilities (Note 3)	689,120	614,063
Liability for asset retirements (Note 15)	258,332	328,571
Liabilities for pension and other postretirement benefits (Note 4)	877,485	813,121
Liabilities from risk management activities (Note 8)	58,745	65,390
Customer advances	112,730	121,645
Coal mine reclamation	117,779	117,243
Unrecognized tax benefits (Note 6)	76,936	66,349
Other	170,928	132,031
Total deferred credits and other	4,317,513	4,122,274
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
EQUITY (Note 9)		
Common stock, no par value	2,441,621	2,421,372
Treasury stock	(5,232)	(2,239)
Total common stock	2,436,389	2,419,133
Retained earnings	1,579,240	1,423,961
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(56,582)	(59,420)
Derivative instruments	(64,962)	(100,347)
Total accumulated other comprehensive loss	(121,544)	(159,767)
Total shareholders' equity	3,894,085	3,683,327
Noncontrolling interests (Note 7)	108,910	91,899
Total equity	4,002,995	3,775,226
TOTAL LIABILITIES AND EQUITY	\$ 13,150,363	\$ 12,392,998

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 346,950	\$ 357,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of district cooling business	--	(41,973)
Gain on sale of energy-related products and services business	(10,404)	--
Depreciation and amortization including nuclear fuel	370,107	350,762
Deferred fuel and purchased power	30,965	50,020
Deferred fuel and purchased power amortization	(121,018)	(95,926)
Allowance for equity funds used during construction	(18,697)	(16,417)
Real estate impairment charges	--	16,731
Gain on real estate debt restructuring	--	(14,403)
Deferred income taxes	131,582	281,486
Change in mark-to-market valuations	1,861	3,716
Changes in current assets and liabilities:		
Customer and other receivables	(47,410)	(103,973)
Accrued unbilled revenues	(80,877)	(69,035)
Materials, supplies and fossil fuel	(25,532)	19,011
Other current assets	(1,581)	(6,027)
Accounts payable	29,340	36,687
Accrued taxes and income tax receivable-net	89,534	56,851
Other current liabilities	30,300	6,738
Change in margin and collateral accounts – assets	33,591	(4,336)
Change in margin and collateral accounts – liabilities	85,785	(143,725)
Change in unrecognized tax benefits	12,123	(72,649)
Change in other long-term assets	(10,678)	(59,382)
Change in other long-term liabilities	74,565	17,636
Net cash flow provided by operating activities	<u>920,506</u>	<u>569,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(643,261)	(552,707)
Contributions in aid of construction	36,351	25,258
Allowance for borrowed funds used during construction	(14,371)	(12,553)
Proceeds from sale of district cooling business	--	100,300
Proceeds from sale of energy-related products and services business	45,111	--
Proceeds from nuclear decommissioning trust sales	405,637	424,255
Investment in nuclear decommissioning trust	(417,957)	(442,567)
Proceeds from sale of commercial real estate investments	1,100	71,174
Proceeds from sale of life insurance policies	55,444	--
Other	(2,346)	9,621
Net cash flow used for investing activities	<u>(534,292)</u>	<u>(377,219)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	470,353	--
Repayment of long-term debt	(228,457)	(84,529)
Short-term borrowings and payments – net	(16,600)	(153,715)
Dividends paid on common stock	(166,197)	(161,722)
Common stock equity issuance	14,953	255,156
Distributions to noncontrolling interests	(2,610)	(3,286)
Other	(3,132)	6,352
Net cash flow provided by (used for) financing activities	<u>68,310</u>	<u>(141,744)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	454,524	50,537
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>110,188</u>	<u>145,378</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 564,712</u>	<u>\$ 195,915</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes, net of (refunds)	\$ 5,676	\$ (22,165)
Interest, net of amounts capitalized	\$ 163,250	\$ 167,576

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended September 30,	
	2011	2010
ELECTRIC OPERATING REVENUES	\$ 1,124,057	\$ 1,116,220
OPERATING EXPENSES		
Fuel and purchased power	337,897	353,904
Operations and maintenance	207,967	217,044
Depreciation and amortization	106,326	104,152
Income taxes	145,230	126,841
Taxes other than income taxes	33,854	37,270
Total	831,274	839,211
OPERATING INCOME	292,783	277,009
OTHER INCOME (DEDUCTIONS)		
Income taxes	9,422	1,272
Allowance for equity funds used during construction	7,377	5,524
Other income (Note S-2)	617	2,962
Other expense (Note S-2)	(3,045)	(4,074)
Total	14,371	5,684
INTEREST EXPENSE		
Interest on long-term debt	56,314	53,946
Interest on short-term borrowings	2,846	2,013
Debt discount, premium and expense	1,164	1,121
Allowance for borrowed funds used during construction	(6,938)	(6,163)
Total	53,386	50,917
NET INCOME	253,768	231,776
Less: Net income attributable to noncontrolling interests (Note 7)	7,435	5,128
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 246,333	\$ 226,648

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2011	2010
ELECTRIC OPERATING REVENUES	\$ 2,570,737	\$ 2,527,163
OPERATING EXPENSES		
Fuel and purchased power	793,952	821,244
Operations and maintenance	669,170	632,235
Depreciation and amortization	319,477	307,731
Income taxes	193,485	177,089
Taxes other than income taxes	110,892	100,171
Total	2,086,976	2,038,470
OPERATING INCOME	483,761	488,693
OTHER INCOME (DEDUCTIONS)		
Income taxes	9,647	3,769
Allowance for equity funds used during construction	18,697	16,417
Other income (Note S-2)	3,828	3,872
Other expense (Note S-2)	(11,288)	(11,091)
Total	20,884	12,967
INTEREST EXPENSE		
Interest on long-term debt	165,805	161,918
Interest on short-term borrowings	7,675	5,734
Debt discount, premium and expense	3,485	3,376
Allowance for borrowed funds used during construction	(14,371)	(12,254)
Total	162,594	158,774
NET INCOME	342,051	342,886
Less: Net income attributable to noncontrolling interests (Note 7)	20,089	15,034
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 321,962	\$ 327,852

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	September 30, 2011	December 31, 2010
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	\$ 13,419,495	\$ 13,197,254
Accumulated depreciation and amortization	(4,681,247)	(4,510,591)
Net	8,738,248	8,686,663
Construction work in progress	618,728	459,316
Palo Verde sale leaseback, net of accumulated depreciation (Note 7)	133,832	137,956
Intangible assets, net of accumulated amortization	176,246	184,768
Nuclear fuel, net of accumulated amortization	134,232	108,794
Total property, plant and equipment	9,801,286	9,577,497
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 17)	488,551	469,886
Assets from risk management activities (Note 8)	32,316	39,032
Other assets	29,591	71,428
Total investments and other assets	550,458	580,346
CURRENT ASSETS		
Cash and cash equivalents	555,035	99,937
Customer and other receivables	358,809	288,323
Accrued unbilled revenues	184,169	103,292
Allowance for doubtful accounts	(4,126)	(7,646)
Materials and supplies (at average cost)	203,118	181,414
Fossil fuel (at average cost)	25,403	21,575
Assets from risk management activities (Note 8)	27,713	73,788
Regulatory assets (Note 3)	55,852	62,286
Deferred fuel and purchased power regulatory asset (Note 3)	31,611	--
Deferred income taxes	87,877	105,042
Other current assets	28,626	25,135
Total current assets	1,554,087	953,146
DEFERRED DEBITS		
Regulatory assets (Note 3)	977,975	986,370
Income tax receivable (Note 6)	68,596	65,498
Unamortized debt issue costs	21,681	20,530
Other	100,622	88,490
Total deferred debits	1,168,874	1,160,888
TOTAL ASSETS	\$ 13,074,705	\$ 12,271,877

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,553,752	1,403,390
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(33,215)	(35,961)
Derivative instruments	(64,954)	(100,334)
Total shareholder equity	4,013,441	3,824,953
Noncontrolling interests (Note 7)	108,564	91,084
Total equity	4,122,005	3,916,037
Long-term debt less current maturities	2,828,457	2,948,991
Palo Verde sale leaseback lessor notes less current maturities (Note 7)	83,130	96,803
Total capitalization	7,033,592	6,961,831
CURRENT LIABILITIES		
Current maturities of long-term debt	876,363	456,879
Accounts payable	274,601	218,491
Accrued taxes (Note 6)	192,208	106,431
Accrued interest	55,736	54,638
Customer deposits	71,772	68,312
Liabilities from risk management activities (Note 8)	60,667	58,976
Deferred fuel and purchased power regulatory liability (Note 3)	--	58,442
Other regulatory liabilities (Note 3)	94,374	80,526
Other current liabilities	132,737	132,170
Total current liabilities	1,758,458	1,234,865
DEFERRED CREDITS AND OTHER		
Deferred income taxes	1,991,403	1,895,654
Regulatory liabilities (Note 3)	689,120	614,063
Liability for asset retirements (Note 15)	258,332	328,571
Liabilities for pension and other postretirement benefits (Note 4)	836,230	770,611
Liabilities from risk management activities (Note 8)	58,745	65,390
Customer advances	112,730	121,645
Coal mine reclamation	117,779	117,243
Unrecognized tax benefits (Note 6)	76,740	65,363
Other	141,576	96,641
Total deferred credits and other	4,282,655	4,075,181
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	\$ 13,074,705	\$ 12,271,877

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 342,051	\$ 342,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	369,999	349,267
Deferred fuel and purchased power	30,965	50,020
Deferred fuel and purchased power amortization	(121,018)	(95,926)
Allowance for equity funds used during construction	(18,697)	(16,417)
Deferred income taxes	135,789	218,575
Change in mark-to-market valuations	1,861	3,716
Changes in current assets and liabilities:		
Customer and other receivables	(50,147)	(93,394)
Accrued unbilled revenues	(80,877)	(69,035)
Materials, supplies and fossil fuel	(25,532)	19,011
Other current assets	(3,836)	(9,968)
Accounts payable	42,257	37,150
Accrued taxes	86,032	16,141
Other current liabilities	18,931	2,124
Change in margin and collateral accounts – assets	33,591	(4,336)
Change in margin and collateral accounts – liabilities	85,785	(143,725)
Change in unrecognized tax benefits	12,839	(72,217)
Change in other long-term assets	(10,198)	(60,775)
Change in other long-term liabilities	83,301	32,686
Net cash flow provided by operating activities	<u>933,096</u>	<u>505,783</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(637,181)	(552,331)
Contributions in aid of construction	36,351	25,258
Allowance for borrowed funds used during construction	(14,371)	(12,254)
Proceeds from sale of life insurance policies	44,183	--
Proceeds from nuclear decommissioning trust sales	405,637	424,255
Investment in nuclear decommissioning trust	(417,957)	(442,567)
Other	(2,346)	9,621
Net cash flow used for investing activities	<u>(585,684)</u>	<u>(548,018)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	295,353	--
Repayment of long-term debt	(13,457)	(9,538)
Equity infusion	--	252,833
Dividends paid on common stock	(171,600)	(156,300)
Noncontrolling interests	(2,610)	(3,286)
Net cash flow provided by financing activities	<u>107,686</u>	<u>83,709</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>455,098</u>	<u>41,474</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>99,937</u>	<u>120,798</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 555,035</u>	<u>\$ 162,272</u>
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income taxes, net of (refunds)	\$ 7,493	\$ 76,364
Interest, net of amounts capitalized	\$ 158,011	\$ 157,385

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.