Selected Financial Data

(dollars in thousands)	2005	2004	2003	2002	2001
Operating revenues:					
Sales to Members	$ 1,053,598	$ 876,162	$ 773,037	$ 695,560	$ 650,328
Sales to non-Members	17,682	13,045	17,075	10,462	12,128
Other	8,724	7,793	8,582	7,749	6,622
Total operating revenues	1,080,004	897,000	798,694	713,771	669,078
Operating expenses:					
Fuel and other production expenses	404,013	354,631	346,950	309,397	235,054
Purchased power and transmission	556,004	432,065	335,768	281,294	330,611
Depreciation and amortization	35,380	34,679	34,221	33,053	26,034
Lease of coal-fired plant	27,610	26,663	26,648	27,115	28,056
Other operating expenses	21,877	20,274	19,407	23,415	21,184
Total operating expenses	1,044,884	868,312	762,994	674,274	640,939
Operating margins	35,120	28,688	35,700	39,497	28,139
Net interest expense	38,296	38,972	40,278	42,071	32,682
Nonoperating income, net	9,594	12,588	6,995	4,924	6,960
Net margins	$ 6,418	$ 2,304	$ 2,417	$ 2,350	$ 2,417
Assets:					
Utility plant, net	$ 989,559	$ 632,360	$ 644,574	$ 660,298	$ 682,856
Investments	75,376	113,042	69,728	66,900	71,314
Current assets	202,732	170,830	193,221	161,511	145,454
Deferred charges	45,948	41,301	59,586	74,499	114,787
	$ 1,313,615	$ 957,533	$ 967,109	$ 963,208	$ 1,014,411
Equity and liabilities:					
Equity	$ 94,684	$ 71,008	$ 80,879	$ 79,524	$ 72,395
Long-term liabilities	1,048,355	742,860	770,024	756,476	785,393
Current liabilities	170,568	126,192	97,443	101,940	130,122
Deferred gain/other deferred credits	8	17,473	18,763	25,268	26,501
	$ 1,313,615	$ 957,533	$ 967,109	$ 963,208	$ 1,014,411
Utility plant additions, net of retirements	$ 351,486	$ 20,636	$ 17,935	$ 11,908	$ 66,318
Working capital	$ 32,164	$ 44,638	$ 95,778	$ 59,571	$ 15,332
* Megawatt hours sold - Members	16,298,268	15,601,101	14,956,491	14,171,093	12,946,637
Megawatt hours sold - non-Members	352,518	306,412	395,289	328,053	358,307
* Wholesale Member power cost - mills/kWh	64.64	56.16	51.69	49.08	50.23
Total sales - mills/kWh	64.34	55.90	51.47	48.69	49.79

* All rate schedules

Management's Discussion of the Results of Operations and Financial Condition

Results of Operations

Total revenues for the year ended December 31, 2005 increased 20.4% compared to last year, primarily due to higher revenues from Members. An increase in the rate charged per kilowatt hour (kWh) as well as growth in Member demand and energy requirements resulted in increases in both fuel and non-fuel Member revenues. The wholesale Member power cost, including all rate schedules, increased 15.1% in 2005 to 64.64 mills/kWh from 56.16 mills/kWh in 2004. The increase in the rate charged is primarily due to higher fuel costs from both owned and purchased power resources, particularly related to higher natural gas and oil prices, which rose substantially with the onset of the hurricane season. Both demand and energy sales to Members, measured in kilowatts and kWh respectively, increased 4.5% over 2004, primarily resulting from growth in consumers. Energy sales to non-Members, measured in kWh, represented about 2% of Seminole's total sales but provided a significant contribution of $3.7 million to fixed cost recovery. This was primarily due to selling coal-based energy into the market in conjunction with the continuing rise in gas and oil prices.

Fuel expenses associated with generation facilities increased by 18% in 2005 compared to the previous year, both from increased generation and higher unit prices. The Seminole Generating Station (SGS) achieved a new record in 2005 generating 9,810.2 GWh, an increase of almost 9% over 2004. Purchase and delivery costs of both coal and petroleum coke (petcoke) rose in 2005 due to contractual escalation increases for coal and much higher prices for market-driven petcoke. Prices for natural gas used to supply the Payne Creek Generating Station (PCGS) continued to increase all year in comparison to 2004, but skyrocketed beginning in September 2005 because of the nation's reduced gas supply availability after Hurricanes Katrina and Rita. Although natural gas consumption at PCGS decreased 10%, unit gas costs per decatherm consumed increased 33% over the prior year. Other production expenses did not change significantly in comparison to 2004.

Purchased power costs increased about 31% in 2005 when compared to 2004, almost entirely associated with higher fuel costs. Energy purchases in kWh increased only about 2% over 2004 as increased generation from SGS served the Member growth in energy requirements. An increase in transmission expense of $2.3 million over 2004 resulted from additional wheeling costs associated with the growth in sales of power. Other operating expenses, primarily administrative and general, increased approximately 8% in 2005 primarily due to higher employee benefit and property insurance expenses, as well as costs incurred for the settlement of certain litigation.

The decrease in net interest expense resulted from a combination of lower debt balances from normal principal amortization of older debt and higher interest charged to construction primarily for the PCGS peaking plant, offset by higher variable interest rates. Interest income decreased due to liquidation of the RUS cushion of credit account (RUSCC) in 2005 which was slightly offset by interest income from higher rates on general funds investment balances. Other non-operating income decreased primarily due to decreased sales of excess SO2 allowances although the sales price per allowance was about 50% higher in 2005. These allowances are the result of the efficient operation of SGS and its flue gas desulfurization system. Seminole typically sells some portion of excess allowances while maintaining a bank of the remaining allowances to be used or sold in future periods.

Pursuant to the Board approved Equity Development Plan, Seminole achieved a net margin of $6.4 million in 2005 which resulted in a Times Interest Earned Ratio of 1.14 and a Debt Service Coverage Ratio of 1.05.

Financial Condition

Utility plant net of depreciation and retirements increased by $357.2 million, primarily associated with the reacquisition of SGS Unit 2 (refer to the Notes to Consolidated Financial Statements – Note 3 – Utility Plant). Additionally, construction work in progress increased, mainly from progress payments for the new peaking units and related transmission system upgrades at PCGS. Special funds investments decreased $37.6 million primarily due to the liquidation in 2005 of the RUSCC, which was then used to pay RUS long-term debt.

Current assets increased approximately $31.9 million from 2004, mainly due to an increase in receivables and in prepayments and other. Receivables increased $16.1 million due to a fuel adjustment true-up increase of $28.3 million, offset by decreased sales of $10.1 million associated with milder weather in December 2005, and decreases in other receivables of $2.1 million. Fuel inventory at the end of 2005 decreased by $1.5 million primarily associated with delayed deliveries of petcoke at SGS. Materials and supplies inventory increased by $1.4 million for the replenishment of previously depleted stock items, for new items of stock associated with the new controls system at SGS, and for stock items to be installed during the 2006 spring outages at SGS. The increase in prepayments is primarily due to increases in the fair market value of natural gas hedges.

Deferred charges increased $4.6 million in 2005. This increase primarily reflects the change in fair value of natural gas hedges of $4.3 million, the scheduled increase in the Unit 1 lease-leaseback deferred interest of $0.6 million, and increases of $2.4 million for financing costs associated with the SGS Unit 2 reacquisition and the PCGS peaking plant. These additions were offset by the scheduled amortization of $2.5 million of previously deferred debt costs.

For 2005, total equity increased $23.7 million, reflecting current year's net margins of $6.4 million and an increase of $17.8 million in Other Comprehensive Income, offset by a retirement of a portion of patronage capital. Seminole retired $0.6 million in Members' patronage capital in 2005, bringing the total-to-date of patronage capital retired to approximately $18.0 million. The balance in Other Comprehensive Income of $10.2 million represented the fair value of certain gas hedges that will settle during 2006. The realized value of these hedges will be recorded as fuel expense in 2006 corresponding with the consumption of the gas to which these hedges relate.

Long-term debt increased in 2005 by $303.8 million mainly due to notes issued and assumed of approximately $354.3 million to reacquire SGS Unit 2, offset by scheduled principal payments. Other long-term liabilities increased mostly due to the scheduled accretion of the Asset Retirement Obligation for Crystal River 3 nuclear decommissioning of $0.6 million, and by increases in accruals for long-term employee benefits.

Current liabilities increased $44.4 million in 2005. Notes payable decreased by $4.4 million in 2005. The current portion of long-term debt increased $15.5 million reflecting the current portion of the notes issued in 2005 to reacquire SGS Unit 2. Both accounts payable and other accrued liabilities increased by a total of $33 million compared to 2004, mainly due to higher fuel costs included in the purchased power and fuel inventory payables.

Working capital of $32.1 million at year-end 2005 was $12.5 million lower than the previous year-end. Seminole achieved a current ratio of 1.2 at the end of 2005 compared to 1.4 at the end of 2004. The decrease in working capital is primarily associated with internally generated funds being used for capital additions and improvements. Seminole has received approval for loan funds totaling $136.5 million for the construction of 310 megawatts of peaking capacity at PCGS, of which the first $43 million was received in February 2006. This new capacity is scheduled to go on-line in December 2006. Additionally, loan applications have been submitted for another $1.8 billion to finance a 750 megawatt expansion and pollution control improvements at SGS, with costs beginning in 2005 and continuing through 2012. Bridge loans are expected to be obtained starting in 2007 for these capital additions, with permanent financing anticipated to be available by 2009.

Consolidated Balance Sheets – Assets

December 31,	2005	2004
ASSETS		
Utility plant:		
Plant in service	$ 1,418,610,592	$ 1,081,197,070
Construction work in progress	54,664,278	17,349,373
	1,473,274,870	1,098,546,443
Less accumulated depreciation and amortization	(483,715,851)	(466,185,575)
Utility plant, net	989,559,019	632,360,868
Investments:		
Investments in associated organizations	2,265,394	2,302,039
Funds held by trustees and special funds-restricted	73,110,305	110,739,630
Total investments	75,375,699	113,041,669
Current assets:		
Cash and cash equivalents	4,036,557	3,536,573
Receivables, principally for sales of electricity	132,145,664	116,000,511
Inventories, at average cost:		
Materials and supplies	20,107,024	18,763,156
Fuel	22,342,362	23,805,172
Prepayments and other	24,100,420	8,724,705
Total current assets	202,732,027	170,830,117
Deferred charges:		
Regulatory	14,039,946	9,042,895
Other deferred charges	31,908,171	32,257,793
Total deferred charges	45,948,117	41,300,688
Total assets	$ 1,313,614,862	$ 957,533,342

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets – Equities & Liabilities

December 31,	2005	2004
EQUITIES AND LIABILITIES		
Equities:		
Memberships	$ 1,000	$ 1,000
Patronage capital	84,469,881	78,627,463
Donated capital	31,715	31,715
Accumulated comprehensive income/(loss)	10,182,330	(7,651,990)
Total equities	94,684,926	71,008,188
Long-term liabilities:		
Long-term debt	1,031,384,703	727,609,001
Other	16,969,923	15,251,363
Total long-term liabilities	1,048,354,626	742,860,364
Current liabilities:		
Lines of credit	5,700,000	10,106,000
Current portion of:		
Long-term debt	52,948,003	37,191,388
Accounts payable	56,814,737	45,459,509
Other accrued liabilities	55,104,614	33,435,036
Total current liabilities	170,567,354	126,191,933
Deferred gain on sale-leaseback of plant	–	7,019,853
Other deferred credits	7,956	10,453,004
Commitments and contingencies (Notes 9, 10, and 11)		
Total equities and liabilities	$ 1,313,614,862	$ 957,533,342

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Revenue and Expenses and Patronage Capital

For the years ended December 31,	2005	2004
Operating revenues	$ 1,080,003,907	$ 897,000,318
Operating expenses:		
Operation:		
Fuel	319,779,108	271,465,356
Other production expenses	84,233,910	83,166,144
Purchased power	515,733,583	394,087,771
Transmission	40,269,835	37,976,700
Administrative and general	21,876,821	20,274,020
Depeciation and amortization – non-fuel	35,379,941	34,679,184
Lease of coal-fired plant	27,610,282	26,663,055
Total operating expenses	1,044,883,480	868,312,230
Operating margins before interest expense	35,120,427	28,688,088
Interest expense,net of amounts capitalized	38,296,372	38,972,071
Operating deficits	(3,175,945)	(10,283,983)
Patronage capital credits	49,094	20,668
Net operating deficits after interest expense	(3,126,851)	(10,263,315)
Non-operating income:		
Interest income	5,432,246	5,955,541
Other income	4,113,037	6,611,829
Net margins	6,418,432	2,304,055
Patronage capital, beginning of year	78,627,463	76,927,550
Patronage capital retirements	(576,014)	(604,142)
Patronage capital, end of year	$ 84,469,881	$ 78,627,463

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income/(Loss)

For the years ended December 31,	2005	2004
Net margins	$ 6,418,432	$ 2,304,055
Accumulated comprehensive income/(loss):		
Beginning balance	(7,651,990)	3,917,839
Net unrealized gain/(loss) on derivatives	17,834,320	(11,569,829)
Accumulated comprehensive income/(loss)	$ 10,182,330	$ (7,651,990)
Comprehensive income/(loss)	$ 16,600,762	$ (5,347,935)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31,	2005	2004
Cash flows from operating activities:		
Net margins	$ 6,418,432	$ 2,304,055
Adjustments to reconcile to cash:		
Depreciation and amortization	37,072,820	49,691,666
Amortization of deferred gain on lease/leaseback	(1,240,811)	(1,240,811)
Lease expense/lease payment difference	(1,671,737)	(1,028,415)
Change in assets and liabilities:		
Receivables	(16,145,153)	(34,123,942)
Inventories	118,942	(7,823,620)
Prepayments and other	(1,802,499)	(9,623,515)
Deferred charges	(2,150,906)	1,402,504
Other long-term liabilities	(1,086)	(551,198)
Accounts payable	11,355,228	11,342,098
Other accrued liabilities	21,578,085	7,335,329
Total adjustments	47,112,883	15,380,096
Net cash provided by operating activities	53,531,315	17,684,151
Cash flows from investing activities:		
Utility plant additions	(364,774,591)	(31,938,399)
Utility plant retirements	13,288,644	11,302,355
Purchases of investments	(1,415,490)	(71,823,638)
Proceeds from investments	41,961,365	71,254,139
Net cash used in investing activities	(310,940,072)	(21,205,543)
Cash flows from financing activities:		
Net borrowings under line-of-credit agreement	(4,406,000)	10,106,000
Proceeds from long-term borrowings	300,000,000	0
Payments of long-term debt	(37,109,245)	(28,085,322)
Payments of capital lease obligations	0	(285,872)
Payments of patronage capital credits	(576,014)	(604,142)
Net cash provided by/(used in) financing activities	257,908,741	(18,869,336)
Net increase/(decrease) in cash and cash equivalents	499,984	(22,390,728)
Cash and cash equivalents, beginning of year	3,536,573	25,927,301
Cash and cash equivalents, end of year	$ 4,036,557	$ 3,536,573
Interest paid, net of amounts capitalized	$ 32,986,791	$ 26,008,001

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 - THE COOPERATIVE:

Seminole Electric Cooperative, Inc. (Seminole) is a generation and transmission cooperative (G & T), responsible for meeting the electric power and energy needs of its distribution cooperative Members operating within the State of Florida. Seminole's rates are established by its Board of Trustees, which is composed of representatives from each Member cooperative.

Seminole constructed and operates Seminole Generating Station (SGS) which commenced commercial operation in 1984, and is comprised of two coal-fired generating facilities (SGS Unit 1 and SGS Unit 2) near Palatka, Florida with approximately 650 megawatts of net output per unit. The Payne Creek Generating Station (PCGS), a 500 megawatt, gas-fired combined cycle generating facility, was constructed by Seminole on an existing 1,300 acre site leased from Acuera Corp. (Acuera), a wholly owned subsidiary of Seminole, and commenced commercial operation in 2002. Both SGS and PCGS are connected to the Florida bulk power supply grid through Seminole's 230 kV transmission lines and associated facilities.

In addition Seminole holds a 1.6994% undivided ownership interest in the Crystal River Unit No. 3 (CR3) nuclear power plant operated by Progress Energy Florida. Seminole also owns various transmission facilities connecting Seminole to an Independent Power Producer (IPP) and connecting individual Members to the Florida bulk power grid.

At December 31, 2005, 176 employees or approximately 37% of the total workforce were covered by a four year collective bargaining agreement with Utility Workers Union of America expiring on June 30, 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Seminole complies with the Uniform System of Accounts as prescribed by the Rural Utilities Service (RUS). The accounting policies and practices applied by Seminole in the determination of rates are also employed for financial reporting purposes. These policies and practices require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," Seminole's Board of Trustees and/or RUS prescribe rate-making recovery for certain transactions.

Consolidation and Variable Interest Entities

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 (revised December 2003) (FIN46R), "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" which is effective for nonpublic enterprises by the beginning of the first annual period beginning after December 15, 2004. This interpretation requires that an enterprise that is the primary beneficiary of the variable interest entity consolidate the variable interest entity. There was no impact from the adoption of FIN 46R.

Notes to Consolidated Financial Statements

The consolidated financial statements include the results of operations and financial position of Seminole and its wholly owned subsidiaries, Acuera, Putnam Leasing Company A, Inc., Putnam Leasing Company B, Inc., and Putnam Leasing Company C, Inc. Acuera owns a 1,300 acre site in Hardee County and Polk County, Florida, a portion of which is leased on a nonexclusive basis to an IPP for its use associated with certain generating facilities constructed and owned by the IPP. The three leasing subsidiaries were established to facilitate the completion of the lease/leaseback transactions relating to one of Seminole's coal-fired generating facilities. All significant intercompany transactions have been eliminated.

Operating Revenue

Seminole has wholesale power contracts with each of its Members, whereby the Members must purchase all electric power and energy which the Member shall require for the operation of its system within the State of Florida from Seminole to the extent that Seminole shall have such power, energy and facilities available. The only exception relates to contracts between several Members and the Southeastern Power Administration, which provides less than 1% of the total energy required by all Members.

Operating revenue consists primarily of sales of electric power and energy by Seminole, a facilities use charge for Seminole's transmission lines serving a single Member cooperative, and by-product sales. Member revenues include amounts resulting from a fuel and purchased power adjustment clause which provides for billings to reflect increases or decreases in fuel and fuel related purchased power costs. The levelized fuel rate is based on costs projected by Seminole for a twelve-month period. Any over-recovery or under-recovery of costs plus an interest factor are to be refunded or billed to the Members semi-annually. At the Members' option, refunds of over-recoveries may be deferred with interest every six months until such time as the Member elects to have the over-recovery including accumulated interest refunded. Unbilled under-recoveries of approximately $50.0 million and $21.7 million at December 31, 2005, and 2004, respectively, are recorded in accounts receivable.

Included in operating revenue are approximately $1,054 million and $877 million of revenue from Members for the years ended December 31, 2005 and 2004, respectively, of which approximately $80 million and $90 million primarily related to December sales and fuel under-recoveries are included in receivables at December 31, 2005 and 2004, respectively.

Utility Plant

Utility plant owned by Seminole is stated at original cost. Such cost includes applicable supervisory and overhead cost, plus net interest charged during construction. The amounts of interest capitalized during 2005 and 2004 were approximately $1.5 million and $0.6 million, respectively. The cost of maintenance and repairs, including renewals and replacements of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. (Refer to Accounting for Asset Retirement Obligations.)

Notes to Consolidated Financial Statements

Depreciation and Amortization of Utility Plant

Seminole provides for depreciation on owned utility plant using composite rates applied annually on a straight-line basis that will amortize the original cost of depreciable property over its estimated useful life. The average rates for 2005 and 2004 were as follows:

	2005	2004
Coal-fired production plant	3.10%	3.10%
Combined cycle production plant	3.00%	3.00%
Transmission plant	2.75%	2.75%
Nuclear production plant	4.52%	4.52%
General plant	10.01%	10.07%

Improvements to the leased coal-fired production plant were amortized over the remaining life of the base lease term. The related composite amortization rates were 8.85% and 8.60% for 2005 and 2004, respectively. Refer to Footnote 3 for discussion of the impact of the reacquisition of SGS Unit 2 on the leasehold improvements.

PCGS Long-term Parts and Services Agreement (LPSA)

Seminole capitalizes costs for replacements of major turbine generator components, including combustor, compressor, turbine and other “hot gas path section” components (e.g. basket assemblies, fuel nozzle assemblies, transition and cylinder pieces, compressor blades and diaphragms, turbine blades and vanes, ring segments and bearings). However, refurbishments of these components are expensed. Many of the major components can be refurbished at least once before they must be replaced. Both refurbishments and replacements are currently done under a long-term parts and services agreement with the original equipment manufacturer. Seminole purchased certain spare major components at the time the facility initially went in service and additional components subsequently, in order to expedite rotation of the components for refurbishment and/or replacement. The capitalized costs of the original components in-service, the capital spares, and the replacement components are depreciated over the life authorized by the RUS for such generating assets, which is 30 years. Seminole either capitalizes or expenses the outage service fees associated with scheduled maintenance outages under the long-term parts and services agreement, depending on whether the major components affected will be replaced or merely refurbished.

Notes to Consolidated Financial Statements

Impairment of Long-Lived Assets

Seminole evaluates, on a regular basis, whether events and circumstances have occurred that indicate the carrying amounts of utility plant and deferred charges may warrant revision or may not be recoverable. Seminole measures impairment of these long-lived assets based on estimated future undiscounted cash flows from operations. At December 31, 2005 and 2004, the net utility plant and net unamortized deferred charges balances are not considered to be impaired.

Accounting for Asset Retirement Obligations

Seminole accounts for its asset retirement obligations (ARO) in accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations." The statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Seminole has recognized an ARO for its share in decommissioning the CR3 nuclear plant.

The CR3 decommissioning ARO has been calculated as the fair value at CR3's initial start of operations, January 1, 1977. This fair value was calculated using a site specific study, using Seminole's credit-adjusted risk-free interest rate. Decommissioning expenditures are expected to occur over a twenty-six year period ending in 2041. The initial fair value has been increased by accretion to a value of $7.7 million and $7.1 million at December 31, 2005 and 2004, respectively, and is shown in long-term liabilities.

Seminole has established an external nuclear decommissioning trust fund (NDTF) in compliance with regulations prescribed by the Nuclear Regulatory Commission. The trust fund balance was $6.5 million and $6.1 million at December 31, 2005 and 2004, respectively. Annual cash deposits will be made to the NDTF to bring it in line with the obligation to decommission CR3. An amount equal to these cash deposits is expensed annually and collected through rates to Members.

Seminole adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" on December 31, 2005; however, Seminole determined there were no conditional asset retirement obligations to be recognized.

Cash Equivalents

Seminole considers all short-term, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Notes to Consolidated Financial Statements

Investments

Seminole accounts for its investments in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities". Seminole determines the appropriate classification of investments as held-to-maturity, available-for-sale, or trading at the time of the purchase, and re-evaluates such classification as of each balance sheet date. At December 31, 2005 and 2004, all of Seminole's investments, were classified as held-to-maturity based on Seminole's ability and intent, or their requirement to hold to maturity. As a result, each was reported at amortized cost. Realized gains or losses are included in other income (expense).

Accounting for Derivatives and Hedging Activities

SFAS No. 133, "Accounting for Derivatives and Hedging Activities," SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," (collectively SFAS 133) relate to accounting for derivative and hedging activities. All derivatives are recognized on the balance sheet at their fair value and changes in fair value of those instruments are recognized as either a component of comprehensive income or as regulatory deferred charges for all contracts executed after August 31, 2005. On the date that Seminole enters into a derivative contract, Seminole determines whether the derivative is subject to the requirements of SFAS 133 or meets the criteria for exclusion. All contracts requiring SFAS 133 accounting are designated as cash flow hedges, fair value hedges, or as a trading instrument, and formal documentation of relationships between hedging instruments and the hedged items, hedging objective and strategy, and methods for assessing hedge effectiveness both at the hedge's inception and on an ongoing basis is completed. All components of each derivative's gain or loss have been included in the assessment of hedge effectiveness. Seminole is party to various power purchase agreements and coal supply agreements, which either do not meet the definition under SFAS 133 or have been elected as normal purchases and normal sales exceptions.

To reduce the exposure to natural gas price fluctuation risks, Seminole entered into natural gas hedging transactions, futures and puts, in 2005 and 2004. The futures transactions are designated as cash flow hedges and are deemed to be highly effective. For the year ended December 31, 2004 and for the eight-month period ended August 31, 2005, Seminole accounted for these activities as cash flow hedges under SFAS 133. Unrealized changes in the fair value will be reclassified into earnings as the gas is purchased.

On September 1, 2005, Seminole discontinued its election to use hedge accounting for the futures. The balance of hedges booked in Other Comprehensive Income (OCI) as of that date will remain the same until the gas is consumed. At that time, the realized portion of OCI will be recognized in the Consolidated Statement of Revenue and Expenses and Patronage Capital. In accordance with RUS approval, Seminole will defer the change in fair value of the futures as a regulatory deferred charge pursuant to SFAS 71 for all contracts executed after August 31, 2005. Refer to Footnote 2 - Deferred Charges: Regulatory and Other Deferred Credits.

For the years ended December 31, 2005 and 2004, net gains of $19.0 million and $8.5 million, respectively, were reclassified into earnings and are included in fuel costs in the Consolidated Statements of Revenue and Expenses and Patronage Capital. Based on fair values at December 31, 2005, approximately $5.9 million of unrealized net gain at December 31, 2005 is expected to be reclassified into earnings and included in “Fuel” or “Purchased Power” within the next twelve months as gas is purchased.

In 2002, Seminole established a NYMEX margin account to facilitate the gas hedging transactions for 2003 and beyond. This margin account is included in “Prepayments and Other” on the Consolidated Balance Sheets. Seminole made an initial deposit for this account and must keep a maintenance margin. The fair market value changes to the derivatives resulted in excess margin deposits of approximately $7.4 million and $0.9 million at December 31, 2005 and 2004, respectively. Seminole has a right to call for cash payment from the excess margin.

Sulfur Dioxide (SO_2) Emission Allowances

The Clean Air Act Amendments of 1990 established a market based SO_2 allowance system as a means to reduce SO_2 emissions nationwide. Included in the legislation is an allowance trading component. Presently an allowance authorizes a utility to emit one ton of SO_2 during a given year. The Environmental Protection Agency (EPA) allocates allowances to utilities based on criteria established within the legislation. At the end of each year, a utility must hold an amount of allowances at least equal to its annual emissions. Allowances are fully marketable commodities. Once allocated, allowances may be bought, sold, traded, or banked for use in future years. Allowances may not be used for compliance prior to the calendar year for which they are allocated.

Seminole acquires allowances through annual EPA allocations to SGS Units 1 and 2. Over time, Seminole has sold excess allowances when emissions are less than allocations received for the current or previous years. Seminole is allocated 36,788 allowances annually to cover its emissions. Beginning in 2010 in accordance with regulatory revisions to the EPA’s SO_2 allowance program the right to emit one ton of SO_2 will require two allowances.

Seminole sold 5,000 and 13,500 excess SO_2 allowances, resulting in a gain of approximately $3.15 million and $5.64 million, in 2005 and 2004, respectively.

Inventories

The company’s inventories primarily include coal, oil and spare parts. Inventories are valued at the lower of cost or market. The cost of fuel inventory is determined using the weighted average cost method. The inventory balance is comprised of $20.1 million and $18.8 million of material and supplies and $22.3 million and $23.8 million of fuel inventory at December 31, 2005 and 2004, respectively.

Amortization of Deferred Gain on Sale-Leaseback

Deferred gain on sale-leaseback of coal-fired production plant was being amortized on a straight-line basis over the base lease term of twenty-five years commencing in 1985 and is reflected as a reduction of operating expenses. Amortization for 2005 and 2004 was $1.4 million, respectively. Refer to Footnote 3 for discussion of the impact of the reacquisition of SGS Unit 2 on the unamortized deferred gain on the sale-leaseback.

Notes to Consolidated Financial Statements

Gain on Lease/Leaseback

In December 1997, Seminole entered into three long-term lease/leaseback transactions for the majority of the assets comprising SGS Unit 1 and related common facilities. These transactions are characterized as sales and leasebacks for income tax purposes, but are reflected as financing transactions for financial reporting purposes. The net cash benefit to Seminole totaling approximately $28.2 million is being recognized on a straight-line basis over the twenty-three year leaseback period in the amount of approximately $1.2 million annually pursuant to SFAS No. 71 and as authorized by the Board of Trustees.

Deferred Charges: Regulatory

In December 1998, the Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71 relating to costs incurred as a result of the termination of certain coal transportation contracts. These deferred costs were amortized to fuel expense on a cost per ton basis and were fully amortized as of December 31, 2004. Amortization of deferred costs associated with the coal transportation contract terminations was approximately $13.2 million in 2004.

In May 2003, the Seminole Board of Trustees authorized the implementation of an expense deferral plan pursuant to the provisions of SFAS No. 71 relating to the CR3 decommissioning asset retirement obligation transition adjustment and subsequent accounting (refer to Asset Retirement Obligations.) Regulatory deferred charges included $1.0 and $0.9 million of net CR3 decommissioning asset retirement obligation transition adjustment, at December 31, 2005 and 2004, respectively.

Also included in regulatory deferred charges is the net book value of $8.9 million and $8.2 million at December 31, 2005 and 2004, respectively, relating to the straight-line recognition of the gain on the lease/leaseback transactions.

Included in regulatory assets as of December 31, 2005 is $4.3 million of unrealized losses relating to gas hedging activity. At December 31, 2004, an unrealized gain of $1.0 million is included in deferred credits. Refer to Footnote 2 – Accounting for Derivatives and Hedging Activities.

Deferred Charges: Other

At December 31, 2005 and 2004, other deferred charges included unamortized debt costs and related refinancing premiums of approximately $31.5 million and $31.6 million, respectively. These deferred charges will be recovered through rates over the remaining lives of the related debt ranging up to thirty years. Amortization of these deferred charges amounted to approximately $2.5 million in 2005 and 2004. The amortization in 2005 was offset by $2.4 million of debt issue cost related to the SGS Unit 2 reacquisition in December 2005.

Notes to Consolidated Financial Statements

Other Deferred Credits

At December 31, 2004, other deferred credits primarily included deferred lease expense which represented the difference between cash payments and expense recognized on a straight-line basis related to the operating lease of SGS Unit 2, and the gain on gas hedging. These deferred credits have been authorized by the Board of Trustees. Refer to Footnote 3 for the impact of the reacquisition of SGS Unit 2 on the balance of the deferred lease expense. Deferred credits reflect a $1.0 million gain related to the unrealized gain on the put options at December 31, 2004. The gas hedging deferred effect for 2005 was a loss, and is included in deferred charges.

Reclassifications

Certain reclassifications have been made to the 2004 statements to conform to current classifications. There were no changes to net margins or total equities as previously reported.

NOTE 3 - UTILITY PLANT:

As of December 31, 2005 and 2004, Utility Plant consisted of the following:

December 31	2005	2004
Owned property:		
Coal-fired plant	$ 947,649,935	$ 598,453,234
Combined cycle production plant	234,337,757	228,564,761
Transmission plant	179,555,297	170,574,726
Nuclear plant, including fuel	26,661,780	25,980,701
General plant	24,626,603	24,395,321
	1,412,831,372	1,047,968,743
Intangible plant	5,779,220	5,779,220
Leasehold improvements of coal-fired production plant	0	27,449,107
	1,418,610,592	1,081,197,070
Construction work in progress	54,664,278	17,349,373
	1,473,274,870	1,098,546,443
Accumulated depreciation and amortization:		
Owned property	(479,960,479)	(447,330,102)
Intangible plant	(3,755,372)	(3,466,675)
Leasehold improvements	0	(15,388,798)
	(483,715,851)	(466,185,575)
	$ 989,559,019	$ 632,360,868

Depreciation expense was $32.3 million and $31.7 million for the years ended December 31, 2005 and 2004, respectively.

Notes to Consolidated Financial Statements

Reacquisition of SGS Unit 2

On December 28, 2005, Seminole closed on two related transactions: (1) the issuance of $300 million of senior unsecured notes (new debt) and (2) the purchase of the beneficial interest in the grantor trust which holds legal title to SGS Unit 2 (beneficial owner). Seminole's reacquisition of SGS Unit 2 includes the assumption of the existing lease debt which includes $51.9 million of pollution control revenue bonds (Series D) and a $2.4 million note (Series 5) from National Cooperative Services Corporation (NCSC), which qualifies as a non-cash financing and investing activity for cash flow statement purposes. The proceeds from the issuance of the new debt were used to purchase the beneficial interest and pay transaction costs. The SGS Unit 2 lease structure will remain in place until Seminole obtains a lien accommodation from RUS to secure the new debt and the existing lease debt under Seminole's mortgage, at which time the lease structure will be terminated. Since Seminole is both the beneficial owner of SGS Unit 2 as well as the lessee, the accompanying financial statements reflect the transaction as a purchase of SGS Unit 2, a termination of the lease, and an assumption of the existing lease debt. In addition and in connection with the reacquisition, Seminole netted the unamortized deferred gain on the sale-leaseback of $5.6 million, the balance of the difference between cash payments and lease expense recognized on a straight-line basis for the lease agreement of $7.6 million, and the unamortized capitalized leasehold improvements associated with SGS Unit 2 of $9.8 million, resulting in a total of a $3.4 million reduction in the cost basis of SGS Unit 2.

NOTE 4 - INVESTMENTS:

As of December 31, 2005 and 2004, investments in associated organizations consisted of the following:

December 31	2005	2004
National Rural Utilities Cooperative Finance Corporation (CFC):		
Membership	$ 1,000	$ 1,000
Capital term certificates	1,435,496	1,439,116
Subordinated term certificates	317,431	361,212
Patronage capital certificates	462,278	475,444
Other	49,189	25,267
	$ 2,265,394	$ 2,302,039

It is not practical to estimate the fair value of CFC capital term certificates due to the nature and maturity of these investments. Of these investments, $1.4 million are required as a condition of membership and of loans provided to Seminole by CFC. Of the approximately $1.4 million carrying amounts at December 31, 2005 and 2004, $0.06 million matures in 2075 and $0.9 million matures in 2080. Both of these amounts pay 5% annual interest. Additionally, $0.4 million matures in 2030 and pays 3% annual interest, and $0.09 million in both 2005 and 2004, bears no interest and amortizes through 2019.

Investments in CFC subordinated term certificates are required as a condition of guarantees provided to others by CFC on behalf of Seminole and are generally priced at market rates at the time of issuance. These investments bear interest at 3%. At December 31, 2005 and 2004, the estimated fair values of these investments of approximately $0.3 million, are based on the current rates offered by CFC for this type of required investment.

Notes to Consolidated Financial Statements

As of December 31, 2005 and 2004 funds held by trustees and other special funds consisted of the following:

December 31	2005	2004
Pollution control bond funds	$15,101,533	$ 15,267,577
Nuclear decommissioning trust fund	6,533,530	6,063,947
Lease termination fund	51,475,242	48,516,383
RUS cushion of credit (RUSCC)	0	40,891,723
	$73,110,305	$110,739,630

At December 31, 2005 and 2004, the estimated fair values of the pollution control bond funds and the NDTF of approximately $21.1 million and $20.9 million, respectively, are based on quoted market prices for the securities held by the trustees.

The lease termination fund, which has been invested in zero coupon government securities with a yield of 6.1%, will be held to maturity (2020) to maintain compliance with the collateral requirements of Seminole's insurer of SGS Unit 1 lease obligations. The fair market value at December 31, 2005 and 2004 is $62.1 million and $56.2 million, respectively.

In May 2004, Seminole invested in the RUSCC at an interest rate of 5%. The RUSCC is restricted to paying RUS long-term debt and is not marketable; but rather functions similar to a certificate of deposit. Therefore, the fair value is approximately equal to the amount paid in, plus unpaid interest. This investment was liquidated in 2005 to repay debt.

NOTE 5 - LONG-TERM LIABILITIES:

Long-Term Debt

As of December 31, 2005 and 2004, long-term debt consisted of the following:

December 31	2005	2004
First mortgage notes payable to Federal Financing Bank (FFB), guaranteed by RUS principal due in various installments through 2020, interest at fixed rates, from 4.458% to 7.295%	$ 536,629,256	$ 566,396,357
First mortgage notes payable to RUS, principal due in various installments through 2019, interest at 5.00%	5,480,876	5,836,379
Pollution control revenue bonds, Series H and S, payable to the Putnam County Development Authority, guaranteed by CFC, principal due in various installments through 2014, interest at adjustable rates, currently 3.38% and 2.80%	102,000,000	108,750,000
First mortgage notes payable to CFC, principal due in various installments through 2019, interest at adjustable rates, currently 6.25%	7,053,754	7,290,396
Lease termination obligation payable to U. S. Bank Corporate Trust Services at maturity in 2020, interest imputed at a fixed rate of 3.05%	78,858,820	76,527,257

Notes to Consolidated Financial Statements

Senior Unsecured Notes, Series A, principal due in various installments through 2024, interest at 5.57% *	121,000,000	0
Senior Unsecured Notes, Series B, principal due in various installments through 2033, interest at 6.03% *	137,000,000	0
Senior Unsecured Notes, Series C, principal due in various installments through 2035, interest at 6.08% *	42,000,000	0
Pollution control revenue bonds, Series D, payable to Putnam County Development Authority, guaranteed by CFC, principal due in various installments through 2009, interest at adjustable rates, currently 3.27% *	51,930,000	0
NCSC Series 5 Note, principal due in various installments through 2009, interest at fixed rates from 7.61% to 7.90% *	2,380,000	0
	1,084,332,706	764,800,389
Less current portion	(52,948,003)	(37,191,388)
	$1,031,384,703	$ 727,609,001

*Refer to Footnote 3 for the reacquisition of SGS Unit 2.

The estimated maturities and annual sinking fund requirements of all long-term debt, at interest rates as of December 31, 2005 for the five years subsequent to December 31, 2005, are presented below:

Year ending December 31,	Annual Maturities and Sinking Fund Requirements
2006	$ 53,610,436
2007	$ 60,641,540
2008	$ 80,367,588
2009	$ 80,932,694
2010	$ 69,337,955

Substantially all owned assets and leasehold interests other than the lease termination fund are pledged as collateral for the above mentioned debt to the United States of America (RUS and FFB) and CFC. The lease termination fund is pledged as collateral for the lease termination obligation to U. S. Bank Corporate Trust Services. The assets subject to the SGS Unit 2 lease are pledged as collateral for the above mentioned Series D Pollution Control Revenue Bonds and the NCSC Series 5 Note.

At December 31, 2005 and 2004, the estimated fair value of long-term debt including current portion is approximately $1,031 million and $737 million, respectively. For Seminole's long-term debt with interest rates substantially fixed to final maturity, and for that portion that is subject to interest rate adjustment more than six months from year end, fair value is estimated based on the present value of the underlying cashflows. The interest rate used is the estimated interest rate on a weighted average comparable maturity U.S. Treasury bond. For that portion of long-term debt that reprices to market rates at intervals of six months or less, the carrying amount has been used as a reasonable estimate of fair value. For the long term debt which has a variable interest rate, the fair value is the carrying value. The fair value of the lease termination obligation is not determinable since it is not marketable.

Notes to Consolidated Financial Statements

NOTE 6 - NET MARGINS AND EQUITY RESTRICTIONS:

Under provisions of the RUS mortgage, until total equity equals or exceeds forty percent of total assets, the distribution of capital contributed by Members is limited generally to twenty-five percent of patronage capital and margins of the next preceding year where, after giving effect to such distribution, the total equity will equal or exceed twenty percent of total assets. Distributions may be made, however, in such amounts as may be approved by RUS through waiver of the aforementioned restrictions. Such distributions to Members totaled $576,014 and $604,142 in 2005 and 2004, respectively, representing amounts equal to 25% of 2004 and 2003 net margins, respectively. The RUS mortgage requires Seminole to design and implement its wholesale rates to maintain, on a calendar year basis, a Times Interest Earned Ratio of not less than 1.05 and a Debt Service Coverage Ratio of not less than 1.0.

In 2005 and 2004, Seminole achieved a Times Interest Earned Ratio of 1.14 and 1.05, respectively, and a Debt Service Coverage Ratio of 1.05 and 1.02, respectively.

NOTE 7 - LINES OF CREDIT:

Seminole has available committed unsecured lines of credit totaling $150 million of which $5.7 million and $10.1 million were outstanding at December 31, 2005 and 2004, respectively. These credit facilities are available for working capital needs and general corporate purposes. The weighted average interest rates were 4.78% and 3.68% for the years ended December 31, 2005 and 2004, respectively.

NOTE 8 - INCOME TAXES:

Seminole is a non-exempt cooperative subject to federal and state income taxes and files a consolidated tax return. As a cooperative, Seminole is entitled to exclude patronage dividends from taxable income. Seminole's bylaws require it to declare patronage dividends in an aggregate amount equal to Seminole's federal taxable income from its furnishing of electric energy and other services to its Member-patrons. Accordingly, such income will not be subject to income taxes.

Seminole's rate-making methods provide that any income taxes related to current operations are recognized as expense and are recovered through rates when currently payable. In addition, income tax credits are accounted for as a reduction of taxes currently payable in the period utilized. In 2005 and 2004, net taxable income of approximately $11,000 and $74,000, respectively, was generated from non-patronage activity. At December 31, 2005, net operating losses of approximately $37.4 million are available to offset future taxable income, expiring in years through 2023. Furthermore, alternative minimum tax (AMT) credits of approximately $1.0 million, which do not expire, are available to offset regular income tax liabilities.

Temporary differences in certain items of income and expense for tax and financial reporting purposes result primarily from depreciation, amortization and sale-leaseback of plant, and reserves accrued for future liabilities. Seminole has recorded the following noncurrent deferred tax asset, valuation allowance and noncurrent deferred tax liability in 2005 and 2004:

	2005	2004
Noncurrent deferred tax asset	$ 15,100,000	$ 20,300,000
Less: Valuation allowance	(15,100,000)	(20,300,000)
Net noncurrent deferred tax asset	0	0
Noncurrent deferred tax liability	0	0
Net noncurrent deferred tax asset/liability	$ 0	$ 0

Seminole excludes from its taxable income amounts derived from patronage activity. The deferred tax asset, valuation allowance and deferred tax liability are calculated solely based on non-patronage activity.

The noncurrent deferred tax asset reflects deductible temporary differences and net operating loss carryforwards at statutory rates plus AMT credits. Based on Seminole's historical transactions and the exclusion of patronage dividends from taxable income, it is not anticipated that Seminole will have future taxable income sufficient to realize the benefit of the existing tax credits and net operating loss carryforwards at December 31, 2005. Accordingly, a valuation allowance has been recorded to reduce deferred tax assets relating to tax credits and net operating loss carryforwards to a net carrying value of $0. Deferred tax assets and the valuation allowance decreased from 2004 to 2005 due to the expiration of net operating loss carryforwards.

NOTE 9 - EMPLOYEE BENEFITS:

Substantially all Seminole employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. In this multi-employer plan, which is available to all Member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Due to the nature of the multi-employer plan, specific employer information is not available. Seminole also has a retirement savings plan for all employees that is qualified under Section 401(k) of the Internal Revenue Code.

The following lists Seminole's pension costs for the years ended:

	2005	2004
NRECA Pension Plan	$ 4,791,000	$ 4,335,000
401(k) Savings Plan	$ 736,000	$ 930,000

As adopted by Seminole's Board of Trustees, based upon performance against established Key Performance Indicators, Seminole's contributions to the 401(k) plan were calculated as: for 2005, 100% of the first 3% of employee contributions, and for 2004, 100% of the first 4% of employee contributions. Seminole expects to contribute $5.9 million to its pension and 401(k) plans in 2006.

Notes to Consolidated Financial Statements

All employees are eligible to participate in the group health care coverage plan. Under this plan most employees have an option to choose either the Preferred Provider Plan or the Health Maintenance Organization Plan. Employees retiring on or after age 55 receive the benefit of being allowed to continue, at their expense, health care coverage under Seminole's group plan. In addition, these retirees may use a portion of their accumulated unused sick pay to apply toward these medical insurance premiums.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. Beginning in 2006, the new law added prescription drug coverage to Medicare, with a 28% tax-free subsidy to encourage employers to retain their prescription drug programs for retirees, along with other key provisions.

On May 19, 2004, the FASB issued FASB Staff Position 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2), which became effective starting January 1, 2005 for Seminole. The determination has been made that FSP 106-2 has no effect on Seminole.

Plan Obligations, Assets, and Funded Status

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statement No. 87, 88 and 106", requires disclosure of a reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation (APBO) and plan assets, as well as disclosure of the plan's funded status, showing separately the amounts not yet recognized and already recognized in the statement of financial position.

December 31	2005	2004
Change in benefit obligation:		
APBO at end of prior year	$ 6,044,200	$ 4,798,800
Service cost	468,200	377,500
Interest cost	389,200	340,700
Plan participants' contribution	0	0
Plan amendments	0	0
Actuarial loss	855,900	779,200
Acquisition/divestiture/plan merger/spinoff	0	0
Benefits paid	(260,500)	(252,000)
Curtailments	0	0
Settlements	0	0
Special terminations benefits	0	0
APBO at end of year	$ 7,497,000	$ 6,044,200
Change in plan assets:		
Fair value of plan assets at end of prior year	$ 0	$ 0
Actual return on plan assets	0	0
Employer contributions	260,500	252,000
Plan participants' contributions	0	0
Benefits paid	(260,500)	(252,000)
Settlements	0	0
Acquisition/divestiture/plan merger/spinoff	0	0
Fair value of plan assets at end of year	$ 0	$ 0

Notes to Consolidated Financial Statements

Funded status:	$ (7,497,000)	$ (6,044,200)
Unrecognized transition (asset)/obligation	0	0
Unrecognized prior service cost	(196,200)	(236,800)
Unrecognized net (gain)/loss	105,100	(750,800)
Net amount recognized	$ (7,588,100)	$ (7,031,800)

Amount of Postretirement Benefit Expense Recognized

SFAS No. 132 also requires disclosure of the amount of net periodic postretirement benefit cost recognized, showing separately its various components, as well as the amounts recognized due to other events affecting the plan.

December 31	2005	2004
Components of net periodic postretirement benefit cost:		
Service cost	$ 468,200	$ 377,500
Interest cost	389,200	340,700
Expected return on assets	0	0
Amortization of transition (asset)/obligation	0	0
Amortization of prior service cost	(40,600)	(40,600)
Recognized net actuarial (gain)/loss	0	(14,900)
Net periodic postretirement benefit cost	$ 816,800	$ 662,700
Settlements, curtailments, and termination benefits:		
Settlement (gain)/loss	$ 0	$ 0
Curtailment (gain)/loss	0	0
Cost of special termination benefits	0	0
Postretirement benefit expense	$ 816,800	$ 662,700

Assumptions

December 31	2005	2004
Weighted-average assumptions used to determine benefit obligations at year-end measurement date:		
Discount rate	5.75 %	6.25 %
Rate of compensation increase	3.50 %	3 %
Weighted-average assumptions used to determine net periodic benefit cost for the year:		
Discount rate	5.75 %	6.25 %
Expected reutrn on plan assets	N/A	N/A
Rate of compensation increase	3.5 %	3.5 %
Assumed health care cost trend rates at the year-end measurement date:		
Health care cost trend assumed for next year	10.00 %	10.00 %
Ultimate trend rate	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2015	2014

Notes to Consolidated Financial Statements

A one percentage point change in the assumed health care cost trend rates would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Sensitivity to assumed health care cost trend rates:		
Effect on total of service and interest cost Components	$ 50,900	$ (48,900)
Effect on end-of-year APBO	$ 383,300	$ (367,400)

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

Year ending December 31,	Retiree Medical Benefits
2006	$ 270,300
2007	$ 297,300
2008	$ 335,000
2009	$ 360,900
2010	$ 437,600
Years 2011 - 2015	$ 2,704,400

Seminole also accrues postemployment benefits for employees on disability in accordance with FAS 112, "Employers' Accounting for Postemployment Benefits." This obligation is recognized immediately, and does not provide for the deferred recognition of gains and losses. The amount expensed during 2005 was $0.2 million. At December 31, 2005 and 2004, the obligation was $0.8 million and $0.5 million, respectively.

NOTE 10 - OPERATING LEASES:

At December 31, 2005, Seminole was obligated under certain leases of rail transportation equipment for which base lease terms expire on various dates through 2008. Base rental obligations under these leases are payable as follows:

Year ending December 31,	
2006	$ 3,194,000
2007	$ 3,194,000
2008	$ 3,194,000
Thereafter	$ 0

These leases generally provide for renewals at the lower of a stipulated fixed renewal rental or fair market rental and options to purchase equipment at fair market value at various dates or upon expiration. Lease payment accruals for the rail transportation equipment leases totaled approximately $3.2 million and $2.5 million in 2005 and 2004, respectively. These payments were included as a cost of fuel inventory and expensed based on the tons of coal burned throughout the year.

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Seminole is purchasing a significant portion of the coal for SGS under a long-term contract expiring in 2012, including an option to extend through 2016. Contract terms specify minimum annual purchase commitments of 2.75 million tons, subject to

Notes to Consolidated Financial Statements

force majeure conditions, and prices which are subject to adjustment by a market basket of indices tied to coal market costs. Total purchases under this long-term coal contract were approximately $78.7 million and $56.7 million in 2005 and 2004, respectively.

Seminole is required to transport a significant portion of its coal and petroleum coke to be received at SGS under a long-term rail transportation agreement with a rail carrier, such agreement expiring on December 31, 2008. Total charges under all rail transportation contracts were approximately $68.7 million and $56.8 million in 2005 and 2004, respectively.

Seminole has long-term contracts for the transportation of natural gas for PCGS terminating at various times through the year 2020. These contracts require annual capacity reservation payments of approximately $14.0 million per year. Approximately 50% of the annual reservation payments are fixed. The remaining 50% of the annual reservation payments are based on rates subject to modification with approval by the Federal Energy Regulatory Commission and subject to a not to exceed rate cap.

Seminole has a long-term program plant maintenance contract (refer to Footnote 2 on the LPSA) for parts and services with Siemens Westinghouse Power Corp at PCGS terminating in 2010. The expected maintenance includes combustor and hot gas path inspections on both Combustion Turbine Units and a major overhaul on the steam turbine. The estimated yearly commitments through the end of the contract are as follows:

Year ending December 31,	
2006	$ 4,130,000
2007	$ 2,000,000
2008	$ 4,000,000
2009	$ 4,000,000
2010	$ 4,100,000

Seminole has various firm contracts with suppliers for purchased power with remaining terms ranging from one to ten years. These contracts require annual minimum take-or-pay capacity payments for the next five years as follows:

Year ending December 31,	
2006	$119,500,000
2007	$120,600,000
2008	$122,500,000
2009	$138,400,000
2010	$130,200,000

Total charges, including capacity payments, under these contracts were approximately $327.6 million and $250.9 million for 2005 and 2004, respectively.

In the normal course of business Seminole has ongoing disputes with some of its power suppliers. Additionally, some of the billings received by Seminole for purchased power are subject to adjustment based on the actual costs of the seller. During 2005 and 2004, refunds were received in the aggregate amounts of approximately $0.1 million, each year, not including interest, for adjustments to reflect actual costs related to power billings from prior periods. These amounts were recorded in the current year as reductions to purchased power expenses.

Seminole is a party to various other claims arising in the normal course of business. In the opinion of management the ultimate resolution of these matters will not result in a material adverse impact on Seminole's financial condition or its operations.

Report of Independent Certified Public Accountants

To the Board of Trustees
Seminole Electric Cooperative, Inc.

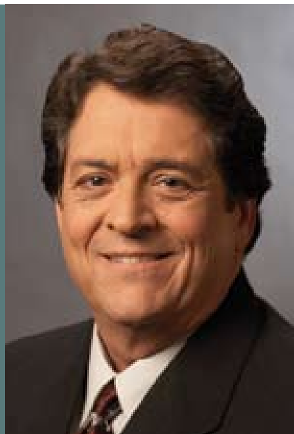
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenue and expenses and patronage capital, of comprehensive income/(loss) and of cash flows present fairly, in all material respects, the financial position of Seminole Electric Cooperative, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Seminole's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Seminole's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2006 on our consideration of Seminole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

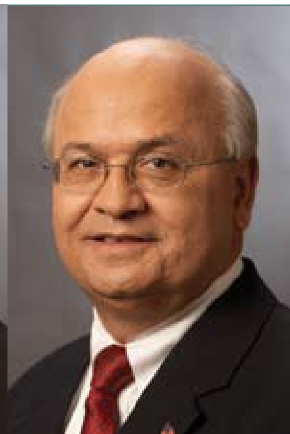
PricewaterhouseCoopers LLP

March 1, 2006

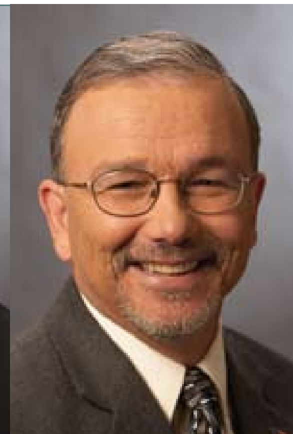
Corporate Information



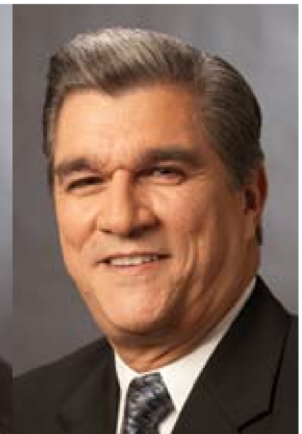
Richard J. Midulla



John W. Geeraerts

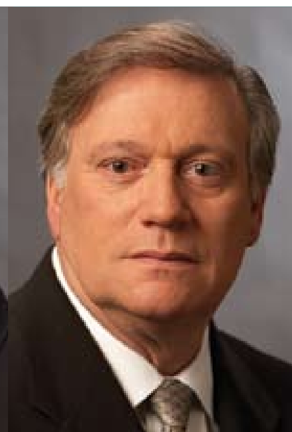


Timothy S. Woodbury

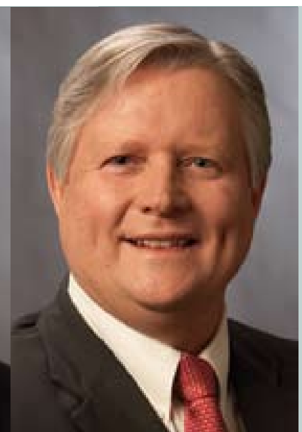


Savino (Al) Garcia

Michael P. Opalinski



Floyd (Joe) Welborn



Thomas H. Turke

Seminole Electric Annual Meeting

Seminole Electric Trustees are elected to a one-year term at the Cooperative's annual meeting. Board officers are elected at a subsequent Board meeting later that day.

Annual Report

Inquiries regarding this annual report may be directed to Seminole's Human Resources and Public Relations Department at P.O. Box 272000, Tampa, FL 33688-2000, or by e-mail to info@seminole-electric.com.

An electronic version of this report may be viewed on our web site at www.seminole-electric.com (Adobe Acrobat™ required).

Executive Officer

Richard J. Midulla
Executive Vice President and General Manager

Executive Staff

John W. Geeraerts
Senior Vice President and Chief Financial Officer, and Assistant Treasurer

Timothy S. Woodbury
Senior Vice President and Chief Strategic Officer, and Assistant Secretary

Savino (Al) Garcia
Vice President, Administration

Michael P. Opalinski
Vice President, Technical Services

Floyd (Joe) Welborn
Vice President, Operations

Thomas H. Turke
Director, Corporate Compliance

Headquarters Office

Seminole Electric Cooperative
16313 N. Dale Mabry Highway
P.O. Box 272000
Tampa, Florida 33688-2000

General Counsel

Robert A. Mora
Allen Dell, P.A.
202 S. Rome Avenue, Suite 100
Tampa, Florida 33606

Staff Directors

Kenneth L. Bachor
Director, Transmission Services

William C. Cross
Director, Information Systems

Walter J. Hentze
Director, Plant Operations (Payne Creek Generating Station)

Jacquelyn J. Keselowsky
Director of Accounting Services (retired March 2006)

Lane T. Mahaffey
Director, Corporate Planning

Trudy S. Novak
Director, Pricing and Bulk Power Contracts

W. Jack Reid
Director, Fuel Supply

Richard D. Rich
Director, Supply Management

Timothy D. Rogers
Director, Treasury Services

W. Paul Shipskie
Director, Plant Operations (Seminole Generating Station)

Steven R. Wallace
Director, Operations

2006 Board Officers

Mal Green
President

Robert W. Strickland
Vice President

Malcolm V. Page
Secretary/Treasurer