Progress Energy

Crystal River Nuclear Plant
Docket No. 50-302
Operating License No. DPR-72

Ref: 10 CFR 50.71(b)

August 3, 2006
3F0806-03

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, DC 20555-0001

Subject: Crystal River Unit 3 - 2005 Annual Financial Reports

References: 1. Progress Energy to NRC letter dated April 20, 2006

2. PEF to NRC letter, 3F0506-06, dated May 10, 2006

Dear Sir:

Pursuant to 10 CFR 50.71(b), Florida Power Corporation, doing business as Progress Energy Florida, Inc. (PEF), hereby submits the 2005 annual financial report for one (1) of the participating co-owners of the Crystal River Unit 3 (CR-3) Nuclear Station.

Earlier this year, PEF submitted its annual financial report (Reference 1) and the annual financial reports for five (5) of the nine (9) participating co-owners of CR-3 (Reference 2). The annual financial report for Seminole Electric Cooperative, Inc. was received by PEF after May 10, 2006 letter was submitted to the Nuclear Regulatory Commission. Due to delays in printing production, the 2005 Annual Financial Reports for the City of Leesburg, the City of Ocala and the Utilities Commission, City of New Smyrna Beach are not yet available.

If you have any questions regarding this submittal, please contact me at (352) 563-4796.

Sincerely,

Paul E. Infanger
Supervisor
Licensing & Regulatory Programs

PEI/ff

Attachments

xc: NRR Project Manager (w/o att.)
Regional Administrator, Region II (w/o att.)
Senior Resident Inspector (w/o att.)

Progress Energy Florida, Inc.
Crystal River Nuclear Plant
15760 W. Powerline Street
Crystal River, FL 34428

M004

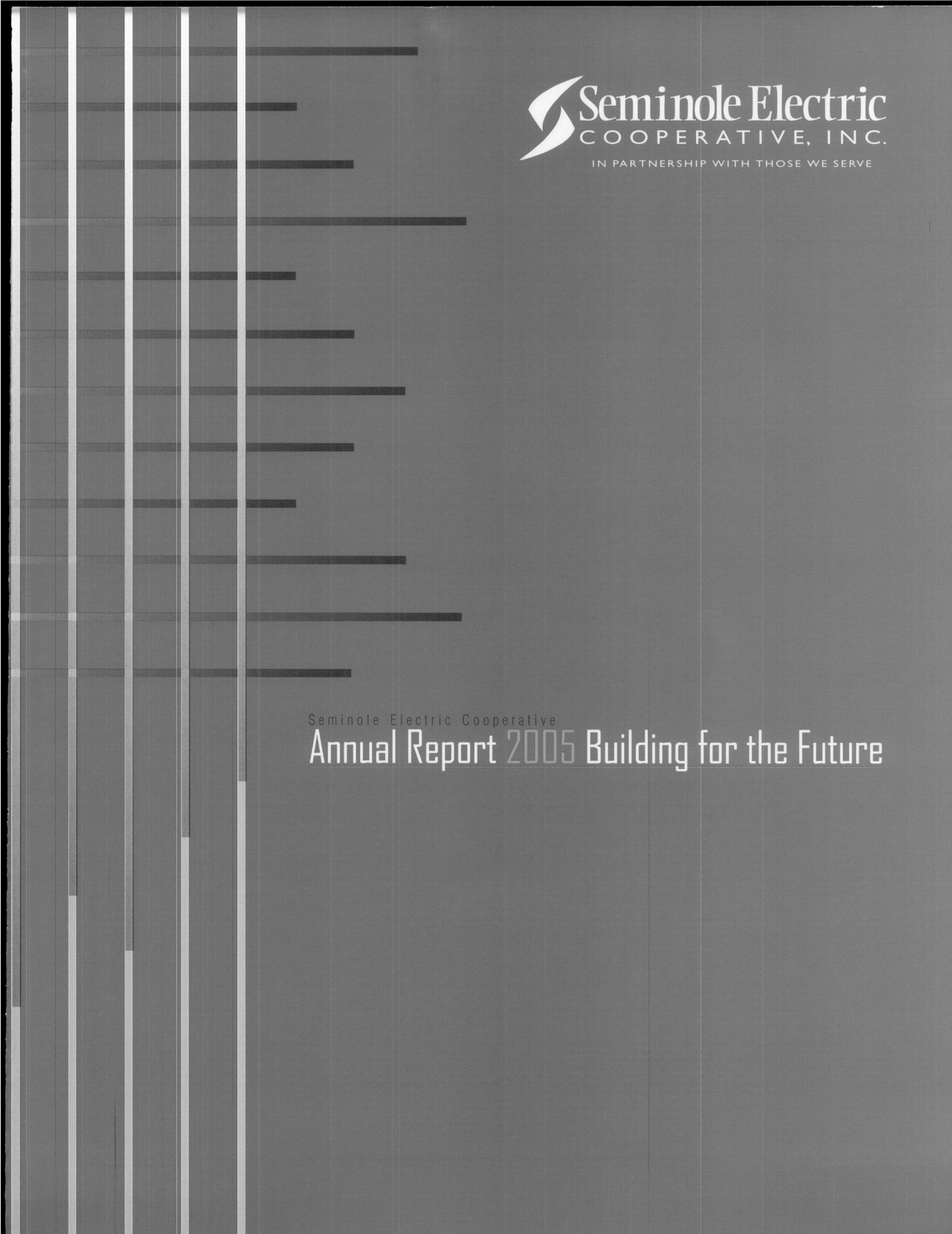
PROGRESS ENERGY FLORIDA, INC.

CRYSTAL RIVER UNIT 3

DOCKET NUMBER 50-302/LICENSE NUMBER DPR-72

2005 ANNUAL FINANCIAL REPORTS

- Seminole Electric Cooperative, Inc.



Seminole Electric Cooperative

Annual Report 2005 Building for the Future

Seminole Electric Cooperative

Annual Report 2005 Building for the Future

OUR MISSION

To be the preferred provider of wholesale energy services for our Members.

OUR VISION

To be a leading competitor in the emerging energy market, trusted and respected by our customers, employees, business partners and community. To provide our employees a safe, challenging and rewarding work environment, where pride and commitment are the hallmark of our operations.

OUR VALUES

We uphold the highest ethical and professional standards.

We believe that Cooperative ownership and principles are the cornerstone of our success.

We affirm that innovation, communication, accountability and teamwork are essential ingredients to achieve customer satisfaction.

We improve the quality of life in our communities.

We take prudent actions to protect our environment.

CONTENTS

Seminole Electric
COOPERATIVE, INC.
IN PARTNERSHIP WITH THOSE WE SERVE

About Seminole

Seminole Electric Cooperative is the second largest generation and transmission cooperative in the U.S., based on 2004 revenues. Its primary mission is to provide reliable, competitively priced wholesale electric power to its 10 Members, which include three of the largest distribution cooperatives in the nation.

More than 1.6 million individuals and businesses in portions of 46 Florida counties rely on Seminole's Member systems for electricity. About 90 percent of our Members' nearly 850,000 meter connections are residential.

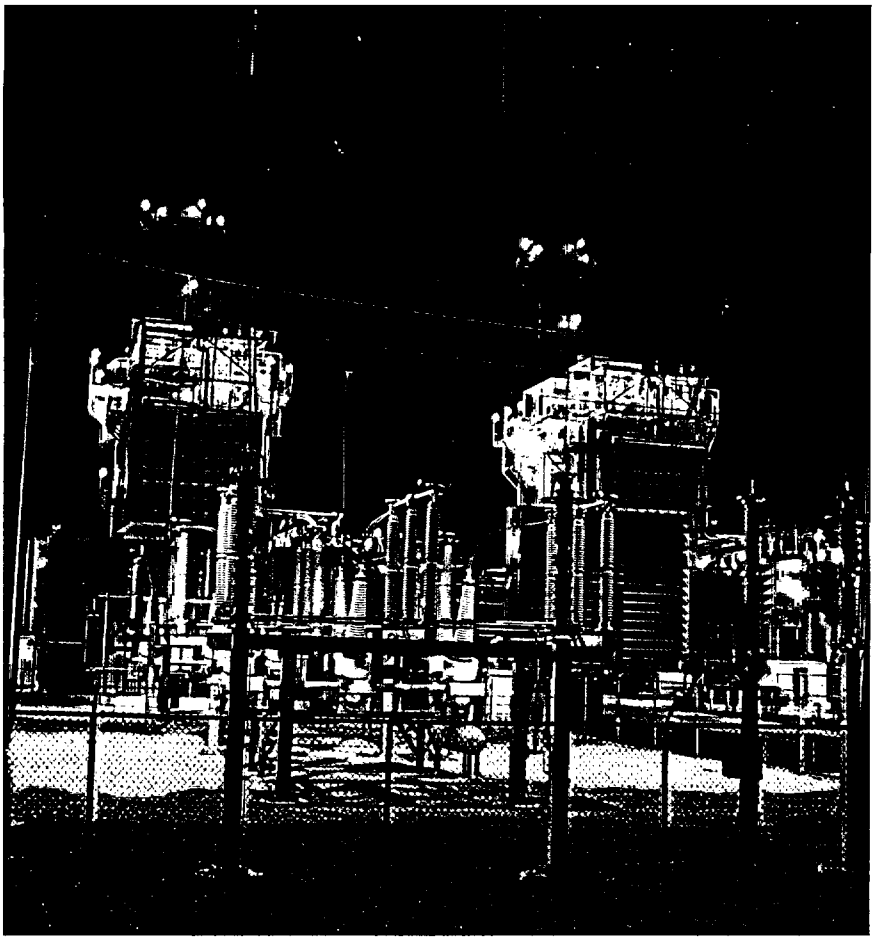
Seminole owns about 300 miles of high voltage transmission line that interconnects its generating facilities to Florida's transmission grid. About 90 percent of Seminole's Member load is served using the transmission systems of other utilities, under long term contracts. The Cooperative's primary resources include Seminole Generating Station in northeast Florida and Payne Creek Generating Station in south central Florida. Seminole also owns a 14 megawatt share of Progress Energy Florida's Crystal River 3 nuclear plant.

Seminole Generating Station went into commercial service in 1984. Consisting of two 650 megawatt coal-fueled generating units, this facility is located in Putnam County, near the St. Johns River, south of Jacksonville. In 2005, Seminole announced plans to add a 750 megawatt generating unit at this site. Currently in the permitting stages, Seminole Unit 3 is scheduled to be available for commercial service in May 2012.

Payne Creek Generating Station is a 500 megawatt combined cycle plant that uses natural gas as its primary fuel source. It is located in Hardee County, northwest of Wauchula, and began commercial operation in 2002. An additional 310 megawatts of peaking capacity, using aeroderivative technology, will go into service at this location in December 2006.

Seminole maintains a balanced and diversified generation portfolio that includes owned facilities and resources provided through short- and long-term purchased power agreements with other utilities and independent power producers. These resources reflect a mix of technologies and fuel types, including renewable energy resources. The diversity in Seminole's generation mix reduces exposure to changing market conditions, helping to keep rates competitive.

Seminole is led by an experienced management group and is governed by a 30 Member board of trustees. The board is comprised of three representatives from each Member system. The board's primary role is to set policy and direction, and ensure prudent operations.



Seminole's Payne Creek Generating Station

Seminole Electric Cooperative
2005 Key Facts and Figures

Total Revenues	$1,080,003,907
Net Margins	$6,418,432
Total Assets	$1,313,614,862
Energy Sales to Member Cooperatives	16,298 GWH
Meter Connections	846,244
Member Population Served (est.)	1.6 million
Seminole System Coincident Peak Demand	3833 MW
Number of Employees	477

From the President and General Manager

The challenge of ensuring adequate resources must be effectively met to ensure the continued growth of America's economy and its energy security.

Dear Stakeholder:

The theme of this annual report is building for the future. As we write this letter our thoughts and prayers are with the victims of last year's hurricanes, especially those who still face rebuilding their future.

Our key activities in 2005 were geared toward strengthening our foundation to ensure our ability to meet the fast growing energy needs of our Members. We negotiated new, favorable purchase power agreements. We started the process of permitting and financing a new coal unit. We committed to upgrade emission controls on our two existing coal units. We started construction of peaking units at Payne Creek Generating Station. And we secured new 25-year extensions to seven of our 10 Members' wholesale power contracts, with commitments to extend the contracts of two additional Members. We are proud of these accomplishments. At the same time we recognize there is much more to be done and are moving ahead.

As a wholesale energy supplier, Seminole's job is to provide adequate, reliable resources. As a partner to our Member systems, controlling our costs is critical to their competitiveness. Achieving these goals requires a careful balance between supply and demand, availability and affordability, and firm commitments and flexibility.

The last 25 years have seen steady load growth. We're planning for more of the same. Larger homes, expanding technology in home entertainment, the growth in home computers, and Florida's population growth are key factors driving load growth. In 1980 our annual peak demand was 1,133 megawatts (MW) and annual energy sales were 3,858 gigawatt hours (GWH). As of year end 2005, our annual peak demand had grown more than 300%, exceeding 3900 MW, and annual energy sales had grown more than 400%, to 16,026 GWH.

With more than 17 million residents and about 1,000 more arriving each day, Florida is expected to need 30 percent more electricity by the end of the next decade. By 2025, Seminole's peak demand is forecast to exceed 8,300 MW and annual Member sales are expected to reach 33,000 gigawatt hours (GWH).

Nearly everyone agrees that conservation measures alone cannot eliminate the need for new power plants. While utilities continue to fine tune existing facilities to maximize efficiency, slowing the need for new capacity, our increasing energy appetite demands new resources. When we plan new facilities we must consider fuel diversity and the impacts of population and demand projections, regulatory and environmental trends, new technology, and other factors that impact infrastructure needs and power costs.

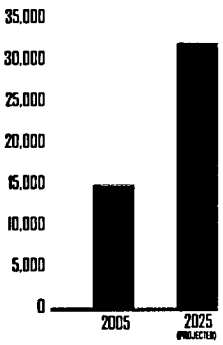
We believe domestic coal must be part of our energy future, to keep energy affordable and available. Coal now provides about 30% of Florida's energy and

Richard J. Midulla
Executive Vice President and
General Manager

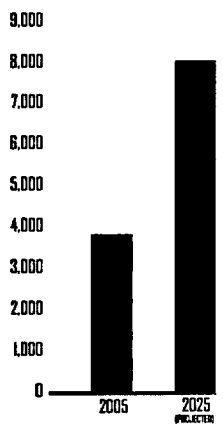
John W. Drake
Board President

Peak Demand and Sales are Expected to More Than Double Over the Next 20 Years

Member Sales (GWH)



Peak Demand (MW)



nearly 50% of America's energy. It is the only generating fuel that can be readily stockpiled for use at generating stations. It also is America's most affordable domestic fuel. Seminole's goal is to rely on a mix of generation fuels, to balance cost and supply stability.

That's why Seminole supports continued research and development in clean coal technologies. New clean coal technologies are allowing us to pursue plans to increase our coal capacity at Seminole Generating Station by 60% while reducing that station's regulated emissions. You can read more about that project in this report.

Seminole is fortunate to have an existing coal station that will accommodate new capacity. Where will Florida locate the other new units it needs to meet forecast demand? As we've grown increasingly reliant on electricity, regulations that govern power plant siting and operation have grown increasingly restrictive. In addition, the permitting process is both costly and lengthy. We believe environmental stewardship must be an equal partner in the development of energy resources, and technology advancements provide the means for that marriage. We support a rigorous process for the siting of new generating units as well as continued efforts to appropriately streamline the siting process. In the same way that computers that used to require large rooms now fit in the palm of your hand, we believe that some day, our business also will be very different. We must continue to provide affordable energy while supporting the commercialization of new, cleaner, "greener" generating technologies. We will continue to collaborate with regulators and legislators to shape policies that protect the nation, its residents, and its natural resources. Much remains to be accomplished.

Another important issue is energy security. We believe America's energy security requires a national energy policy that protects our environment and our future. We took many steps in 2005 to improve personnel and facility security programs. Through the National Rural Electric Cooperative Association (NRECA), other industry and trade associations, and on our own, Seminole representatives will continue to testify before regulatory bodies and meet with legislators involved in energy security and other energy issues, advocating for non profit electric cooperatives.

Seminole supports industry efforts to harden transmission facilities, a key issue following 2005's weather-related outages. In 2005, Florida and other states lost thousands of miles of transmission lines to hurricanes. Homes went dark, businesses closed, food stocks reliant on refrigeration were lost, fuel tankers were unable to unload their supplies in the state's ports during the storms, and gas-station pumps were inoperable. The question regulators, investors, and customers must answer is, how much protection at what cost? The Federal Energy Regulatory Commission, the North American Electric Reliability Council and its regional councils, and state public service commissions are working with utilities on these issues.

Controlling energy costs is another challenge we continue to address. Like you, we're

About 83% of the natural gas used in the U.S. comes from domestic production, primarily wells in the Gulf of Mexico. **A series of hurricanes in 2005 shut down nearly all of the Gulf's natural gas wells,** rigs, refineries, and pipelines, and significantly damaged many of these facilities, **reducing available supplies and driving up costs into this year.**

working to hold down energy costs. You may be weather stripping the windows in your home or using your air conditioner fewer hours. Maybe you've traded in an older appliance for a more energy efficient model, downsized your home, or are driving a more fuel-efficient vehicle. At our power plants we're working to get more megawatts from every measure of fuel. We use varied purchasing strategies to reduce bulk fuel costs. World demand, Middle East politics, supply constraints, and natural disasters continue to drive up the cost of generating fuels. Natural gas hedging programs saved us approximately $19 million in 2005, compared to market prices. Long term solid fuel contracts also helped us hold down fuel costs. We continue to fine tune our fuel procurement strategies and expect to see additional savings from these efforts.

About 83% of the natural gas used in the U.S. comes from domestic production, primarily wells in the Gulf of Mexico. A series of hurricanes in 2005 shut down nearly all of the Gulf's natural gas wells, rigs, refineries, and pipelines, and significantly damaged many of these facilities, reducing available supplies and driving up costs into this year.

The severe weather that takes down power lines has other impacts on the cost of Florida's energy. It slows and interrupts rail and barge deliveries of coal, highway deliveries of fuel oil, and pipeline deliveries of natural gas, impacting costs and availability. To better protect our plants from weather-related interruptions, we took steps in 2005 to lock in primary and back up fuel supplies and to increase on site fuel inventories. Our fuel-diverse portfolio of generating resources also helps reduce the risks of service interruptions due to fuel delivery problems.

Despite higher fuel costs, energy remains a real value. Our goal is to keep it that way. Nationally, from 1984 to 2005, [1]

- The average cost of a loaf of bread rose from 54 cents to $1.04 (about 100%);
- The average cost of a gallon of gasoline rose from $1.19 to $2.18 (about 80%),
- The average cost of a dozen eggs rose from 86 cents to $1.35 (about 80%); and.
- The cost of 500 kWh of electricity rose from $38.62 to $54.67 (about 40%).
- In contrast, our Members' wholesale energy costs have risen only 7% since 1984 (from 6.0 to 6.4 cents a kilowatt hour, or kWh).

That 7% is no typographical error. We attribute this cost stability, in part, to advances in technology and economies of scale that have helped us operate more efficiently. A contributing factor is the continuing efforts of our employees to maximize our Members' return from their investment in Seminole.

Our challenge is to continue to keep costs as low as possible, despite increasing demand, rising fuel costs, and new requirements and regulations that increase the cost of energy production and delivery.

On the financing side we are proud of the expedited financing we obtained in 2005 through the closing of a $300 million private placement loan. This loan financed our purchase of the lessor's interest in Seminole Generating Station Unit 2, which will provide significant benefits for the cooperative over the remaining life of the Unit. Securing long-term financing at favorable rates for Unit 3 is our current challenge. Seminole's A- Stable credit rating from Standard & Poors, which was affirmed in August 2005, will be an asset in that effort.

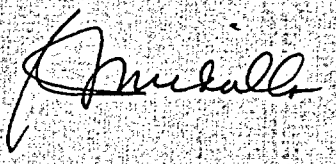
1 Historic data source: U.S Bureau of Labor Statistics, Consumer Price Index average price database.

Standard & Poors says Seminole's strengths include its "strong capacity to meet financial obligations," our primarily residential customer base, our solid historical growth, "below average wholesale energy rates," and our financially strong Membership as assets.

We have a great team of committed, skilled employees. Some of our best business decisions are the people we've recruited over the years. Another major asset is Seminole's strategic planning process, which involves our Trustees and employees throughout the Co-op. That process helps us focus resources on those key issues that impact our ability to meet Member needs. For these and many other reasons, we are confident in our ability to build a successful future and welcome your interest in Seminole – a Member-owned, Member-led, Member-centric supplier of wholesale energy services.

Interested in more information? Please visit us on line at http://www.seminole-electric.com.

Sincerely,



Richard J. Midulla
Executive Vice President and General Manager

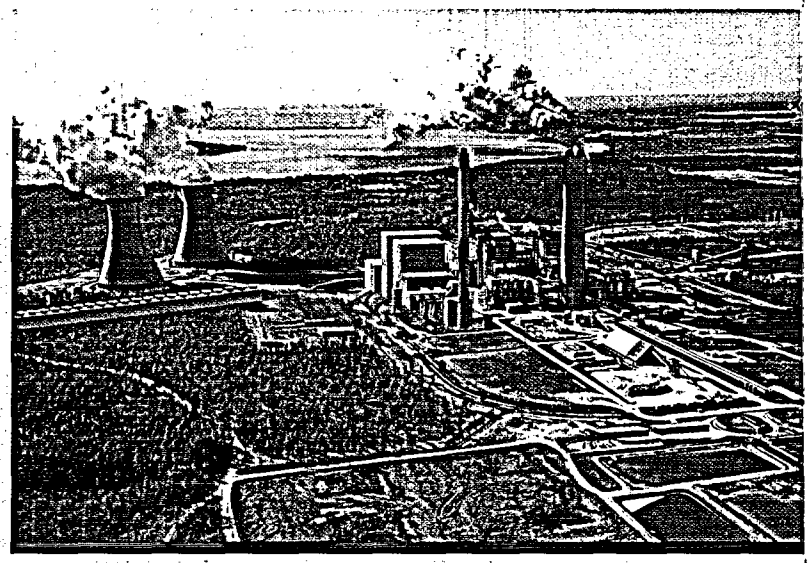
John W. Drake
Board President

Milestones: The Year In Review 2005

Seminole's Board of Trustees attended a one day self assessment workshop in **JANUARY**, covering fiduciary responsibility, the quality and quantity of information received at board meetings, and training needs. As a result of this workshop, a list of action steps were defined and implemented.

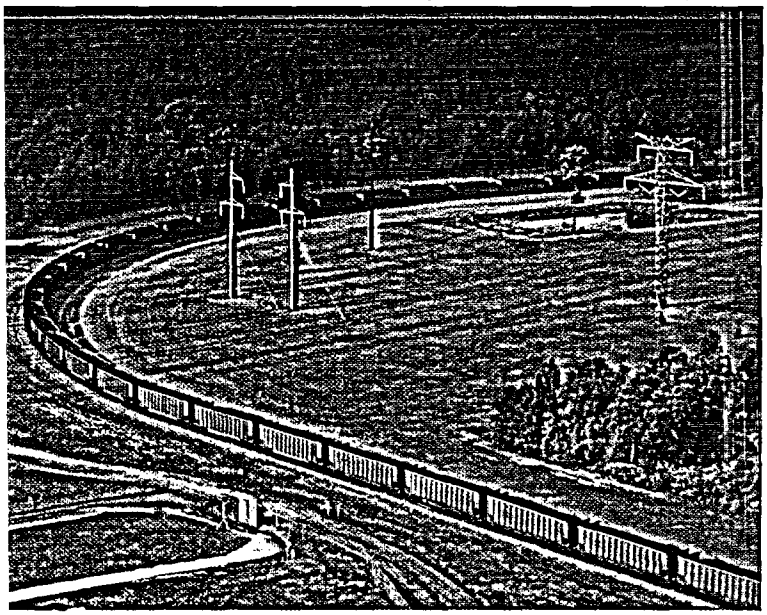
In **FEBRUARY**, Seminole awarded contracts for up to 760,000 tons of petroleum coke for delivery to Seminole Generating Station. Petcoke is a solid byproduct of the oil refining industry; Seminole is permitted to burn a blend of coal and up to 30 percent petcoke in SGS Units 1 and 2, helping reduce fuel costs. In **2005**, burning petcoke saved Seminole more than $12 million compared to the cost of burning 100 percent coal.

On **FEBRUARY** 15, Seminole sold 5,000 sulfur dioxide emission allowances to Ohio Edison Power Company for proceeds in excess of $3.1 million. These proceeds are added to Seminole's margins, and help hold down the cost of power to Seminole's Member systems.



Aerial view of Seminole Generating Station (SGS)

SGS coal yard

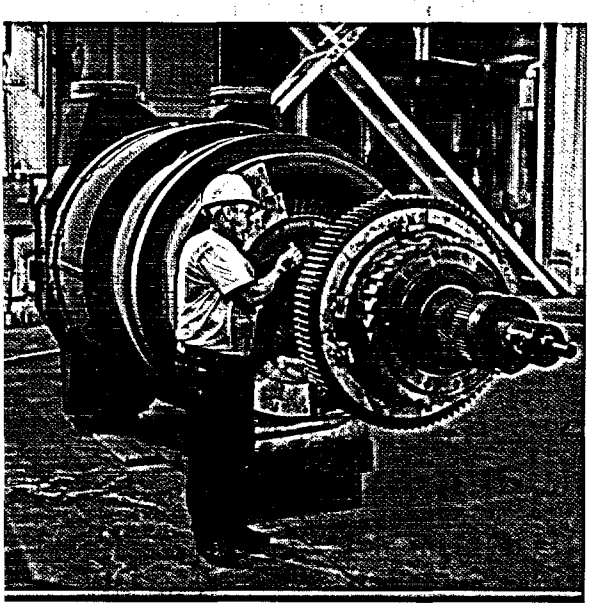


At the end of **MARCH**, Seminole announced plans to expand its 1300 megawatt Seminole Generating Station by adding a third coal unit (Seminole unit 3) to meet Members' growing needs and provide increased fuel diversity. Increasing the station's capacity by 60 percent and using the best available emissions control technology, the new 750 megawatt unit is scheduled to go into commercial service May 1, 2012.

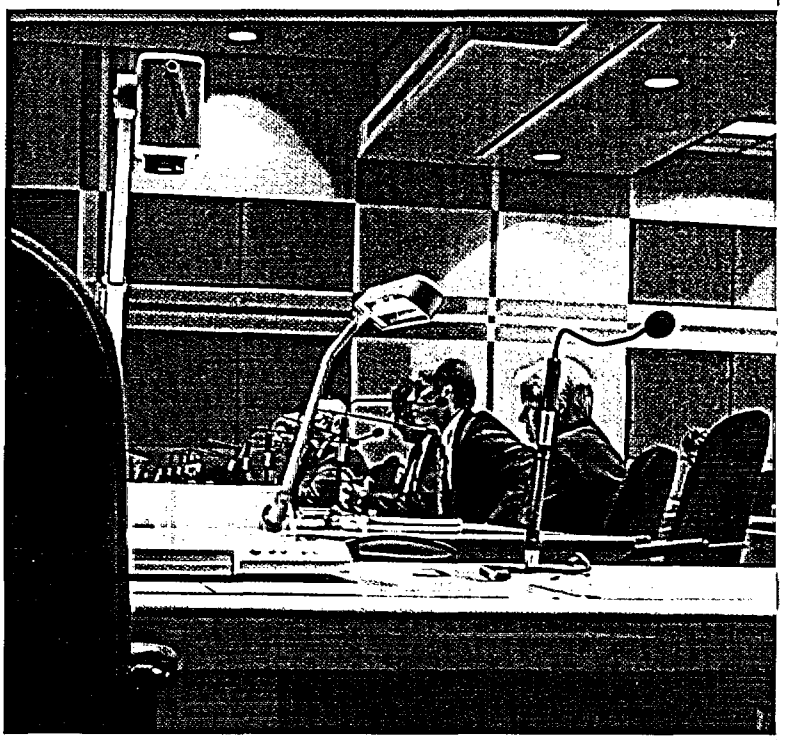
A record-setting 32 day scheduled outage was completed in **APRIL** for Seminole Generating Station Unit 1 – the longest scheduled outage at SGS since Units 1 and 2 went into commercial operation in 1984. A total of 3,321 work orders were completed in a total of 39,404 work hours. Major accomplishments included an equipment upgrade in the main control room and high pressure turbine replacement.

To ensure employee safety and protect Member assets, Seminole completed a security risk assessment at headquarters and both plant locations. Two separate assessments were completed by independent consulting firms, the first for our physical facilities and the second, a cyber security assessment, including information technology infrastructure, firewalls, employment screening and emergency restoration plans. Results – most of which were favorable – were presented to Seminole's Board of Trustees in **JULY**.

A load forecast study was presented to the Board and approved at their **JULY** meeting. Conducted every other year, the purpose of the study is to develop planning forecasts based on projections of future electricity sales and peak demand for Seminole and its Members. The highlights: residential consumer annual growth of three percent since 1994, and four percent annually in 2004 and **2005**. Accounts are projected to grow at 2.7 percent annually – nearly 23,000 consumers per year – through 2015.



SGS Turbine maintenance



Seminole's Lane Mahaffey (leaning forward) testifying in Tallahassee

Seminole's Members set a new summer peak on **AUGUST** 16 of 3,476 megawatts, beating a previous peak set in **JULY** of 3,387 megawatts. The **AUGUST** peak was triggered by very high temperatures and a lack of afternoon thundershowers, promoting widespread use of air conditioning.

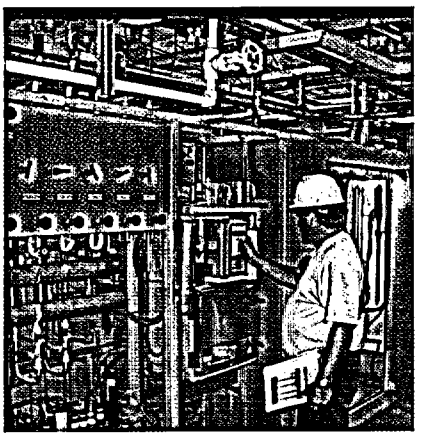
In **AUGUST**, Lane Mahaffey, Director of Corporate Planning, represented Seminole as a coal panel participant at the Florida Public Service Commission's 10 Year Site Plan Workshop.

Standard and Poor's Ratings Services lowered Seminole's issuer credit rating from "A" to "A-" but concurrently changed Seminole's previously "Negative" outlook to "Stable." In an **AUGUST** statement, S&P said the rating reflects Seminole's "strong capacity

to meet financial obligations through take-or-pay all-requirements wholesale power requirements with the ten Member distribution cooperatives located throughout Florida," while noting Seminole continues to face challenges relating to slim net margins, low equity levels, and low levels of liquidity compared to other G&Ts in the "A" category.

As a result of Hurricanes Katrina and Rita impacting natural gas and fuel oil supply and production in the Gulf of Mexico, Seminole announced plans to expand on site supplies of backup fuel at Payne Creek Generating Station. A new 2.5 million gallon fuel oil tank will be installed in 2006 in addition to a planned 1.3 million gallon tank that will support the Station's five new peaking units scheduled to go into service in December 2006. The new tanks will enable 96 hours of full load operation for the existing combined cycle units and the new peaking units.

On **OCTOBER** 20, about 40 people attended a Rural Utilities Service (RUS) scoping meeting for Seminole's proposed Unit 3 coal fueled generating unit in Putnam County, deemed a success by the attending RUS representative. In addition to posters about the project and Seminole's two corporate displays, the event featured a Clay Electric Cooperative conservation display. Five other local community partners also had displays at the event. RUS is preparing a revised environmental impact statement for Seminole Generating Station, based on Seminole's project scoping document, and comments received at (and up to 30 days after) the scoping meeting.



Steam/water sample panel, Payne Creek Generating Station

Seminole's Jim Frauen (R) at scoping meeting

Seminole's board of trustees approved a power purchase agreement with Reliant Energy Florida, LLC in June, for 310 megawatts of simple cycle peaking capacity from June 1, 2009 through May 31, 2014. This agreement allows Seminole to meet some of its peaking capacity needs at significant savings, compared to self-build combustion turbines. The board also approved an extension to an agreement with Calpine Construction Finance Company for 350 megawatts of combined cycle intermediate capacity

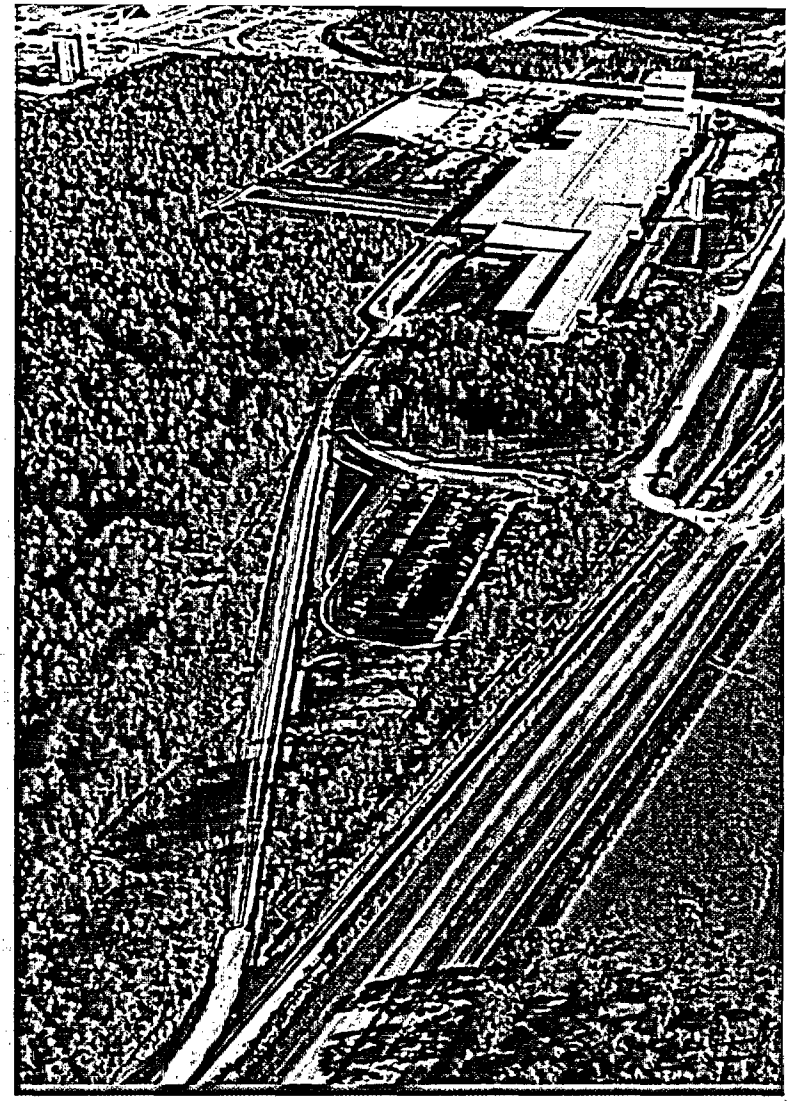
from Osprey Energy Center, extending the original termination date of May 31, 2009 to May 31, 2012.

In **NOVEMBER**, Seminole renewed its agreement with ACES Power Marketing, LLC, which provides short-term power trading execution services. The agreement, which extends the contract an additional three years through 2008, assists Seminole in optimizing its resource portfolio and helps reduce Member fuel costs. In **2005**, power marketing activities resulted in more than $17 million in savings and/or margin, 70% higher than targeted.

In **DECEMBER**, with a unanimous vote of 9-0, the Putnam County Planning Commission approved the rezoning of Seminole Generating Station from planned unit development and agriculture to planned unit development – another step toward the addition of Seminole Unit 3, scheduled to go into commercial operation in May 2012. Work continues on permit filings and an application for Unit 3's certificate of need, scheduled to be submitted in March 2006.

Seminole's financial picture was strengthened in **2005** when seven of ten Members, comprising 56% of Member load, extended their wholesale power contracts for 25 years, through 2045. These recommitments will facilitate long term planning. Two additional Members, comprising 23% of load, have committed to contract extensions in 2006, pending some final issues now being resolved.

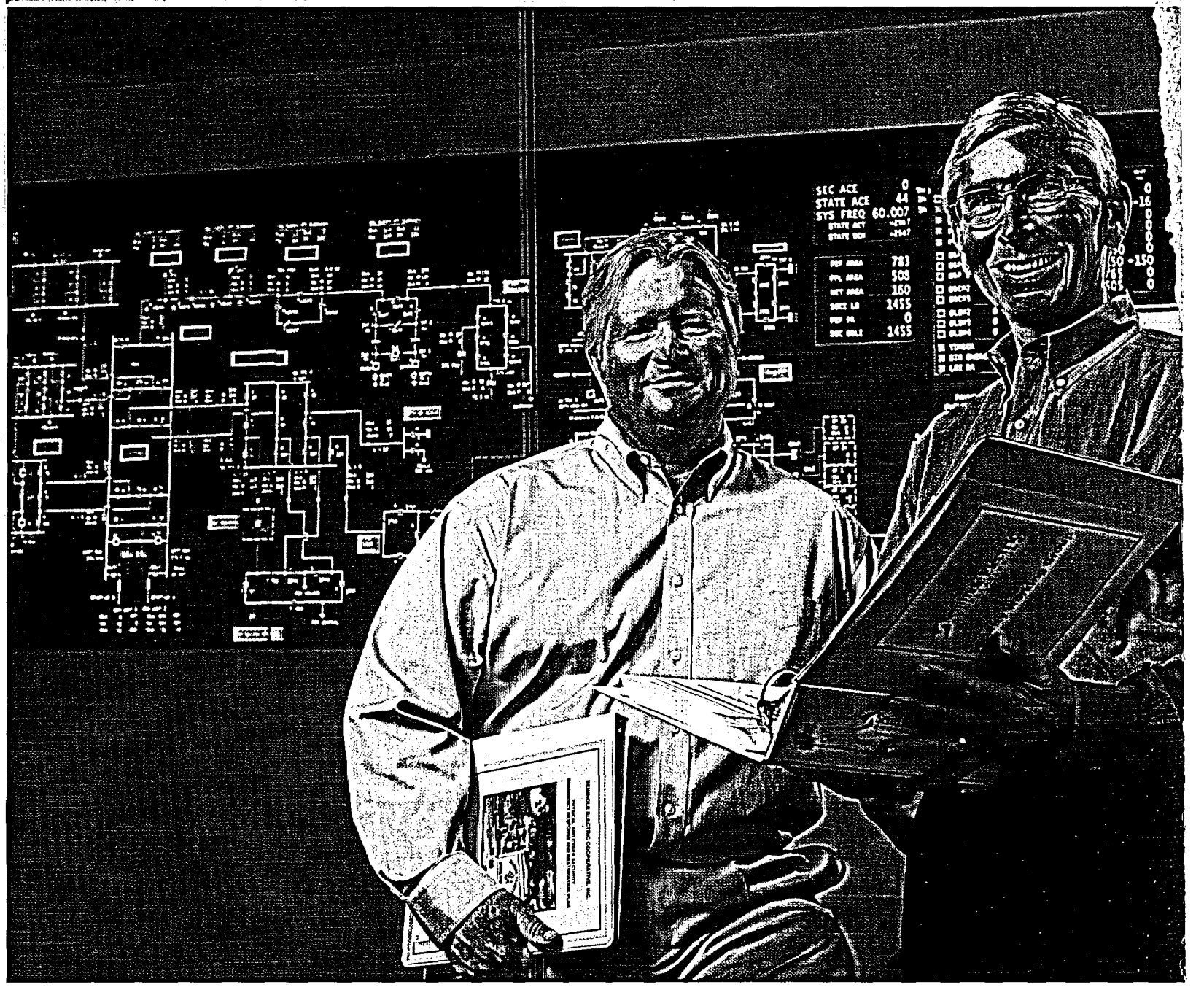
ACES POWER MARKETING



Lafarge Putnam County facility

In **2005**, Seminole sold more than 600,000 tons of synthetic gypsum, a byproduct of the coal combustion/emissions control process, to Lafarge Corp's wallboard facility adjacent to Seminole Generating Station, generating revenues of more than $6 million.

Building Our Physical and Cyber Security



Tom Turke, Director of Corporate Compliance; Steve Wallace, Director of Operations

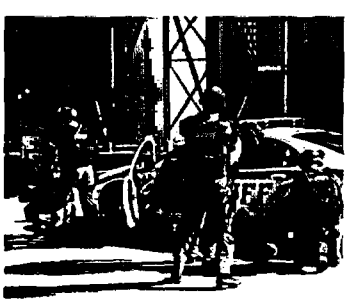
We're committed to ensuring employee safety and to protecting Seminole's assets. In 2005 we completed a security risk assessment at headquarters and both plant locations, and initiated a number of procedural changes.

Two separate assessments were completed by independent consulting firms to aid in this effort. The first was of our physical facilities, which consist of our Tampa headquarters and energy management control center; Seminole Generating Station in Putnam County; Payne Creek Generating Station in Hardee County; and our substations and switchyards.

The second assessment was for cyber security, covering information technology infrastructure, firewalls, employment screening, and emergency restoration plans. Favorable observations were noted for our network security, visitor control, and employee awareness and screening. Areas slated for improvement included integration of security systems, access control at substations, and security signage. These areas are being addressed by a 14-Member security working group comprised of representatives from our three locations. This group, which meets monthly, developed an action plan in 2005 to implement our consultants' recommendations.

In November 2005, the Northeast Florida Regional Council, in conjunction with Putnam County Emergency Services, successfully conducted a multi-agency emergency exercise at Seminole Generating Station. The goal was to evaluate the county's ability to respond to a coordinated, large scale emergency (terrorist or otherwise). Lessons learned are being used to update action plans for emergency situations.

Members of the Putnam County Sheriff's department were at Seminole Generating Station in November as part of a multi-agency emergency exercise.



Building Our Financial Strength

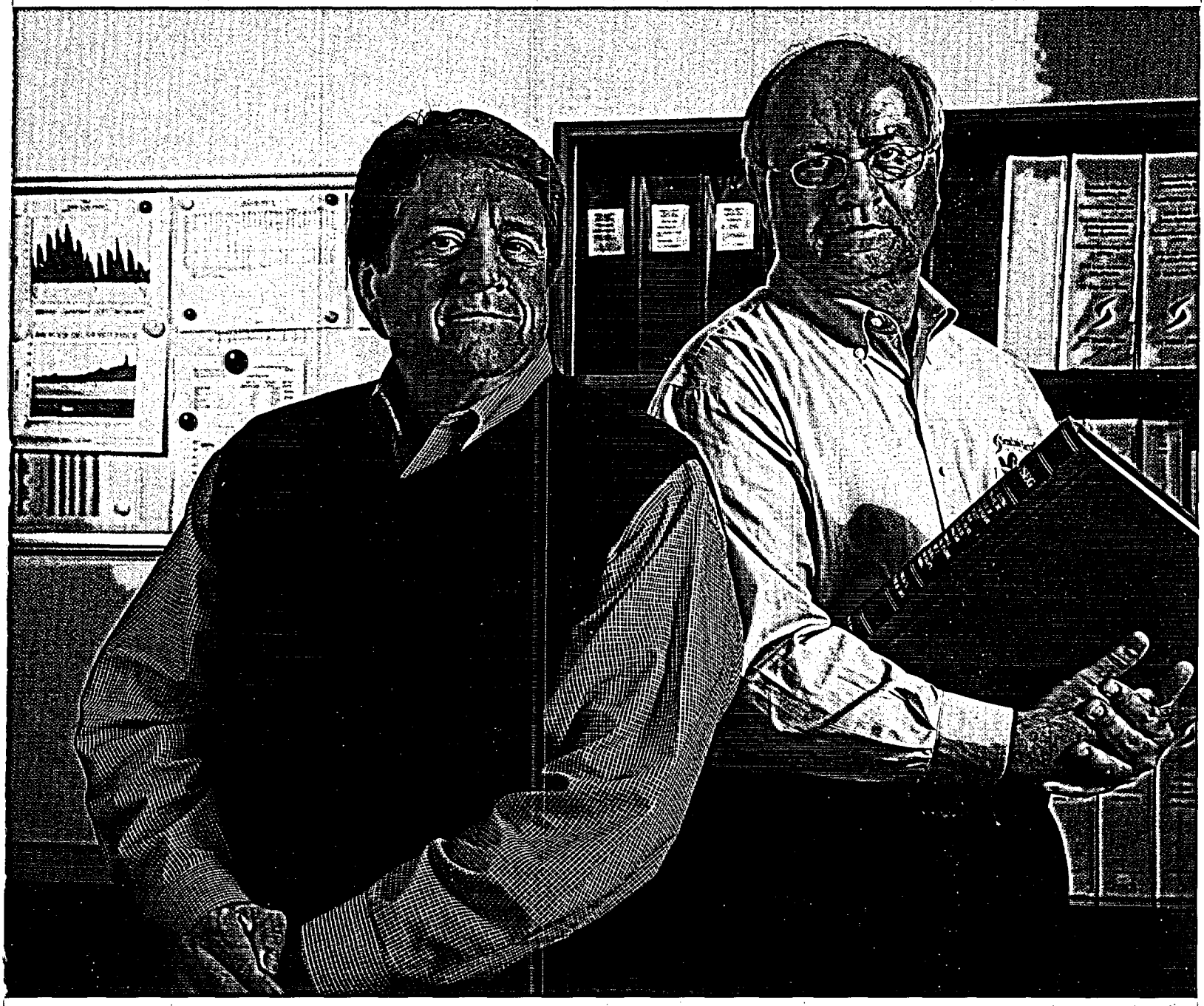
We're pleased that seven of our 10 Member distribution cooperatives in 2005 signed 25 year extensions to their wholesale power contract through 2045. In 2005 we also successfully reached agreement with Member Clay Electric Cooperative, related to pending litigation, paving the way to extension of their contract with us in 2006. One additional Member also has committed to extend in 2006. Knowing that at least nine of our Members will continue to be "in the fold" is facilitating planning to meet our long-term energy needs.

There was significant activity in 2005 relating to our obtaining permanent financing through the Rural Utilities Service (RUS) guaranteed loan program. Final approvals were received on a $136.5 million loan for the Payne Creek Peaking Project (from which Seminole received its first loan draw in February 2006); an application for a $36.9 million loan to finance capital improvements and replacements through 2004 was filed in late December 2004 and currently is pending approval; an application for a $1.4 billion loan was filed in November 2005 for the Seminole Generating Station Unit 3 project; and preparations were made to submit an application in early 2006 for a loan to finance emission control upgrades and other capital improvements associated with Seminole Units 1 and 2 (about $335 million).

There was significant activity in 2005 relating to our obtaining permanent financing through the Rural Utilities Service guaranteed loan program.

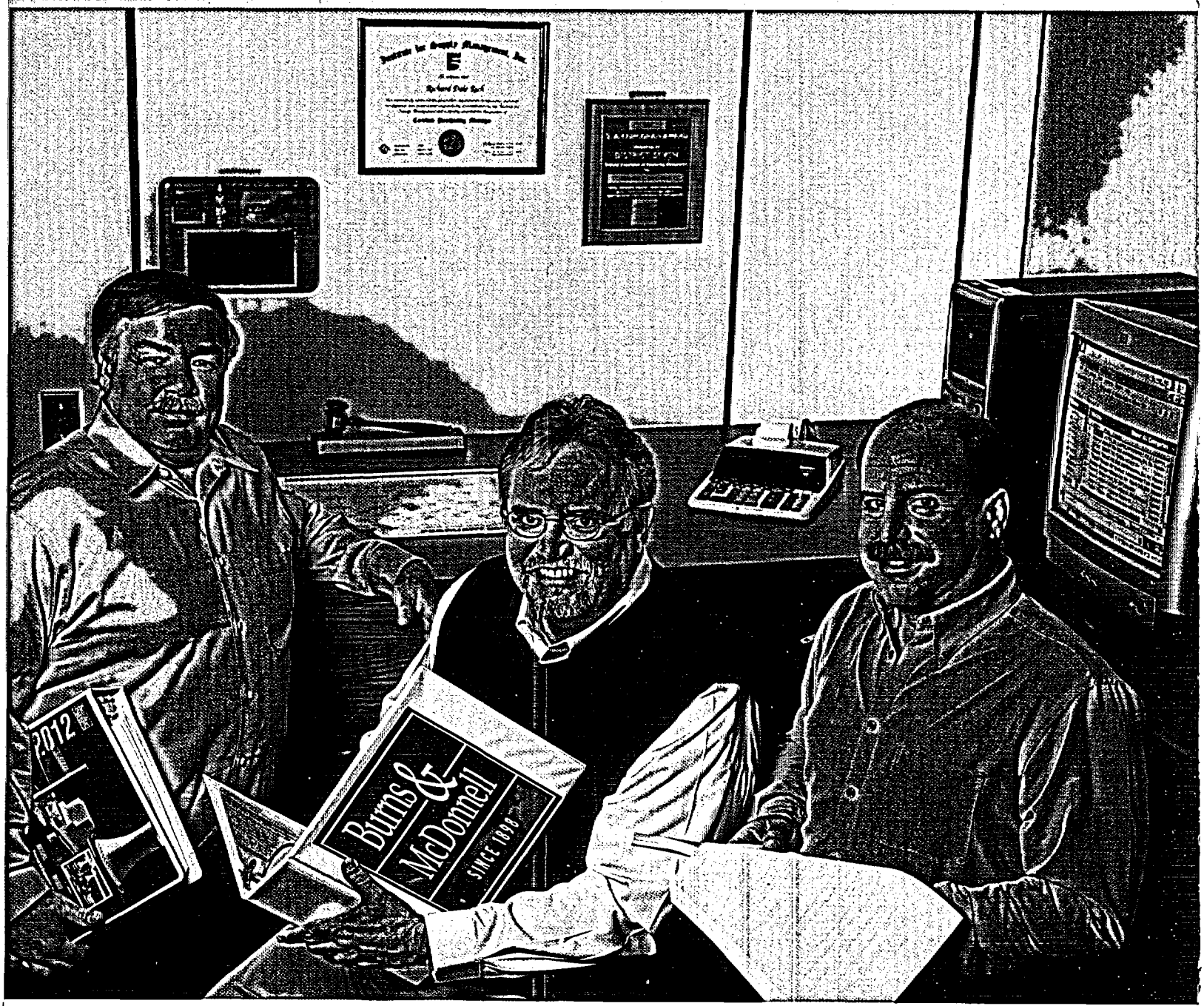
Near year end 2005 we obtained $300 million in financing for the repurchase of Seminole Unit 2 from PSEG Resources. We had the right to continue to lease Unit 2 at fixed rates through 2019, but the early buy out was determined to be mutually beneficial. The reacquisition of Unit 2 eliminates the requirement to negotiate and pay for numerous lessor consents associated with permitting and constructing Seminole Unit 3, gives Seminole operational control of the unit, provides a basis to finance pollution control upgrades, and avoids lease renewal at expected higher fair market values after 2019.

In August 2005, Standard and Poor's Ratings Services lowered our credit rating from "A" to "A-" but concurrently changed our "negative" outlook to "stable," acknowledging Seminole's "strong capacity to meet financial obligations through take-or-pay all-requirements wholesale power requirements with the 10 Member distribution cooperatives throughout Florida."

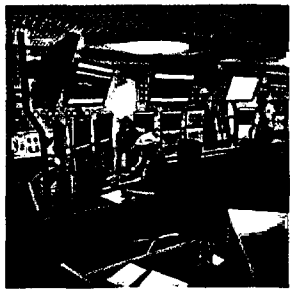


Richard Midulla, Executive Vice President and General Manager; John Geeraerts, Senior Vice President and Chief Financial Officer

Building Supportive Partnerships



Tom Wess, Manager, Generation Engineering; Dick Rich, Director, Supply Management; Bob D'Orazio, Manager, Contracts and Purchasing



A record-setting 32 day scheduled outage was completed in April for Seminole Unit 1. Major accomplishments of this outage included an equipment upgrade in the main control room, pictured above.

The tag line in the Seminole logo reads, "In Partnership with Those We Serve." First and foremost is our partnership with our Members. As discussed in other sections of this annual report, seven of Seminole's 10 Members have extended their wholesale power contract to 2045. As of year end, two of the remaining three have committed to renewing.

In addition to our partnership with our Members we have other relationships that reflect our commitment to "cooperate." An example of such a partnership is our contract with ACES Power Marketing, LLC (APM), which in 2005 was extended an additional three years (through 2008). APM provides short-term power trading execution services to Seminole. This renewed agreement includes portfolio modeling and energy risk management services, and assists us in optimizing our resource portfolio and reducing Member fuel costs.

Another partnership involves Seminole's relationship with its community partners. In October 2005 we conducted a public meeting in Palatka as part of the permitting process for Seminole Generating Station's Unit 3 project. In addition to Seminole displays, we invited organizations that are supported by Seminole to exhibit at this meeting. Participants included the American Cancer Society's Relay for Life, the Arts Council of Greater Palatka, Keep Putnam Beautiful, Haven Hospice of the Lakes, and the St. Johns River Water Management District's Watershed Action Volunteers program. Member system Clay Electric Cooperative also participated with an electricity conservation display. Seminole's community support, including our volunteer team programs, has received favorable comments from the Rural Utilities Service in reviews of RUS loan applications.

Finally, our internal partnerships continue to help us extend our capabilities and accomplishments. One good example is the partnership between our Supply Management and Technical Services departments, which helped us secure a key Unit 3 contract. In May 2005, Seminole selected Burns & McDonnell, a full service engineering, construction, environmental and consulting solutions firm, to serve as Unit 3 architectural/engineering firm. Cross functional cooperation helped bring this project to fruition.

Building Tomorrow's Workforce

We value all of our employees – whether they're long term or short term – and consider them an important asset and an investment. Many of our longer term employees are approaching retirement age. To help us with employee retention and to build tomorrow's leaders, we're in the process of creating a leadership development program for those employees who are interested in developing their knowledge, skills, and abilities as potential future Seminole leaders.

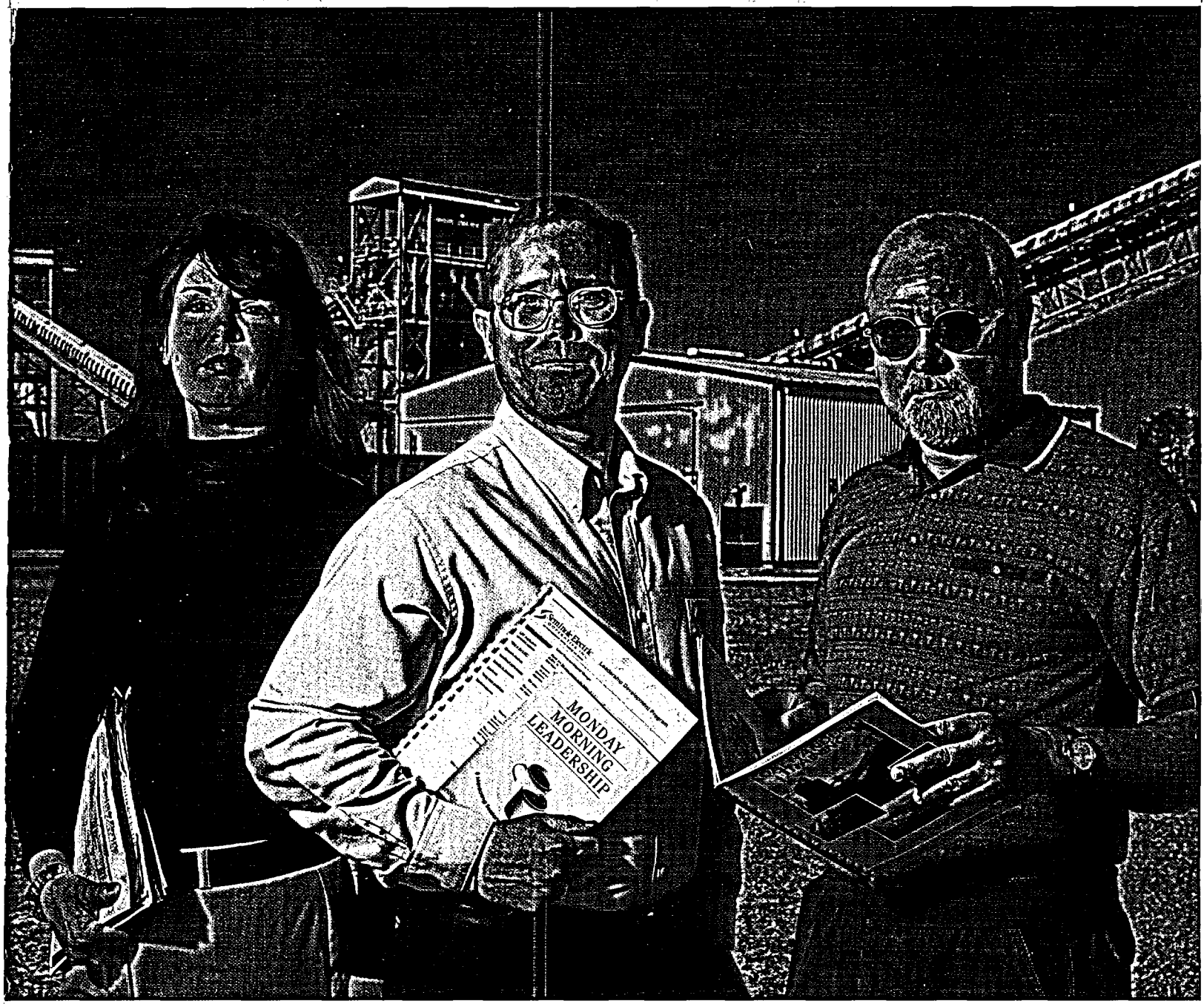
This two-year program will provide a series of leadership training and developmental classes for non-supervisory Seminole employees who are interested in advancement.

The purpose of the program is to:

- Identify potential future Seminole leaders
- Provide leadership training
- Strengthen communication throughout the organization
- Expand participants' knowledge of Seminole's leadership expectations
- Encourage and foster diversity in the workforce

A leadership development program panel will review applications and determine initial participants in the program.

This program will help employees develop leadership skills – those that the Cooperative needs now, and into the future.



Wendy Payne, Human Resources Coordinator; Bob McNamara, Staff Development Specialist; Chuck Johnston, Plant Technical Training Coordinator

BUILDING FOR THE FUTURE

Building Our Resource Portfolio

Jim Frauen, Project Director, Seminole Unit 3; Mike Opalinski, Vice President, Technical Services; Michele Collet Kriz, Manager, Communications and Training

Having a mix of owned and contracted resources is one way we balance the risks of ownership and market reliance.

According to Governor Jeb Bush's energy plan for Florida, our state ranks third nationally in total energy consumption. Current forecasts project this consumption will increase by nearly 30 percent over the next decade. Our Members' residential consumer growth continues at an annual rate of about four percent. Given these numbers we must be diligent in building a reliable, diverse energy portfolio.

We're in the process of expanding our 500 megawatt Payne Creek Generating Station. Seminole is installing five aeroderivative combustion turbines, rated at 62 megawatts each, on the Payne Creek site. These peaking units can run on natural gas or fuel oil, and can be started up in as few as eight minutes. They'll be available for commercial operation in December 2006.

In April we announced the expansion of Seminole Generating Station. We'll add a third unit to meet our Members' growing needs and provide increased fuel diversity. The new 750 megawatt unit will go into commercial service May 1, 2012.

Project plans also include improved emissions controls for the existing 1300 megawatt Seminole Units 1 and 2. This project will add $260 million in new environmental controls at the Station, including selective catalytic reduction systems for both units (for improved nitrogen oxide emission reduction).

In addition to our owned resources, Seminole has power purchase contracts with other utilities and independent power producers in its energy portfolio. One of these contracts is with Reliant Energy Florida, LLC for 364 megawatts of simple cycle peaking capacity, running through December 2006. A new agreement for this capacity begins December 2008, extending this resource through May 2014.

We have another contract with Oleander Power Project L.P. for 546 megawatts of simple cycle peaking capacity through December 2009. In June 2005 Southern Power Company purchased the Oleander facility from Constellation Energy Group, Inc. A new agreement for this capacity has been signed with begins January 1, 2010 and extends through December 2015. A contract for 350 megawatts of intermediate capacity from Calpine Construction Finance Company's Osprey Energy Center extends through May 2012.

Seminole's generation portfolio also includes 54 megawatts of renewable energy resources. These resources include a 35 megawatt waste-to-energy facility, a 12 megawatt biomass (wood chip) plant, and a seven megawatt landfill gas plant.

The Seminole Board of Trustees

Board Officers

The Seminole Electric Cooperative Board of Trustees consists of two voting Members and one alternate from each of its 10 Member distribution systems. The managers of each Member system are voting Members. The second voting Member and the alternate are Members of their local system board. In March 2005, John W. Drake from Glades Electric Cooperative, and Mal Green, Talquin Electric Cooperative, were elected to their third terms as Seminole's board president and vice president, respectively. Robert W. Strickland, from Withlacoochee River Electric Cooperative, was elected to his second term as secretary/treasurer.

In May 2005, Hugh Hunter replaced J. C. Walker as an alternate trustee from Suwannee Valley Electric Cooperative. In July, D. Michael Campbell, from Central Florida Electric Cooperative, was named manager/trustee, replacing Edward I. Ricketson, who retired. Also from Suwannee Valley, John Martz was named manager/trustee in October, replacing Jerry Martin.

The Seminole board sets policy and carries out its responsibilities primarily through the following committees: The Administrative, Finance and Audit, and Power Supply committees each are comprised of one trustee from each Member system. The Rate committee is comprised of the manager/trustee from each system. In 2005, James P. Duncan, chief executive officer and general manager of Sumter Electric Cooperative, chaired this committee.

The Executive committee consists of board officers, two at large trustees, and the immediate past president. The current board president chairs this committee.

Seminole's board structure also includes other committees that meet on an as-needed basis.

John W. Drake
PRESIDENT

Mal Green
VICE PRESIDENT

Robert W. Strickland
SECRETARY/TREASURER

Administrative Committee

Chair: Ronald O. Bass
TRI-COUNTY EC

Vice Chair: William C. Phillips
CLAY EC

Glen O. Douglas
PEACE RIVER EC

John W. Drake
GLADES EC

Frank C. Garrett
LEE COUNTY EC

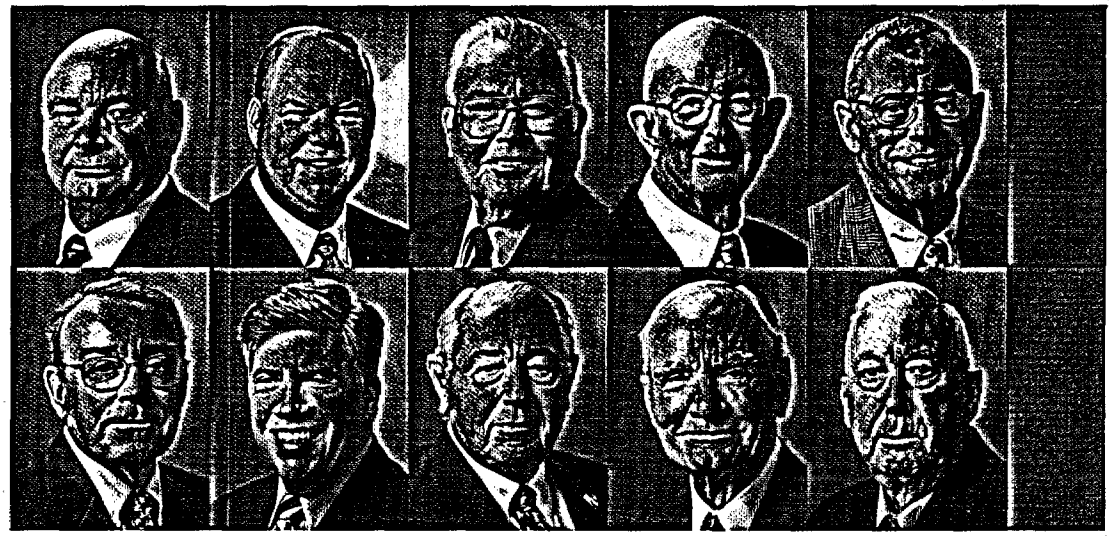
James E. Hines
WITHLACOOCHEE RIVER EC

John C. Martz
SUWANNEE VALLEY EC

Wilson G. Sheppard
SUMTER EC

Amos Sumner
TALQUIN EC

Clyde Townsend
CENTRAL FLORIDA EC



Finance and Audit Committee

Chair: Gary Stallons
TALQUIN EC

Vice Chair: Malcolm V. Page
TRI-COUNTY EC

James Aul
GLADES EC

Billy E. Brown
WITHLACOOCHEE RIVER EC

D. Michael Campbell
CENTRAL FLORIDA EC

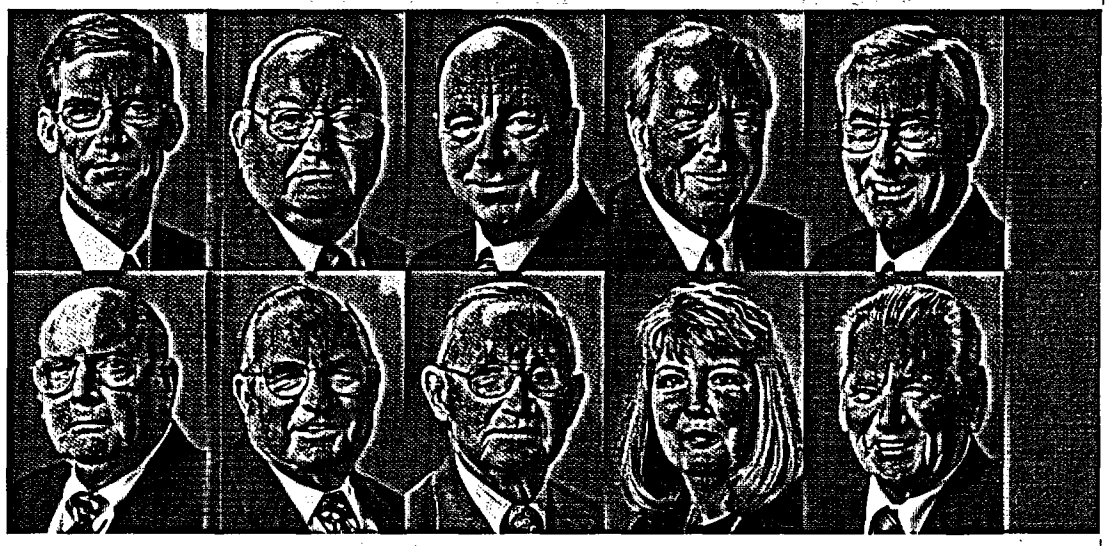
Floyd I. Gnann
CLAY EC

W. F. Hart
SUWANNEE VALLEY EC

Maurice Henderson
PEACE RIVER EC

Pamela M. May
LEE COUNTY EC

Earl Muffett
SUMTER EC



Power Supply Committee

Chair: L. T. Todd
GLADES EC

Vice Chair: Mal Green
TALQUIN EC

Joe P. Burns
TRI-COUNTY EC

General James Dozier (Ret.)
LEE COUNTY EC

James P. Duncan
SUMTER EC

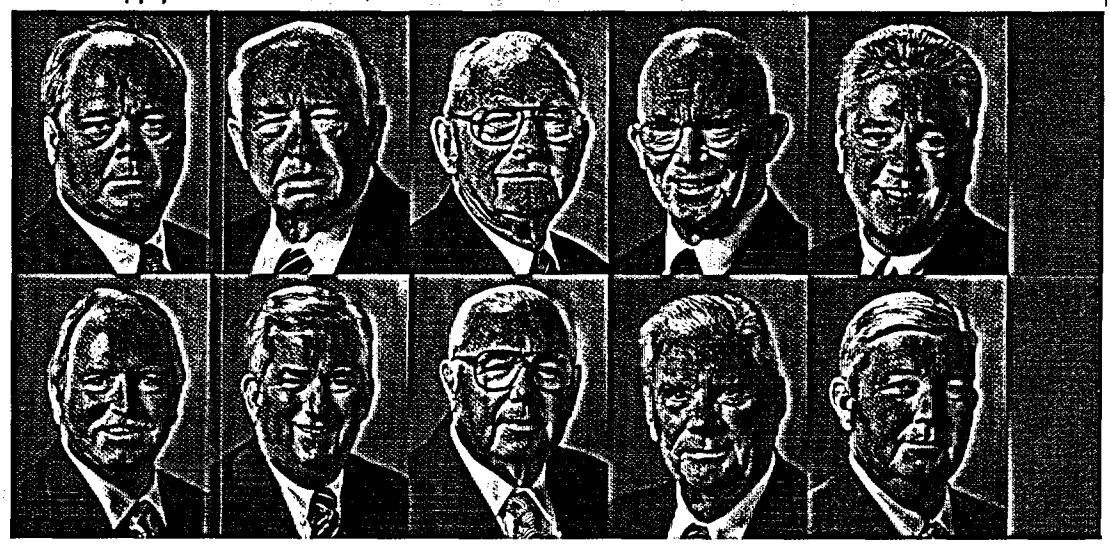
Hugh Hunter
SUWANNEE VALLEY EC

William T. Mulcay, Jr.
PEACE RIVER EC

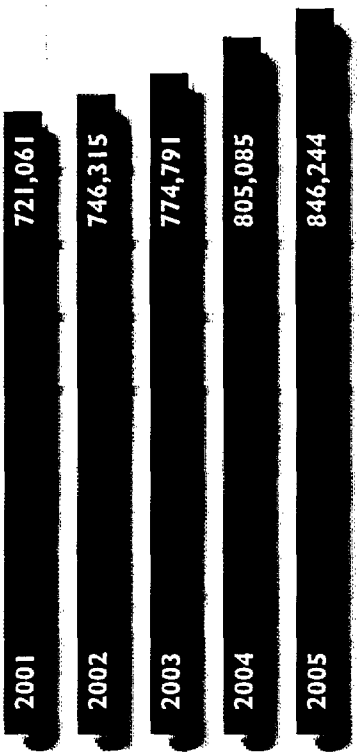
C. M. Smith, Jr.
CLAY EC

George A. Stephens
CENTRAL FLORIDA EC

Robert W. Strickland
WITHLACOOCHEE RIVER EC

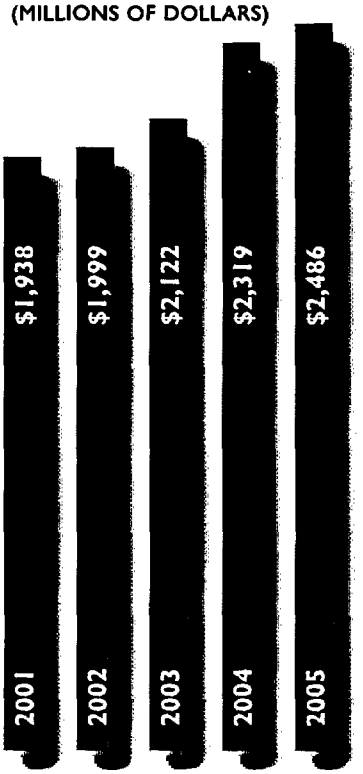


TOTAL CONSUMERS (YEAR END)

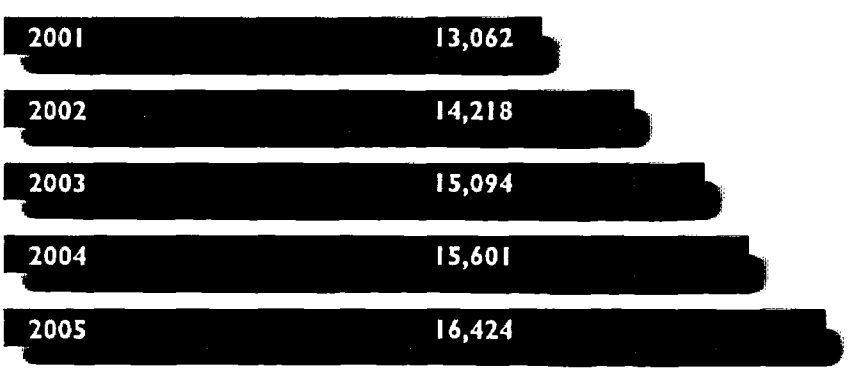


TOTAL MEMBER SYSTEM ASSETS

(MILLIONS OF DOLLARS)



TOTAL ENERGY REQUIREMENTS * (MILLIONS OF KWHS)

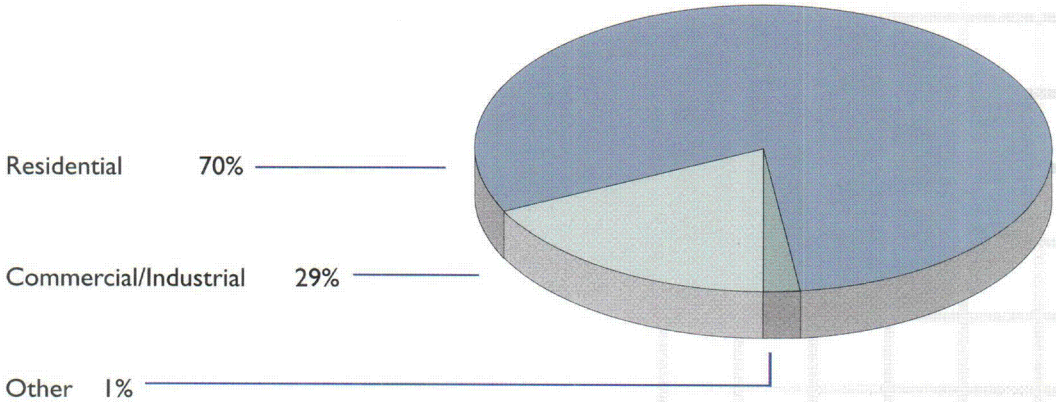


AGGREGATE COINCIDENT PEAK DEMAND*

(MEGAWATTS)

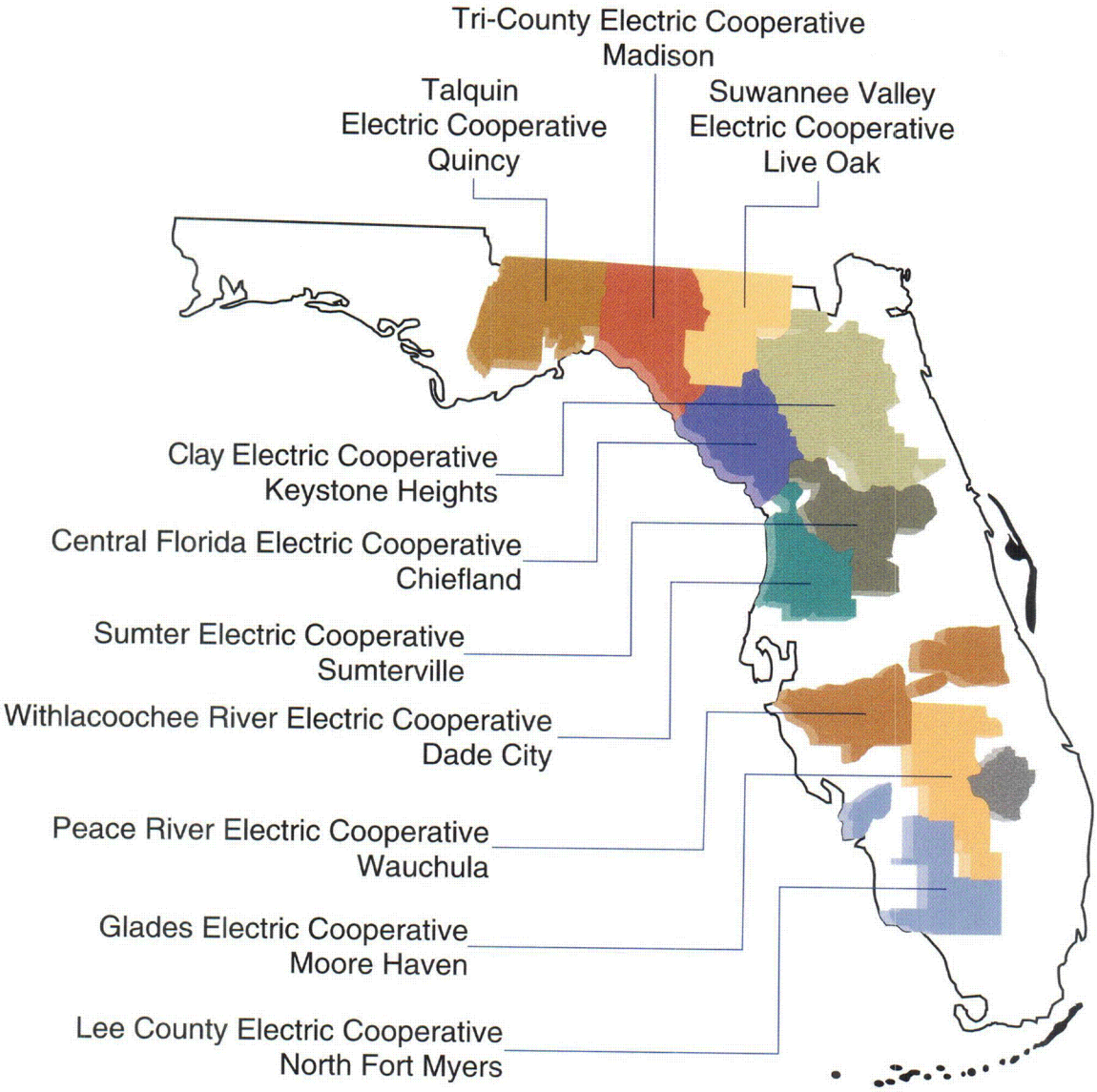
Winter 2000/01	3,517
Summer 2001	2,662
Winter 2001/02	3,482
Summer 2002	2,891
Winter 2002/03	4,035
Summer 2003	2,927
Winter 2003/04	3,437
Summer 2004	3,144
Winter 2004/05	3,859
Summer 2005	3,479
Winter 2005/06	4,149 (est.)

PERCENTAGE OF TOTAL RETAIL SALES BY CLASS



*INCLUDES POWER RECEIVED FROM THE SOUTHEASTERN POWER ADMINISTRATION

Seminole's 10 Member Systems



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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

Notes to Consolidated Financial Statements

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:

Notes to Consolidated Financial Statements

	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.

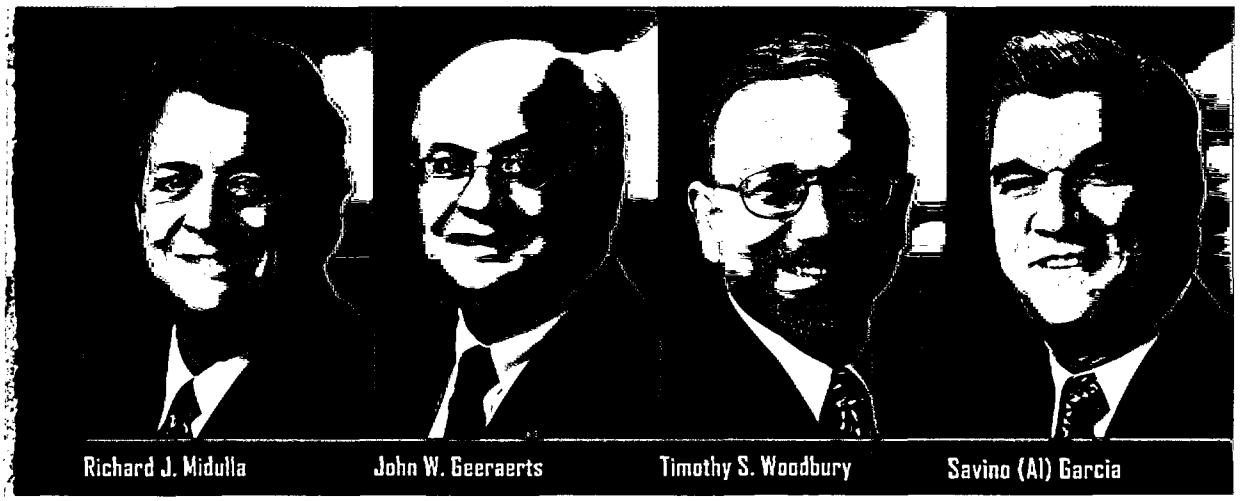
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenue and expenses and patronage capital, of comprehensive income/(loss) and of cash flows present fairly, in all material respects, the financial position of Seminole Electric Cooperative, Inc. 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.

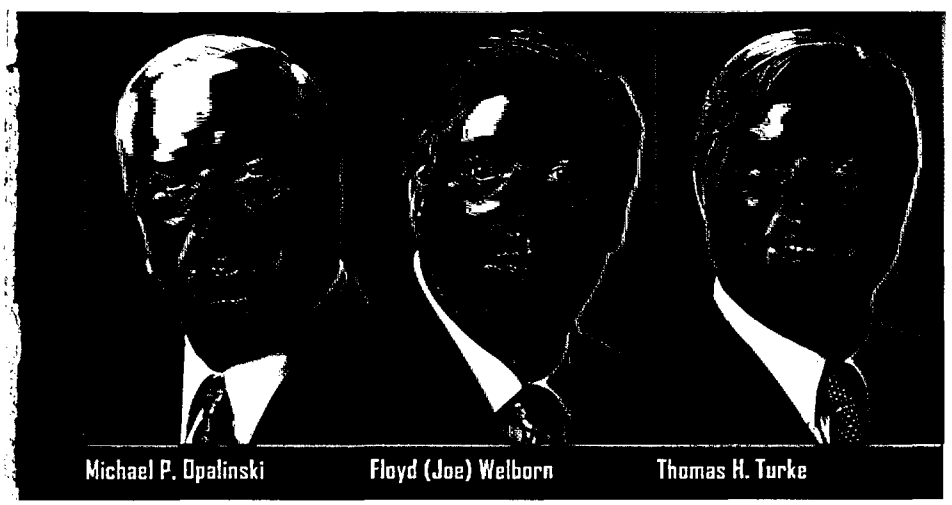
In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2006 on our consideration of Seminole's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other 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





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

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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

Seminole Electric
COOPERATIVE, INC.

IN PARTNERSHIP WITH THOSE WE SERVE

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