East Kentucky Power Cooperative, Inc.

Case No. 2008-00409
Fully Forecasted Test Period Filing Requirements
Table of Contents

Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
			(b) Present and proposed rates for each customer class to which change would apply. (c) Electric, gas, water and sewer utilities - the effect upon average bill for each customer class to which change will apply. (d) Local exchange companies - include effect upon average bill for each customer class for change in basic local service. (e) A statement that the rates contained in this notice are the rates proposed by (name of utility); however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (f) A Statement that any corporation, association, or person with a substantial interest in the matter may, by written request, within thirty (30) days after publication or mailing of this notice of the proposed rate changes request to intervene; Intervention may be granted beyond the thirty (30) day period for good cause shown. (g) A statement that any person who has been granted intervention by the commission may obtain copies of the rate application and any other filings made by the utility by contacting the utility through a name and address and phone number stated in this notice; (h) A statement that any person may examine the rate application and any other filings made by the utility at the main office of the utility or at the commission's office indicating the addresses and telephone numbers of both the utility and the commission; and (i) The commission may grant a utility with annual gross revenues greater than $1,000,000, upon written request, permission to use an abbreviated form of published notice of the proposed rates provided the notice includes a coupon which may be used to obtain all of the information required herein.	
1	11	807 KAR 5:001 Section 10(4)(a)	Manner of notification. Sewer utilities shall give the required typewritten notice by mail to all of their customers pursuant to KRS 278.185.	Ann F. Wood
1	12	807 KAR 5:001 Section 10(4)(b)	Manner of notification. Applicant has 20 customers or less, written notice of proposed rate changes and estimated amount of increase per customer class shall be mailed to each customer no later than date of application.	Ann F. Wood
1	13	807 KAR 5:001 Section 10(4)(c)	Except for sewer utilities, applicants with more than twenty (20) customers affected by the proposed general rate adjustment shall give the required notice by	Ann F. Wood

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			one (1) of the following methods: 1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission; 2. Publishing the notice in a trade publication of newsletter which is mailed to all customers no later than the date on which the application is filed with the commission; or 3. Publishing the notice once a week for three (3) weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made within seven (7) days of the filing of the application with the Commission.	
1	14	807 KAR 5:001 Section 10(4)(d)	If the notice is published, an affidavit from the publisher verifying the notice was published, including the dates of the publication with an attached copy of the published notice, shall be filed with the commission no later than forty-five (45) days of the filed date of the application.	Ann F. Wood
1	15	807 KAR 5:001 Section 10(4)(e)	If the notice is mailed, a written statement signed by the utility's chief officer in charge of Kentucky operations verifying the notice was mailed shall be filed with the commission no later than thirty (30) days of the filed date of the application.	Ann F. Wood
1	16	807 KAR 5:001 Section 10(4)(f)	All utilities, in addition to the above notification, shall post a sample copy of the required notification at their place of business no later than the date on which the application is filed which shall remain posted until the commission has finally determined the utility's rates.	Ann F. Wood
1	17	807 KAR 5:001 Section 10(4)(g)	Compliance with this subsection shall constitute compliance with 807 KAR 5:051, Section 2.	Ann F. Wood
1	18	807 KAR 5:001 Section 10 (5)	Notice of hearing scheduled by the commission upon application by a utility for a general adjustment in rates shall be advertised by the utility by newspaper publication in the areas that will be affected in compliance with KRS 424.300	Ann F. Wood
1	19	807 KAR 5:001 Section 10 (8)(a)	Financial data for forecasted period presented as pro forma adjustments to base period.	Frank J. Oliva Ann F. Wood
1	20	807 KAR 5:001 Section 10 (8)(b)	Forecasted adjustments shall be limited to the 12 months immediately following the suspension period.	William Steven Seelye
1	21	807 KAR 5:001 Section 10 (8)(c)	Capitalization and net investment rate base shall be based on a 13 month average for the forecasted period.	William Steven Seelye
1	22	807 KAR 5:001 Section 10 (8)(f)	The utility shall provide a reconciliation of the rate base and capital used to determine its revenue requirements.	Ann F. Wood
2	23	807 KAR 5:001 Section 10(9)(a)	Prepared testimony of each witness supporting its application including testimony from chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program.	Ann F. Wood

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Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
3	24	807 KAR 5:001 Section 10(9)(b)	Most recent capital construction budget containing at minimum 3 year forecast of construction expenditures.	Gary T. Crawford Craig A. Johnson Ricky L. Drury
3	25	807 KAR 5:001 Section 10(9)(c)	Complete description, which may be in prefiled testimony form, of all factors used to prepare forecast period. All econometric models, variables, assumptions, escalation factors, contingency provisions, and changes in activity levels shall be quantified, explained, and properly supported.	Frank J. Oliva
3	26	807 KAR 5:001 Section 10(9)(d)	Annual and monthly budget for the 12 months preceding filing date, base period and forecasted period.	Frank J. Oliva
3	27	807 KAR 5:001 Section 10(9) (e)	Attestation signed by utility's chief officer in charge of Kentucky operations providing: 1. That forecast is reasonable, reliable, made in good faith and that all basic assumptions used have been identified and justified; and 2. That forecast contains same assumptions and methodologies used in forecast prepared for use by management, or an identification and explanation for any differences; and 3. That productivity and efficiency gains are included in the forecast;	Robert M. Marshall
3	28	807 KAR 5:001 Section 10(9)(f)	For each major construction project constituting 5% or more of annual construction budget within 3 year forecast, following information shall be filed: 1. Date project began or estimated starting date; 2. Estimated completion date; 3. Total estimated cost of construction by year exclusive and inclusive of Allowance for Funds Used During Construction ("AFUDC") or Interest During Construction Credit; and 4. Most recent available total costs incurred exclusive and inclusive of AFUDC or Interest During Construction Credit;	Gary T. Crawford Craig A. Johnson Ricky L. Drury
3	29	807 KAR 5:001 Section 10(9)(g)	For all construction projects constituting less than 5% of annual construction budget within 3 year forecast, file aggregate of information requested in paragraph (f) 3 and 4 of this subsection;	Craig A. Johnson Ricky L. Drury
3	30	807 KAR 5:001 Section 10(9)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget supported by underlying assumptions made in projecting results of operations and including the following information: 1. Operating income statement (exclusive of dividends per share or earnings per share);	James C. Lamb, Jr. Frank J. Oliva

Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
			month of base period, and subsequent months, as available;	
5	38	807 KAR 5:001 Section 10(9)(p)	SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued during prior 2 years and any Form 10-Qs issued during past 6 quarters;	Ann F. Wood
5	39	807 KAR 5:001 Section 10(9)(q)	Independent auditor's annual opinion report, with any written communication which indicates the existence of a material weakness in internal controls;	Ann F. Wood
5	40	807 KAR 5:001 Section 10(9)(r)	Quarterly reports to the stockholders for the most recent 5 quarters;	Ann F. Wood
5	41	807 KAR 5:001 Section 10(9)(s)	Summary of latest depreciation study with schedules itemized by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall identify current and base period depreciation rates used by major plant accounts. If information has been filed in another PSC case, refer to that case's number and style.	Ann F. Wood
5	42	807 KAR 5:001 Section 10(9)(t)	List all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with application. Include each software, program, or model; its use; identify the supplier of each; briefly describe software, program, or model; specifications for computer hardware and operating system required to run program.	Ann F. Wood
5	43	807 KAR 5:001 Section 10(9)(u)	If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the base period or during the previous three (3) calendar years, the utility shall file: 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each allocation or payment; 2. Method and amounts allocated during base period and method and estimated amounts to be allocated during forecasted test period; 3. Explain how allocator for both base and forecasted test period was determined; and 4. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during base period is reasonable.	Ann F. Wood
5	44	807 KAR 5:001 Section 10(9)(v)	If gas, electric or water utility with annual gross revenues greater than $5,000,000, cost of service study based on methodology generally accepted in industry and	William Steven Seelye

Volume	Tab	Filing Requirement	Description	Sponsoring Witness(es)
			based on current and reliable data from single time period.	
5	45	807 KAR 5:001 Section 10(9)(w)	Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file: 1. Jurisdictional separations study consistent with Part 36 of the FCC's rules and regulations; and 2. Service specific cost studies supporting pricing of services generating annual revenue greater than $1,000,000 except local exchange access: a. Based on current and reliable data from single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles.	Ann F. Wood
5	46	807 KAR 5:001 Section 10(10)(a)	Jurisdictional financial summary for both base and forecasted periods detailing how utility derived amount of requested revenue increase;	David G. Eames William Steven Seelye
5	47	807 KAR 5:001 Section 10(10)(b)	Jurisdictional rate base summary for both base and forecasted periods with supporting schedules which include detailed analyses of each component of the rate base;	William Steven Seelye
5	48	807 KAR 5:001 Section 10(10)(c)	Jurisdictional operating income summary for both base and forecasted periods with supporting schedules which provide breakdowns by major account group and by individual account;	Ann F. Wood
5	49	807 KAR 5:001 Section 10(10)(d)	Summary of jurisdictional adjustments to operating income by major account with supporting schedules for individual adjustments and jurisdictional factors;	Ann F. Wood
5	50	807 KAR 5:001 Section 10(10)(e)	Jurisdictional federal and state income tax summary for both base and forecasted periods with all supporting schedules of the various components of jurisdictional income taxes;	Ann F. Wood
5	51	807 KAR 5:001 Section 10(10)(f)	Summary schedules for both base and forecasted periods (utility may also provide summary segregating items it proposes to recover in rates) of organization membership dues; initiation fees; expenditures for country club; charitable contributions; marketing, sales, and advertising; professional services; civic and political activities; employee parties and outings; employee gifts; and rate cases;	Ann F. Wood
5	52	807 KAR 5:001 Section 10(10)(g)	Analyses of payroll costs including schedules for wages and salaries, employees benefits, payroll taxes straight time and overtime hours, and executive compensation by title;	Ann F. Wood

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Filing Requirement
807 KAR 5:001 Section 10(9)(l)
Sponsoring Witness: Ann F. Wood

Description of Filing Requirement:

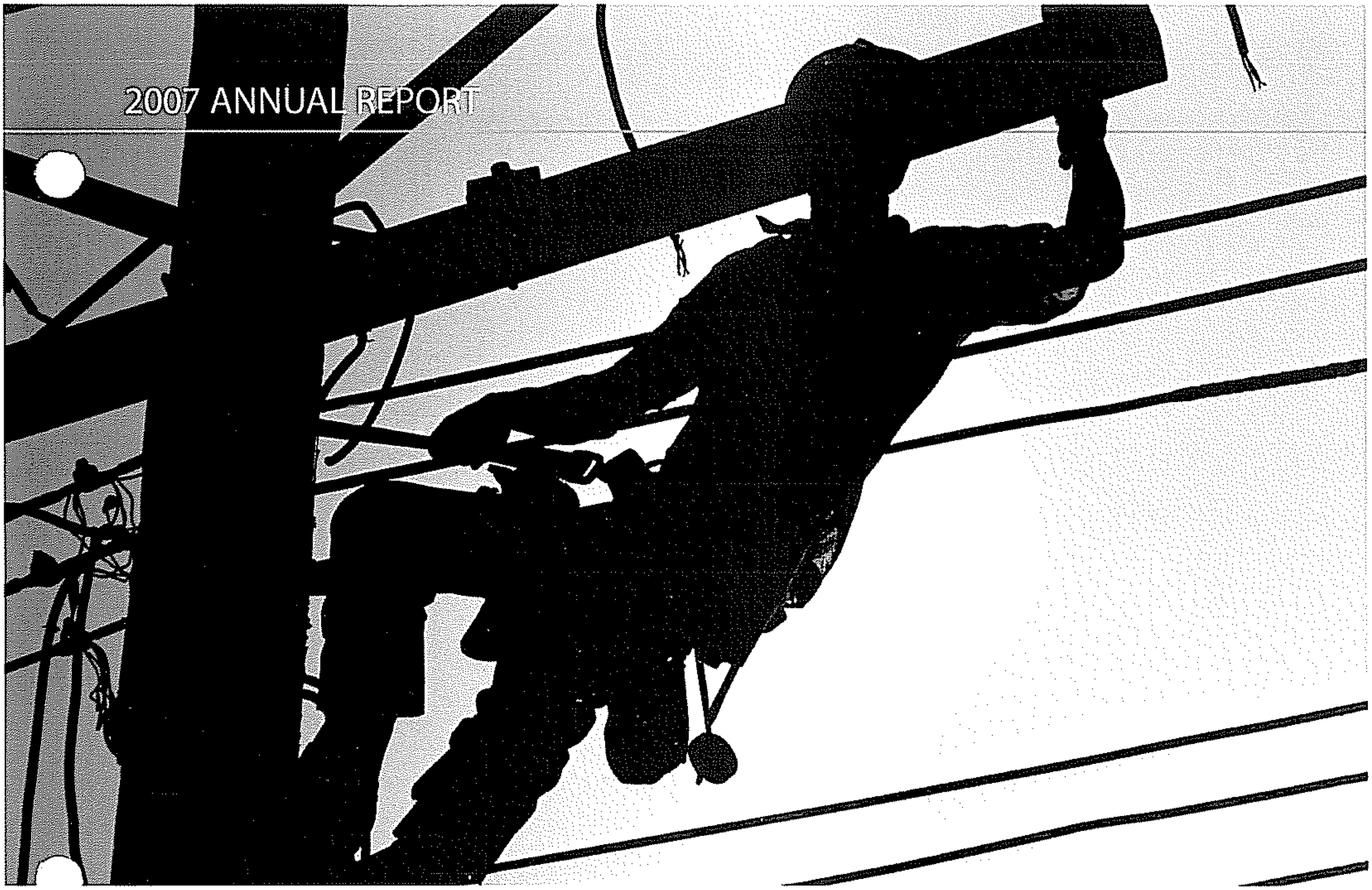
Annual report to shareholders or members and statistical supplements for the most recent 5 years prior to application filing date;

Response:

EKPC's Annual Reports for 2003, 2004, 2005, 2006, and 2007 are attached.

East Kentucky Power Cooperative, Inc.

2007 Annual Report



EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy Cooperative

East Kentucky Power Cooperative

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving 511,000 Kentucky homes, farms, businesses and industries across 87 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

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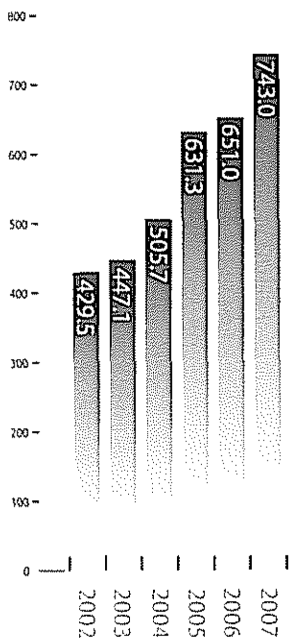
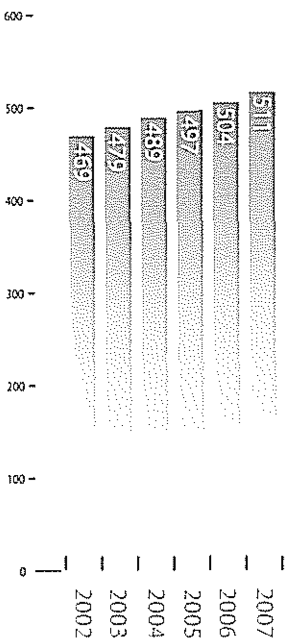
Operating Revenue

in $Millions



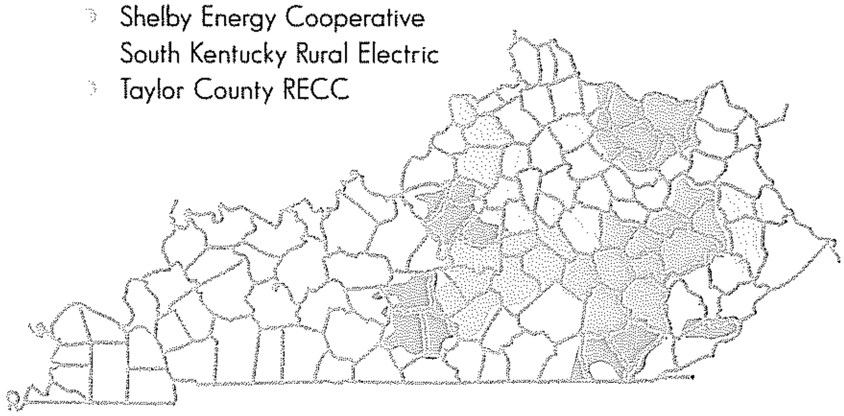
Member Consumer Meters

Year-End in Thousands



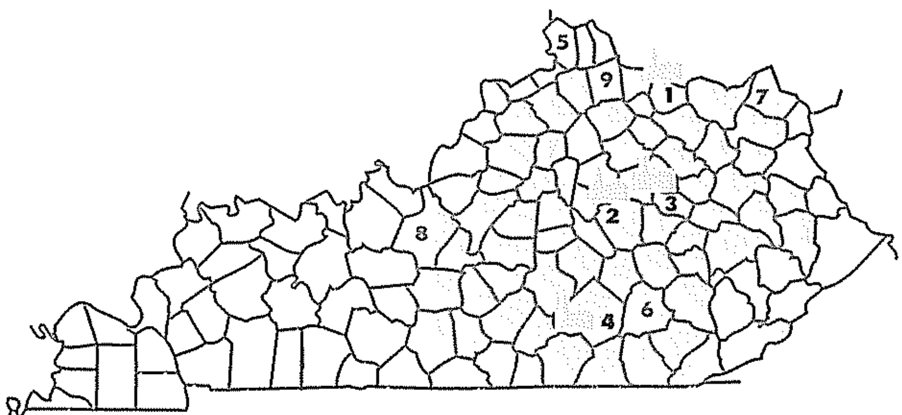
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.0 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
9	Pendleton	3.2 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system-wide service area

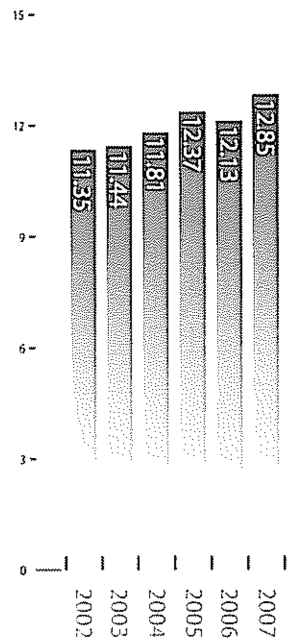
EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

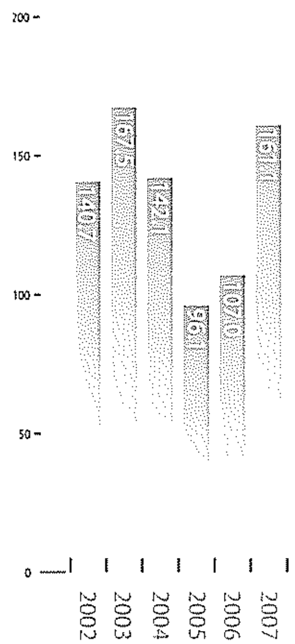
	2007	2006	% Increase
Operating Revenue	**$743,026**	$650,960	14.1
Operating Expenses	**$638,533**	$573,750	11.3
Net Margin	**$41,920**	$11,174	275.2
Fuel Expenses for Generation	**$293,756**	$278,210	5.6
Purchased Power Cost	**$120,381**	$76,781	56.8
Interest Cost	**$102,986**	$84,834	21.4
Members' Equities	**$161,139**	$107,033	50.6
Construction Expenditures	**$421,809**	$290,463	45.2
Assets	**$2,358,003**	$2,030,092	16.2
Sales to Member Cooperatives (MWh)	**12,851,620**	12,129,402	6.0
System Peak Demand (MW)			
Winter Season	**3,033** *	2,859	6.1
Summer Season	**2,487**	2,339	6.3
Number of Member System Consumers	**511,371**	504,492	1.4

* set January 25, 2008

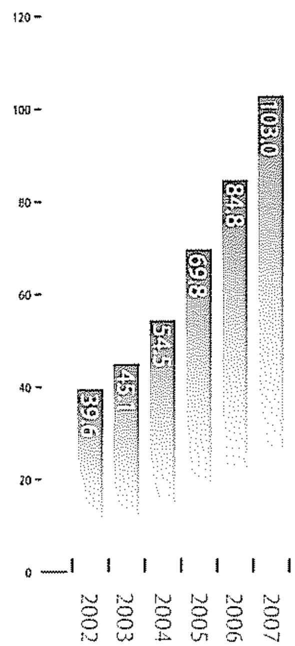
Energy Sales to Members
MWh in Millions



Members' Equities
Year-End in $Millions



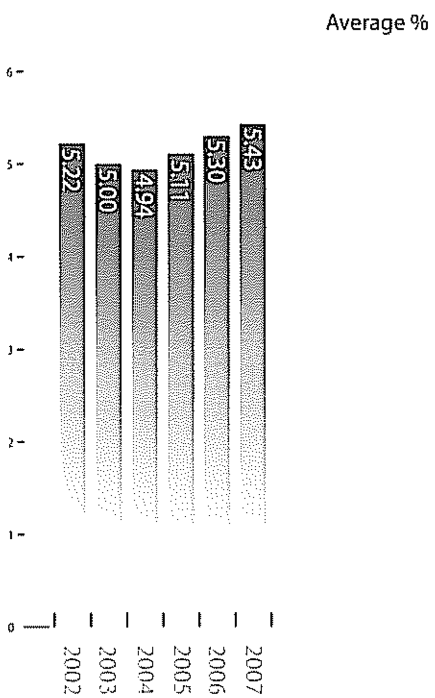
Interest Cost
in $Millions



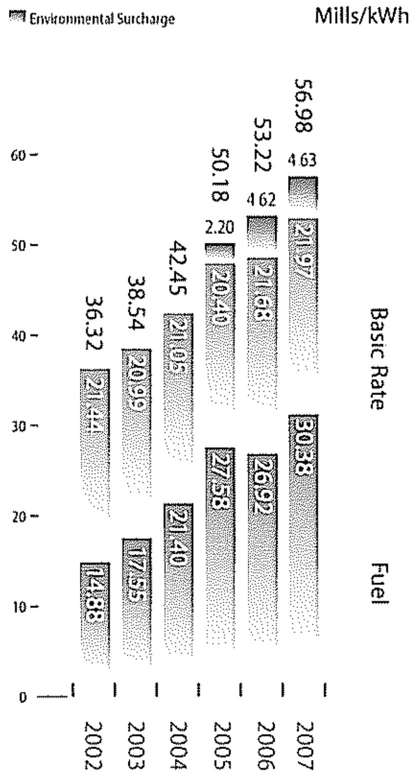
Five-Year Statistical Summary

	2007	2006	2005	2004	2003
Net Margins (Deficit) - $1,000	$41,920	$11,174	($46,007)	($27,267)	$29,398
TIER	1.41	1.13	0.34	.49	1.66
DSC	1.15	0.98	0.66	0.72	1.35
Fuel Expense - $1,000	$293,756	$278,210	$263,434	$173,506	$137,103
Construction Expenditures -$1,000					
Generation	$387,816	$222,722	$131,756	$166,351	$221,949
Transmission	$33,802	$62,638	$26,987	$35,818	$27,101
General	$191	$5,103	$3,864	$2,846	$12,762
Investment In Facilities - $1,000					
Original Cost	$2,925,546	$2,482,319	$2,192,259	$2,025,314	$1,810,211
Long-Term Debt - $1,000	$1,955,039	$1,643,305	$1,339,263	$1,223,164	$952,987
Total Assets - $1,000	$2,358,003	$2,030,092	$1,687,894	$1,558,561	$1,328,532
Number of Employees - Full-Time	620	620	635	629	599
Cost of Coal Purchased					
$/ton	$51.06	$55.82	$49.95	$43.24	$34.13
$/MBtu	$2.17	$2.35	$2.09	$1.78	$1.39
Amount of Coal Purchased - tons	4,788,727	4,788,437	4,559,035	3,859,339	3,615,196
Generation - MWh	11,493,588	11,197,632	11,105,626	9,046,449	9,061,760
System Peak Demand - MW					
Winter Season	3,033	2,859	2,642	2,711	2,589
Summer Season	2,487	2,339	2,227	2,041	1,996
Sales to Other Utilities - MWh	154,743	77,010	144,197	53,466	71,224
Member Load Growth - %					
Energy	6.0	(1.9)	4.7	3.2	0.7
Demand	5.3	1.3	6.2	4.0	(0.6)
Load Factor - %	51	50	52	51	51
Miles of Line	2,704	2,673	2,663	2,638	2,629
Installed Capacity - kVA	9,066,866	9,010,066	8,919,666	8,863,666	8,824,466
Distribution Substations	333	321	311	304	299

Average Interest Rate on Long-Term Debt Year-End



Power Cost to Members



MAKING PROGRESS, FACING CHALLENGES AHEAD

Though 2007 emerged as a challenging year, EKPC achieved key goals set at the beginning of the year to streamline the organization and strengthen its financial condition.

To streamline the organization, EKPC reduced the number of senior staff from 10 to five. An independent consulting firm developed 136 recommendations to reorganize and improve work throughout the organization, and EKPC implemented most of those recommendations.

Other accomplishments included ending costly and time-consuming litigation by settling two lawsuits filed by the U.S. Environmental Protection Agency. We also successfully negotiated Warren Rural Electric's withdrawal from our organization.

In order to strengthen finances, EKPC renewed an aggressive cost containment initiative, which included appointing five teams to make recommendations to significantly reduce costs. These efforts will be ongoing in an attempt to increase competitiveness and save millions of dollars in costs by 2011.

Net margin in 2007 was $41.9 million, which rose significantly from the $11.2 million net margin recorded the previous year.

The savings derived from our cost-containment campaign became essential when the Kentucky Public Service Commission announced late last year that EKPC could make permanent the $19 million annual rate increase that the cooperative began collecting in April 2007 on an interim basis.

As we look ahead to 2008 and beyond, it will again be critical to demonstrate the ability to meet financial obligations and raise our equity positions in order to obtain the financing necessary to meet future construction needs.

Those needs include plans to spend more than $2 billion to complete new baseload generating plants (including Spurlock Unit #4 and Smith Unit #1) and modify existing facilities to meet increasingly strict emissions standards. Timely completion of these projects is essential for our customers, and they present a huge challenge for our organization.

We must continue to focus our efforts on being as efficient and effective as possible while keeping our existing fleet operating at maximum capacity.

EKPC will continue to look for ways to expand coal blending and use alternate fuels to contain costs. We will also continue to explore options on joint power supply with other utilities.

Our organization will continue to build upon the improvements made in 2007, united behind determined efforts to achieve our long-term goals and meet the challenges ahead.

Bob Marshall
President and CEO

Wayne Stratton
Chairman of the Board

YEAR IN REVIEW

Public Service Commission grants rate increase

In December 2007, the Kentucky Public Service Commission (PSC) said EKPC could make permanent a rate increase that the PSC approved in April on an interim basis.

The rate increase amounted to approximately 2 percent for retail members, or about $1.50 to $2 per month for the average residential retail member served by one of EKPC's 16 member cooperatives. The wholesale rate increase will generate about $19 million in additional annual revenue.

Cooper Station adopts plan to mitigate low water

In December 2007, the PSC approved modifications at EKPC's Cooper Station to ensure continued operation of the plant at lower Lake Cumberland levels. The $24 million plan — to be offset somewhat by a $3 million government grant awarded in December 2007 — included the construction of a cooling tower and the deployment of supplemental water pumps.

Settlements with federal government announced

In September 2007, EKPC announced an $11.4 million settlement with the federal government to be paid over six years, resolving alleged violations of the Clean Air Act. The lawsuit alleged that EKPC's Dale #1 and Dale #2 generating units in Clark County should have been included in the government's regulatory programs for emissions of sulfur dioxide and nitrogen oxide. Under the existing settlement, additional penalties may be assessed in the future, depending upon EKPC margins.

In addition, EKPC maintained it had been and remains in compliance with the Clean Air Act. The agreement resulted from more than a year of negotiations between the U.S. Department of Justice, the U.S. Environmental Protection Agency (EPA) and EKPC.

In July 2007, a settlement was reached with the federal government to resolve a lawsuit that alleged New Source Review violations of the Clean Air Act. The settlement called for EKPC to pay a $750,000 civil penalty.

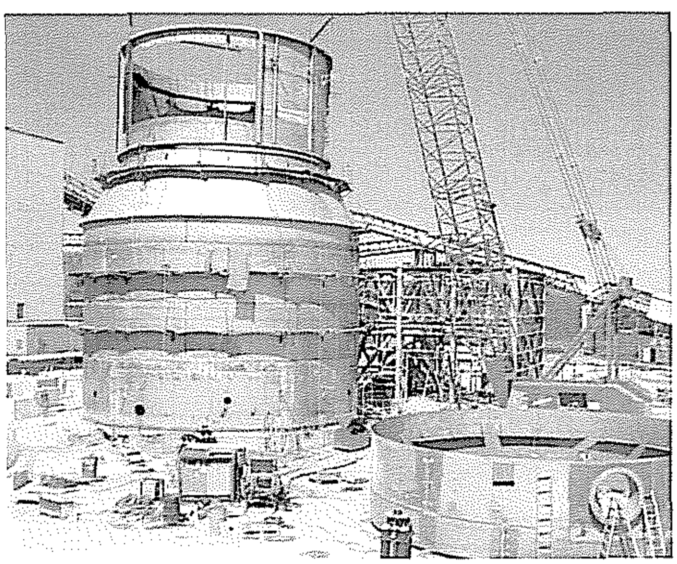
As part of the settlement, EKPC pledged to construct projects to further reduce emissions from its power plants at an estimated cost of $656 million over the next five to seven years.

Spurlock Unit #4 air permit affirmed, construction continues

The Kentucky Environmental and Public Protection Cabinet in September of last year affirmed approval of the air permit for Spurlock Unit #4, EKPC's second clean coal unit, which crews began constructing in mid-June 2006.

At peak construction in the summer and fall of 2007, nearly 1,000 construction workers were building the unit at Spurlock Station.

The project, scheduled for completion by April 2009, will be identical to Spurlock Station's Gilbert Unit, which came on-line in 2005. Using a cutting-edge technology known as the circulating fluidized bed (CFB) process, Unit #4 will produce 98 percent less sulfur dioxide and 80 percent less nitrogen oxide than conventional coal plants. The 278-megawatt unit will rank among the cleanest coal generating units in the nation.



EKPC is in the midst of one of the busiest periods in its history, with approximately $2 billion in ongoing or planned construction.

Scrubber construction underway

Construction of two scrubbers that remove sulfur dioxide emissions continued at Spurlock Station, with the Unit #2 scrubber scheduled to go into service in fall 2008. The Unit #1 scrubber is expected to be completed in spring 2009.

Stack construction at Spurlock Station

In May 2007, work began on the first of two new 650-foot stacks at Spurlock Station designed to handle additional moisture from the scrubbers that are being added to Units #1 and #2.

Work began in May 2007 on the new Unit #2 stack and should be completed by July 2008. Construction on the new Spurlock #1 stack is scheduled to last until January 2009. Once the new stacks are completed, the emissions from the generating units will be re-routed to the new structures from the existing stacks.

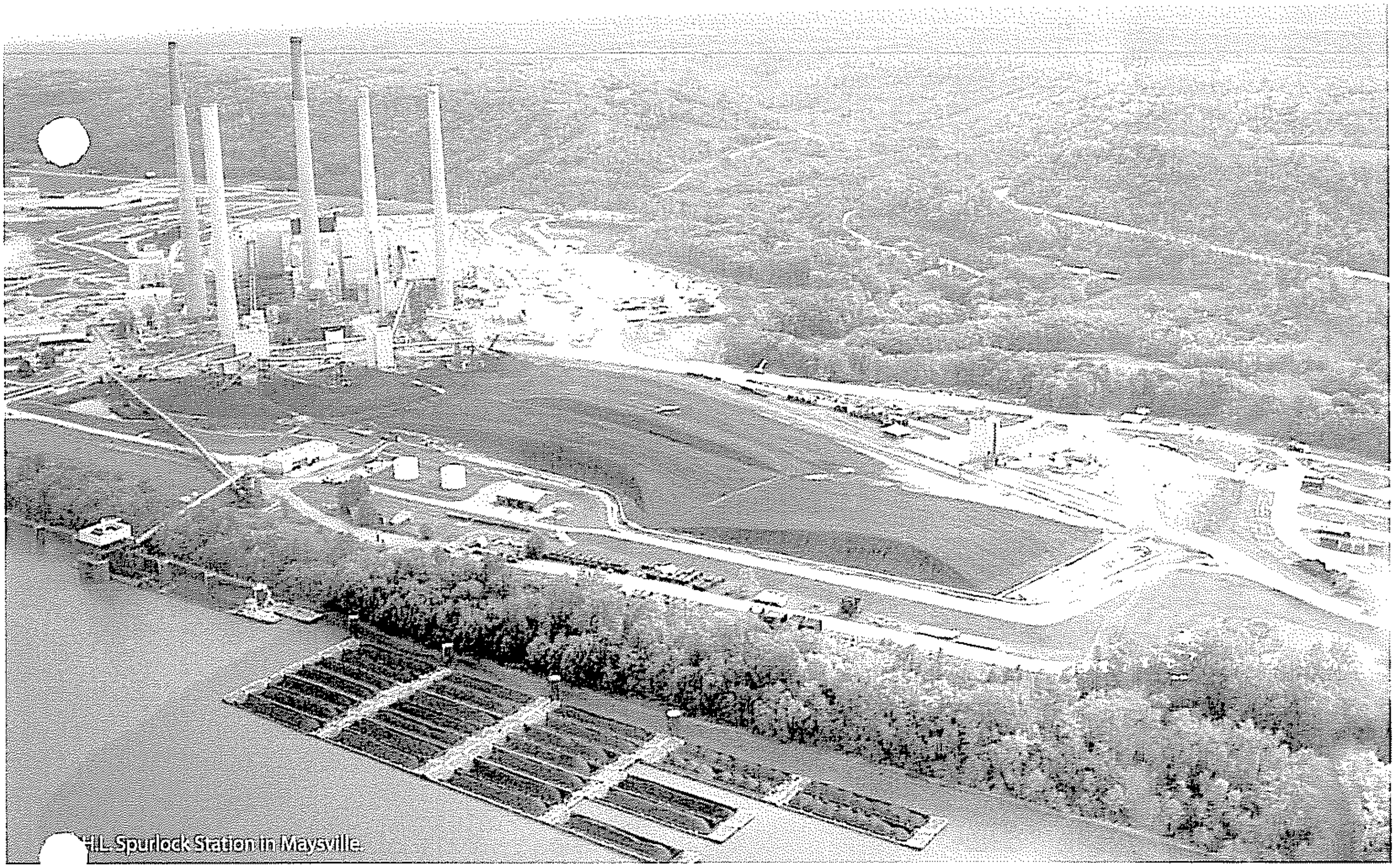
Dale Unit #3 undergoes first overhaul in more than a decade

A major turbine/generator overhaul to Dale Station's Unit #3 got underway in October 2007 and was finished ahead of schedule.

During the eight-week outage, plant technicians rebuilt turbine and control valves and replaced regeneration tubes in the boiler. Unit #3's last major overhaul took place 11 years ago. During the procedure, technicians also installed low nitrogen oxide burners on Dale units #1 and #2.

Public Service Commission approves Smith Unit #1

The PSC in August granted EKPC a certificate of need for construction of the 278-megawatt coal-fired unit at J.K. Smith Station in Clark County. Smith Unit #1 needs the air permit and federal environmental approval from the Rural Utilities Service in order for EKPC to begin construction.



H.L. Spurlock Station in Maysville.

EKPC signs combustion turbine contract

In 2007, EKPC signed a contract with General Electric to add combustion turbine units #8 and #9 at J.K. Smith Station in Clark County.

EKPC is awaiting final regulatory approvals, but the target commercial date for the units is summer 2009.

Forest management program proposed

EKPC developed a forest management plan to mitigate noise and promote stewardship at J.K. Smith Station. Under the plan, thousands of trees native to Kentucky were planted to enhance the environment and reduce noise from the plant.

Plan for 36-mile power line approved

The PSC in September 2007 approved EKPC's plans for a 36-mile, 345-kilovolt electric transmission line in Clark, Garrard and Madison counties. About three-quarters of the proposed route will be co-located with existing transmission lines by either rebuilding existing lines or constructing a new line beside existing lines. EKPC began construction on the line in 2008 and will have the line in service in 2009.

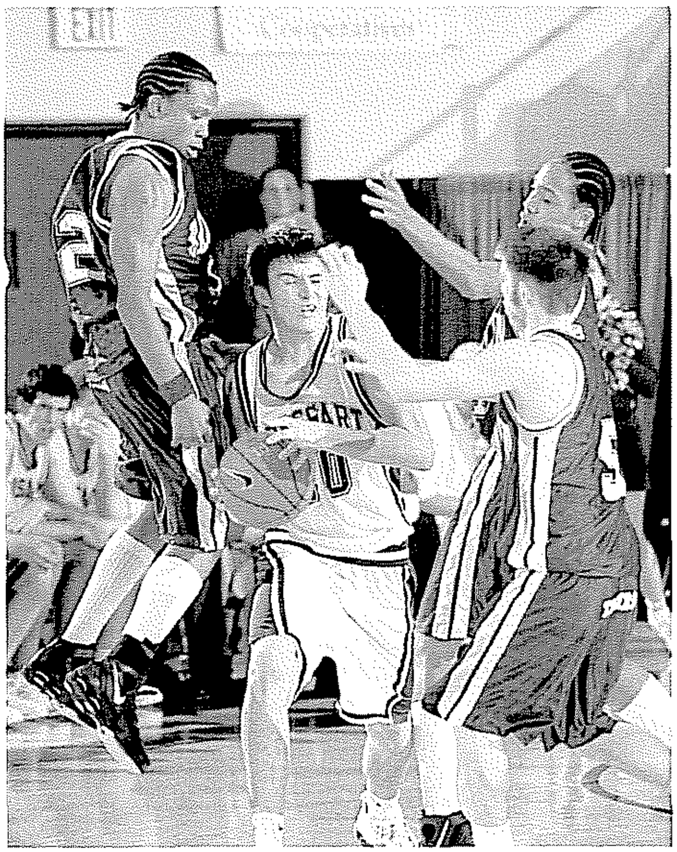
Other line work got underway in March 2007 when EKPC began constructing a new distribution substation and approximately four miles of 69-kilovolt transmission line to serve Edmonton Industrial Park in Glasgow, Ky. The project, constructed by EKPC in partnership with Farmers RECC and the City of Edmonton, will provide enhanced electric service to the industrial park.

Board approves North Star budget

In December 2007, EKPC's Board approved a budget with specific targets to increase rate competitiveness. Management also adopted targeted goals for unit availability, safety, transmission reliability and cash flow.

EKPC, MISO sign re-dispatch agreement

The Midwest Independent System Transmission System Operator (MISO) and EKPC in May 2007 entered into an agreement that will help alleviate transmission constraints. The agreement had an initial one-year term but will renew automatically unless terminated by one of the parties.



The Touchstone Energy All "A" Classic is a popular annual tournament that gives thousands of students from Kentucky's smaller high schools the opportunity to showcase both athletic and academic talents.

Under the agreement, the MISO agrees to compensate EKPC when the cooperative agreed to re-dispatch units to accommodate some of the MISO's power flows.

Unit generation figures

In 2007, EKPC posted generation of 11.5 million net megawatt hours (MWh). Dale Station generated 1.0 million net MWh. Cooper Station generated 2.0 million net MWh, while Spurlock Station produced more than 8.0 million net MWh and Smith Station generated 378,475 net MWh. EKPC's five landfill gas plants combined for a total generation of 93,452 net MWh in 2007.

System transmission construction continues

During 2007, EKPC built 39 miles of new transmission lines. Throughout the year, crews also completed 72.36 miles of line upgrades and re-conductoring.

2007 Touchstone Energy All "A" Classic awards scholarships to Kentucky students

Students from Kentucky's smallest high schools again showcased their talents in basketball, cheerleading, music, art, baseball, softball and ROTC drill teams during a variety of events throughout the year.

In addition, 70 Kentucky high school seniors were each awarded a $1,000 scholarship, which they can apply toward any Kentucky post-secondary school.

EKPC's fifth landfill gas power plant debuts

EKPC began operating its fifth renewable power plant fueled by landfill gas in February 2007. The plant, located at the Pendleton County Landfill, produces 3.2 megawatts of electricity, enough clean, renewable power to supply about 1,900 Kentucky homes.

EKPC's other landfill gas plants are located at Bavarian Landfill (near Walton, Ky.), Green Valley Landfill (near Grayson, Ky.), Laurel Ridge Landfill (near London, Ky.) and Pearl Hollow Landfill (near Elizabethtown, Ky.). Together, these plants generate about 15 megawatts of power, or enough to supply about 9,000 Kentucky homes.

Blue Grass Energy wins team award at Lineman's Rodeo

Nicholasville, Ky.-based Blue Grass Energy won in the overall team competition at the third annual Kentucky Lineman's Rodeo, held in July 2007 at EKPC headquarters. Twenty-one teams representing 13 Kentucky cooperatives competed at the event.

EXECUTIVE STAFF

Coordinates strategic initiatives with day-to-day operations to further the goals of the company

Stacy Barker
Corporate Services

Jim Lamb
Power Supply

Dave Eames
Finance

John Twitchell
G&T Operations

David Smart
Legal

Financial Highlights

Results of Operations

Operating revenues for the twelve months ended December 31, 2007 increased approximately $92.1 million compared to the same period in 2006. As a result of cold weather in early 2007 and unusually warm weather in the summer and fall, MWh sales to members increased 6.0 percent over the previous year. Through December 31, 2007, demand and energy revenue to members increased $79.3 million over the same period in 2006. In January 2007, EKPC filed an Application for General Adjustment in Electric Rates with the PSC. The PSC granted EKPC interim rate relief of $19 million as of April 1, 2007. This interim rate relief was made permanent by the PSC in December 2007. The PSC allows electric utilities to recover fuel and purchased power costs through a fuel adjustment clause and to recover Federal Clean Air Act compliance costs through an environmental surcharge. For the twelve-month period ended December 31, 2007, fuel adjustment clause revenue and environmental surcharge revenue increased $3.6 million and $3.4 million, respectively, over the same period last year.

During 2007, EKPC settled two lawsuits with the EPA. The first lawsuit alleged physical or operating changes to three coal-fired generators resulted in simultaneous violations of various aspects of the Clean Air Act. EKPC and the EPA executed a consent decree. EKPC agreed to pay $750,000 in civil penalties, install certain emissions monitoring equipment, and report emissions. The second lawsuit alleged technical violations of the Clean Air Act Acid Rain program, and provisions of the NOx State Implementation Plan at Dale Units 1 and 2. The issue for both units involved whether these units were subject to regulations as generators having a "nameplate" capacity greater than 25 megawatts and/ or were generators used to generate 25 megawatts or more of electricity. EKPC and the EPA executed a second consent decree. EKPC agreed to make six annual payments of $1.9 million in fixed penalties, the first of which was paid in December 2007. EKPC is subject to a contingent penalty payment if certain financial ratios are achieved in 2008 through 2012. EKPC also surrendered certain NOx and SO2 allowances.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. Because of the weather conditions throughout 2007, EKPC ran its combustion turbines for peaking purposes. Natural gas usage through December 31, 2007 increased $18.0 million over the twelve months ended December 31, 2006. Because of the weather and the growth in the EKPC system, EKPC must purchase power to meet member needs. Purchased power costs for the twelve-month period ended December 31, 2007 have increased $43.6 million over the same period in 2006.

Generation of Power

EKPC has coal fired generating facilities at Dale Station in Clark County, Cooper Power Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at the Smith Generating Facility in Clark County. EKPC's generating facilities produced 11.5 million megawatt-hours in 2007, compared with 11.2 million in 2006.

EKPC's power stations burned 4.82 million tons of coal in 2007, compared with 4.71 million tons in 2006. The cost of coal burned during 2007 was $2.181 per million Btu, or $50.94 per ton. The cost of coal purchased during 2007 was $2.173 per million Btu or $51.06 per ton.

The combustion turbines at the Smith Generating Facility consumed 433,574 gallons of oil with a cost of $1.016 per gallon or $7.330 per million Btu. The combustion turbines also consumed 4,944,186 MCF of natural gas with a cost of $8.37 per MCF.

Interest Costs

Gross interest expense was $103.0 million. The prime rate decreased from 8.25 percent to 7.25 percent during 2007. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.17 to 5.30 percent.

Of the total $2,016.2 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2007. The average annual rate on all debt increased from 5.3 percent in 2006 to 5.4 percent in 2007.

Virtually all of EKPC's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $98.5 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 3.68 percent for 2007.

OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs and other corporate functions.

BOARD MEMBERS

Taylor County RECC

P.D.
Depp

Grayson RECC

Bill
Rice

Big Sandy RECC

Wade
May

Farmers RECC

Randy
Sexton

Fleming-Mason Energy
Vice-Chairman

Lonnie
Vice

SYSTEM MANAGERS

Blue Grass Energy

Dan
Brewer

Salt River Electric

Larry
Hicks

Owen Electric

Bob
Hood

Licking Valley RECC

Kerry
Howard

Shelby Energy

Debbie
Martin

Inter-County Energy

Jim
Jacobus

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS


Licking Valley RECC

Mike
Adams


Blue Grass Energy

E.A.
Gilbert


Owen Electric

Hope
Kinman


Salt River Electric

Jimmy
Longmire


Cumberland Valley Electric

Elbert
Hampton


Nolin RECC
Secretary-Treasurer

A.L.
Rosenberger

SYSTEM MANAGERS


South Kentucky Rural Electric

Allen
Anderson


Clark Energy

Paul
Embs


Taylor County RECC

Barry
Myers


Jackson Energy

Don
Schaefer


Big Sandy RECC

Bobby
Sexton

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS

Wayne
Stratton

Shelby Energy
Chairman

Fred
Brown

Jackson Energy

Bill
Shearer

Clark Energy

Danny
Divine

Inter-County Energy

Tom
Estes

South Kentucky
Rural Electric

SYSTEM MANAGERS

Mickey
Miller

Nolin RECC

Bill
Prather

Farmers RECC

Carol Ann
Fraley

Grayson RECC

Ted
Hampton

Cumberland Valley
Electric

Chris
Perry

Fleming-Mason
Energy

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Fleming-Mason Energy

Vice-Chairman

Lonnie
Vice

Clark Energy

Bill
Shearer

SYSTEM MANAGERS

Salt River Electric

Larry
Hicks

Jackson Energy

Don
Schaefer

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Robert M Marshall David G. Eames

Bob Marshall
President and CEO

David G. Eames
Chief Financial Officer

Crowe

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc.
and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2007 and 2006, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary'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 the 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In 2007, the Cooperative adopted Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit and Other Postretirement Plans, as discussed in Note 6.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Lexington, Kentucky
March 19, 2008

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
ASSETS		
Electric plant, at original cost		
In-service	$ 2,157,134	$ 2,079,932
Construction in progress	768,412	402,387
	2,925,546	2,482,319
Less accumulated depreciation	835,416	798,533
Electric plant, net	2,090,130	1,683,786
Long-term accounts receivable	5,681	7,428
Investment securities		
Available for sale	46,551	43,956
Held to maturity	8,195	8,216
Current assets		
Cash and cash equivalents	16,660	69,202
Accounts receivable	68,309	62,091
Fuel	43,868	44,682
Materials and supplies	39,205	37,129
Emission allowances	27,286	58,920
Other	2,782	3,130
Total current assets	198,110	275,154
Deferred charges	3,392	4,499
Other	5,944	7,053
Total assets	$ 2,358,003	$ 2,030,092
LIABILITIES AND MEMBERS' EQUITIES		
Members' equities	$ 161,139	$ 107,033
Long-term debt, excluding current portion	1,955,039	1,643,305
Current liabilities		
Current portion of long-term debt	61,137	57,782
Accounts payable	106,153	90,977
Accrued expenses	11,139	24,942
Total current liabilities	178,429	173,701
Accrued postretirement benefit cost	38,917	48,663
Other	24,479	57,390
Total liabilities and members' equities	$ 2,358,003	$ 2,030,092

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Operating revenue	$ 743,026	$ 650,960
Operating expenses		
Production		
Fuel	293,756	278,210
Other	116,882	113,382
Purchased power	120,381	76,781
Transmission and distribution	27,495	27,557
Depreciation	40,563	39,384
General and administrative	39,456	38,436
	638,533	573,750
Operating margins	104,493	77,210
Interest expense	102,986	84,834
Net operating margin (deficit)	1,507	(7,624)
Nonoperating margins		
Interest income	7,860	8,433
Allowance for interest on borrowed funds used during construction	22,275	9,192
Lawsuit settlements	9,443	-
Miscellaneous	700	858
	40,278	18,483
Capital credits and patronage capital allocations	135	315
Net margin	$ 41,920	$ 11,174

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
Balances, January 1, 2006	$ 2	$ 92,386	$ 3,035	$ 685	$ 96,108
Comprehensive income					
Net margin	-	11,174	-	-	11,174
Unrealized losses on investments available for sale	-	-	-	(249)	(249)
Total comprehensive income					10,925
Balances, December 31, 2006	2	103,560	3,035	436	107,033
Comprehensive income					
Net margin	-	41,920	-	-	41,920
Unrealized gains on investments available for sale	-	-	-	50	50
Total comprehensive income					41,970
Adoption of SFAS No. 158	-	-	-	12,136	12,136
Balances, December 31, 2007	$ 2	$ 145,480	$ 3,035	$ 12,622	$ 161,139

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Cash flows from operating activities		
Net margin	$ 41,920	$ 11,174
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	40,563	39,384
Amortization of loan costs	2,859	2,843
Changes in:		
Accounts receivable	(6,218)	15,572
Fuel	(21,343)	(19,237)
Materials and supplies	(2,898)	(4,034)
Emission allowances	41,650	(54,833)
Accounts payable, trade	82,767	43,810
Accrued expenses	(13,803)	4,108
Accrued postretirement benefit cost	2,390	2,059
Other	(46,902)	(18,609)
Net cash from operating activities	120,985	22,237
Cash flows from investing activities		
Additions to electric plant	(487,839)	(304,474)
Maturities and calls of securities available for sale	10	19,611
Purchases of securities available for sale	(2,555)	(21,235)
Maturities of securities held to maturity	21	21
Payments received on long-term accounts receivable	1,747	440
Net cash from investing activities	(488,616)	(305,637)
Cash flows from financing activities		
Proceeds from long-term debt	582,126	360,000
Principal payments on long-term debt	(267,037)	(51,261)
Net cash from financing activities	315,089	308,739
Net change in cash and cash equivalents	(52,542)	25,339
Cash and cash equivalents at beginning of year	69,202	43,863
Cash and cash equivalents at end of year	$ 16,660	$ 69,202

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

		2007		2006
Supplemental disclosure of cash flow information				
Cash paid for interest	$	117,955	$	82,183
Non-cash operating transaction				
Fuel included in accounts payable	$	22,157	$	13,791
Materials and supplies included in accounts payable		822		483
Transfer from accrued postretirement benefit cost to members' equities as a result of initial application of SFAS No. 158	$	12,136	$	-
Transfer of emissions allowances from other liabilities	$	10,016	$	-
Non-cash investing transaction				
Additions to electric plant included in accounts payable	$	44,612	$	14,414
Unrealized gains (losses) on securities available for sale		50		(249)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals 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.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates or end dates generally as follows:

Production plant	years 2019 - 2045
Transmission and distribution plant	0.71% - 3.42%
General plant	2.00% - 20.00%

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2007 or 2006.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The PSC has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

The PSC has an environmental cost recovery mechanism that allows utilities to recover certain costs incurred in complying with the Federal Clean Air Act. This environmental surcharge is being billed on a percentage of revenue basis.

The PSC granted an interim increase in base rates of $19 million on an annualized basis for service rendered on and after April 1, 2007. The PSC made this interim increase permanent in December 2007.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $732,348,000 and $645,476,000 for 2007 and 2006, respectively. Accounts receivable at December 31, 2007 and 2006 were primarily from billings to member cooperatives.

(Continued)

NOTE 1 - **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

At December 31, 2007 and 2006, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2007	2006
Owen Electric Cooperative	$ 9,354,000	$ 8,748,000
South Kentucky RECC	-	6,408,000
Blue Grass Energy Cooperative	-	6,304,000

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2007 and 2006, respectively, the Cooperative had $589,690 and $1,205,394 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at average cost.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are recognized using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2007, no patronage capital was available for refunds or retirement.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income includes both net margin (deficit) and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

Reclassifications: Certain 2006 amounts have been reclassified in these consolidated financial statements to conform to the 2007 presentation. Such reclassifications had no effect on net margin or members' equities as previously presented.

NOTE 2 – ELECTRIC PLANT

Electric plant in-service consisted of the following at December 31:

	2007	2006
	(in thousands)	
Production plant	$ 1,566,397	$ 1,558,660
Transmission plant	479,090	432,580
General plant	69,223	68,517
Completed construction, not classified and other	42,424	20,175
Electric plant in service	$ 2,157,134	$ 2,079,932

Depreciation expense was $40,563,000 and $39,384,000 for 2007 and 2006, respectively.

NOTE 3 – LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems are making principal and interest (prime rate minus one-half of one percent, adjust annually) payments. The notes are payable in full in 2015.

NOTE 4 – INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2007				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	41,660	84	-	41,744
Zero Coupon Bond	3,320	386	-	3,706
Other	1,061	16	-	1,077
	$ 46,065	$ 486	$ -	$ 46,551
2006				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	39,698	28	-	39,726
Zero Coupon Bond	2,737	397	-	3,134
Other	1,061	11	-	1,072
	$ 43,520	$ 436	$ -	$ 43,956

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Proceeds from maturities and calls of securities were $10,000 and $19,611,000 in 2007 and 2006, respectively. There were no realized gains or losses on those calls.

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2007				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (103)	$ 7,552
6.5875% subordinated term certificate	440	103	-	543
0% subordinated term certificate	100	-	(21)	79
	$ 8,195	$ 103	$ (124)	$ 8,174
2006				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (459)	$ 7,196
6.5875% subordinated term certificate	455	87	-	542
0% subordinated term certificate	106	-	(26)	80
	$ 8,216	$ 87	$ (485)	$ 7,818

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31 not recognized in net margin are as follows (in thousands):

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2007				
3-5% capital term certificates	$ -	$ -	$ 7,552	$ (103)
0% subordinated term certificate	-	-	79	(21)
	$ -	$ -	$ 7,631	$ (124)
2006				
3-5% capital term certificates	$ -	$ -	$ 7,196	$ (459)
0% subordinated term certificate	-	-	80	(26)
	$ -	$ -	$ 7,276	$ (485)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 42,034	$ 42,118
Due after one year through five years	2,970	3,356
Due after ten years	1,061	1,077
	$ 46,065	$ 46,551
Held to maturity		
Due after ten years	$ 8,195	$ 8,174

(Continued)

NOTE 5 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
First mortgage notes:		
4.199% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2040	$ 1,457,086	$ 1,108,580
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	44,311	49,507
3.8%, payable quarterly to CFC in varying amounts through 2024	19,059	20,440
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	7,200	8,400
Promissory notes:		
5.70% - 6.33% variable rate note payable to CFC in 2010	390,000	405,000
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 3.49% at December 31, 2007 and 4.03% at December 31, 2006	74,950	82,100
Series 1984J, variable rate bonds, due October 15, 2011, 3.50% at December 31, 2007 and 3.55% at December 31, 2006	15,070	18,260
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 3.75% at December 31, 2007 and 3.68% at December 31, 2006	8,500	8,800
	2,016,176	1,701,087
Less current portion of long-term debt	61,137	57,782
	$ 1,955,039	$ 1,643,305

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2007, $15,200,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. At December 31, 2007, $3,612,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2007, $14,453,000 of these amounts remained to be advanced.

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the PSC. As of December 31, 2007, $2,240,000 of these amounts remained to be advanced.

In May 2005, EKPC submitted to RUS a loan application in the amount of $906,973,000 for the construction of the Smith #1 Unit and the construction of five additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. In June 2007, EKPC re-submitted this same loan application for the Smith #1 Unit, along with the construction of only two combustion turbines and related transmission facilities for a revised loan amount of $943,932,000. This loan has not been approved by RUS.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2007, $39,240,000 of these amounts remained to be advanced.

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2007, $260,000,000 of this amount remained to be advanced.

In March 2006, RUS approved a loan application in the amount of $481,388,000 for the construction of the Unit #4 at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2007, $231,388,000 of these amounts remained to be advanced.

In May 2007, EKPC submitted to RUS a loan application in the amount of $457,510,000 for the engineering and construction of a new scrubber on the Spurlock Unit #1 and the replacement of the existing scrubber on the Spurlock Unit #2. This loan has not been approved by RUS.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2007 and 2006, the Cooperative's cushion of credit account balance was $0 and $75,875,000, respectively.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series 1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $7,950,000 in 2008 to $13,150,000 in 2013; Series 1984J – payments range from $3,535,000 in 2008 to $4,325,000 in 2010; and Series 1993B – payments range from $400,000 in 2008 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $21,599,000 at December 31, 2007.

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

Estimated maturities of long-term debt for the five years subsequent to December 31, 2007 are as follows: 2008 - $61,137,000; 2009 - $67,248,000; 2010 - $461,605,000; 2011 - $75,178,000; 2012 - $70,901,000; and thereafter - $1,280,107.

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage, all of which were met at December 31, 2007.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 6 – RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $8,968,000 and $7,883,000 for 2007 and 2006, respectively. The Cooperative expects to contribute approximately $6,809,000 to the plan in 2008.

Effective January 1, 2008, the Cooperative revised its defined benefit plan by reducing the benefit level from 2.0% with a cost of living adjustment to 1.8% without a cost of living adjustment. This revision will apply to all employees currently participating in the defined benefit plan. This action will apply to service beginning January 1, 2008.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $790,000 and $775,000 to the plan in 2007 and 2006, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $722,000 to the plan in 2008.

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet, beginning with year end 2007, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income beginning in calendar year 2008. Adoption of SFAS 158 had the following effect on the individual line items in the 2007 balance sheet (dollars in thousands):

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Accrued postretirement benefit cost	$ 51,053	$ (12,136)	$ 38,917
Accumulated other comprehensive income	$ 486	$ 12,136	$ 12,622

Information about plan assets, obligations and contributions follows: The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2007 and 2006 (dollars in thousands):

	2007	2006
Accrued benefit cost at beginning of period	$ 48,663	$ 46,604
Net periodic cost	3,028	2,547
Contributions credited	(638)	(488)
Accrued benefit cost at end of period	51,053	48,663
Accumulated other comprehensive income	(12,136)	-
Funded status	$ 38,917	$ 48,663

The discount rate used in determining the accumulated postretirement benefit obligation for 2007 and 2006 was 6.25% and 6.00%, respectively.

The Cooperative expects to contribute approximately $927,000 to the plan in 2008.

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

The following expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

2008	$ 927
2009	1,038
2010	1,164
2011	1,297
2012	1,461
2013 - 2017	9,946
Total	$ 15,833

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2007. The rate is assumed to decline to 5 percent after five years.

The health care cost trend rate assumption has a significant effect on the amounts reported.

	2007	2006
Effect on total of service cost and interest cost components (dollars in thousands)		
1-percentage-point increase	$ 759	$ 697
1-percentage-point decrease	(587)	(540)
Effect on postretirement benefit obligation (dollars in thousands)		
1-percentage-point increase	$ 7,231	$ 6,776
1-percentage-point decrease	(5,771)	(5,381)

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the one year subsequent to December 31, 2007 as follows (dollars in thousands):

2008	$ 37,484

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2008	$ 134,108
2009	128,771
2010	96,993
2011	73,958
2012	59,461

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

During 2007, the Cooperative settled two lawsuits with the U.S. Environmental Protection Agency (EPA) resulting in the execution of two Consent Decrees discussed below.

On January 28, 2004, the EPA sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA.

The parties executed a Consent Decree ("NSR Consent Decree"), which was lodged of record in U.S. District Court on July 5, 2007. The United States Department of Justice received public comments on the NSR Consent Decree for 30 days from July 5, 2007. The Federal Judge for the Eastern District of Kentucky entered the NSR Consent Decree on September 24, 2007.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

Under the terms of the NSR Consent Decree, the Cooperative paid $750,000 in civil penalties to the EPA, agreed to install certain emissions monitoring equipment and controls, and agreed to report emissions. In the event the Cooperative does not comply with the provisions of the NSR Consent Decree, the EPA may assess certain penalties. The Cooperative has complied with the NSR Consent Decree; no additional accruals are required relating to this matter.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue was EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's covered the years 2000 through 2004.

The parties executed a Consent Decree ("Acid Rain Consent Decree") which the United States Department of Justice lodged on September 20, 2007, and subsequently entered after the 30-day public comment period on November 30, 2007.

Under the terms of the Acid Rain Consent Decree, the Cooperative must make six annual payments of $1,900,000 ("Fixed Penalty Payment"), totaling $11,400,000. The Cooperative made the first installment of this fixed penalty payment in December 2007. In addition to the Fixed Penalty Payment, the Cooperative is subject to a Contingent Penalty Payment for a period of five years, based on audited financial statements for the years 2008 through 2012. The Cooperative will be subject to the Contingent Penalty Payment if certain financial ratios are achieved. The Cooperative has reserved $11,700,000 for such contingent penalty payments. In December 2007, based on the terms of the Acid Rain Consent Decree, the Cooperative surrendered 4,107 NOx allowances and 15,311 SO2 allowances. Liabilities and margin impacts relating to complying with this Acid Rain Consent Decree are included in the consolidated financial statements.

The Cooperative has certain generating plants that contain asbestos, which is required by law to be removed or contained if the plants are renovated or demolished. The Cooperative has no plans to retire any of its generating plants at this time. Because there is an indeterminate settlement date for the asset retirement obligation, the range of time over which the Cooperative may settle the obligation is unknown. Therefore, a fair value determination of an asset retirement obligation cannot be reasonably estimated.

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $556 million.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $664 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. Construction of three of the combustion turbines has been deferred until after 2009. The first two combustion turbines are expected to cost approximately $155 million and are scheduled to become operational in 2009.

In September 2005, the Board approved construction of a new limestone scrubber with a wet precipitator for Spurlock Unit 2 at a cost of approximately $207 million.

In January 2006, the Board approved the construction of a new limestone scrubber with a wet precipitator for Spurlock Unit 1 at a cost of approximately $173 million.

The construction projects mentioned above are subject to PSC approval.

In December 2006, Warren Rural Electric Cooperative Corporation ("Warren") decided not to become a member of the Cooperative. In the summer of 2007, the Cooperative reached a settlement with Warren. This settlement resulted in a $3.2 million write-off that is included in the consolidated financial statements.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts Receivable and Accounts Payable: The fair values of accounts receivable and payable are based on carrying value due to the short-term nature of the instruments.

Investment Securities: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

Long-Term Accounts Receivable: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

(Continued)

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any.

The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 16,660	$ 16,660	$ 69,202	$ 69,202
Accounts receivable	68,309	68,309	62,091	62,091
Investment securities				
Available for sale	46,551	46,551	43,956	43,956
Held to maturity	8,195	8,174	8,216	7,818
Long-term accounts receivable (including current portion)	6,847	9,411	8,572	9,266
Financial liabilities				
Long-term debt	$2,016,176	$2,089,445	$1,701,087	$1,713,203
Accounts payable	106,153	106,153	90,977	90,977

EAST KENTUCKY POWER COOPERATIVE

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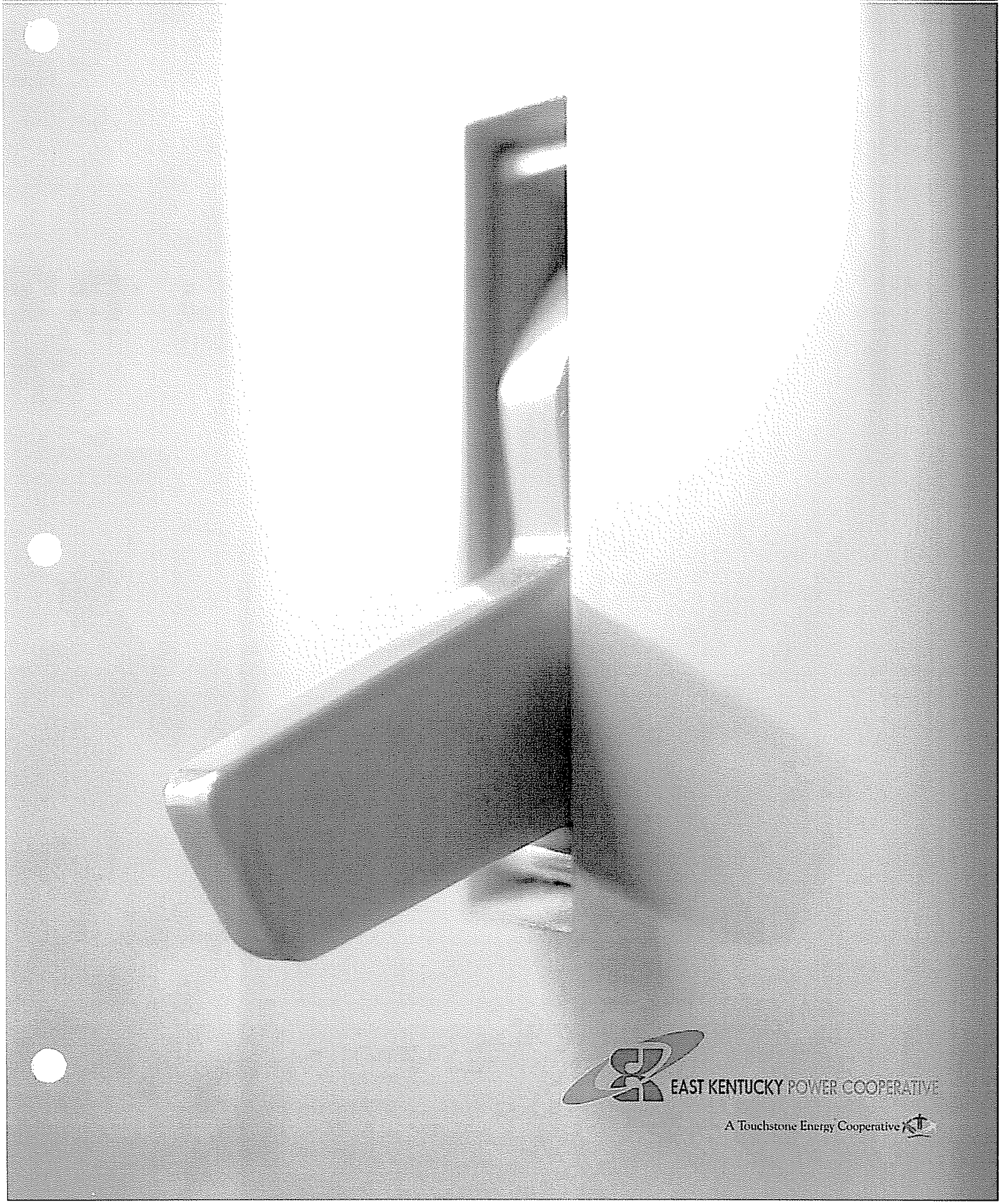
A Touchstone Energy Cooperative

East Kentucky Power Cooperative, Inc.

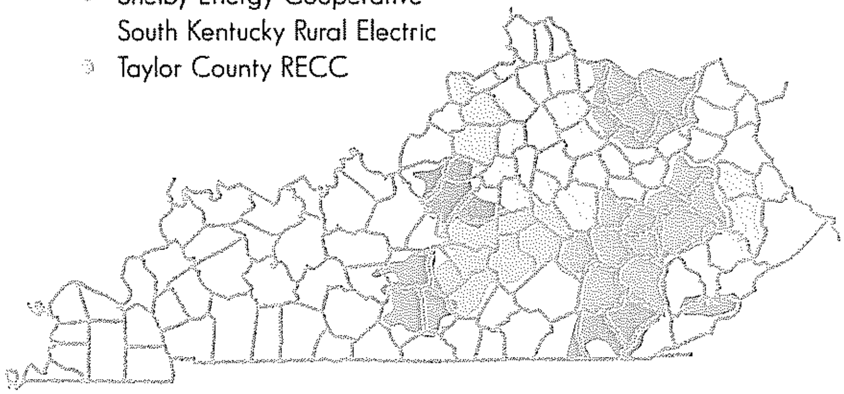
2006 Annual Report

2006 ANNUAL REPORT



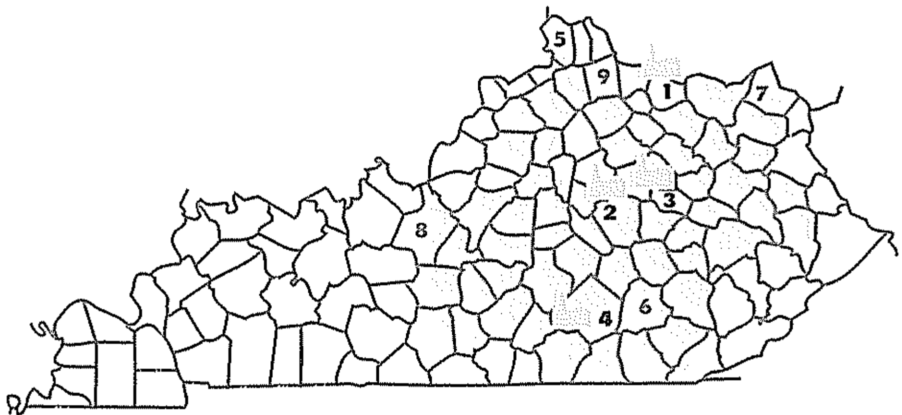
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.0 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
9	Pendleton	3.2 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system wide service area

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EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

	2006	2005	% Increase (Decrease)
Operating Revenue	**$650,960**	$631,297	3.1
Operating Expenses	**$573,750**	$588,346	(2.5)
Net Margin (Deficit)	**$11,174**	($46,007)	124.3
Fuel Expenses for Generation	**$278,210**	$263,434	5.6
Purchased Power Cost	**$76,781**	$109,571	(29.9)
Interest Cost	**$84,834**	$69,844	21.5
Members' Equities	**$107,033**	$96,108	11.4
Construction Expenditures	**$290,463**	$162,607	78.6
Assets	**$2,030,092**	$1,687,894	20.3
Sales to Member Cooperatives (MWh)	**$12,129,402**	$12,365,466	(1.9)
System Peak Demand (MW)			
Winter Season	**2,859** *	2,642	8.2
Summer Season	**2,339**	2,227	5.0
Number of Member System Consumers	**504,492**	496,906	1.5

* set February 16, 2007

Five-Year Statistical Summary

	2006	2005	2004	2003	2002
Net Margins (Deficit) - $1,000	**$11,174**	($46,007)	($27,267)	$29,398	$37,428
TIER	**1.13**	0.34	.49	1.66	1.95
DSC	**0.98**	0.66	0.72	1.35	1.73
Fuel Expense - $1,000	**$278,210**	$263,434	$173,506	$137,103	$146,506
Construction Expenditures -$1,000					
Generation	**$222,722**	$131,756	$166,351	$221,949	$155,713
Transmission	**$62,638**	$26,987	$35,818	$27,101	$25,149
General	**$5,103**	$3,864	$2,846	$12,762	$9,649
Investment In Facilities - $1,000					
Original Cost	**$2,482,319**	$2,192,259	$2,025,314	$1,810,211	$1,558,890
Long-Term Debt - $1,000	**$1,643,305**	$1,339,263	$1,223,164	$952,987	$762,079
Total Assets - $1,000	**$2,030,092**	$1,687,894	$1,558,561	$1,328,532	$1,026,947
Number of Employees - Full-Time	**620**	635	629	599	600
Cost of Coal Purchased					
$/ton	**$55.82**	$49.95	$43.24	$34.13	$32.35
$/MBtu	**$2.35**	$2.09	$1.78	$1.39	$1.33
Amount of Coal Purchased - tons	**4,788,437**	4,559,035	3,859,339	3,615,196	3,815,851
Generation - MWh	**11,197,632**	11,105,626	9,046,449	9,061,760	9,873,289
System Peak Demand - MW					
Winter Season	**2,859**	2,642	2,711	2,589	2,568
Summer Season	**2,339**	2,227	2,041	1,996	2,120
Sales to Other Utilities - MWh	**77,010**	144,197	53,466	71,224	513,874
Member Load Growth - %					
Energy	**(1.9)**	4.7	3.2	0.7	6.9
Demand	**1.3**	6.2	4.0	(0.6)	6.2
Load Factor - %	**50**	52	51	51	58
Miles of Line	**2,673**	2,663	2,638	2,629	2,607
Installed Capacity - kVA	**9,010,066**	8,919,666	8,863,666	8,824,466	8,722,747
Distribution Substations	**321**	311	304	299	292

2006: A Parting Glance

Following two financially difficult years, in 2006 East Kentucky Power Cooperative began taking important steps to streamline operations and strengthen the organization's financial condition.

Throughout the year, EKPC implemented a cost containment initiative that reduced costs by more than $17 million by blending fuels, changing unit maintenance schedules and taking other cost-cutting steps.

Year-end results showed a net margin of $11.2 million. The margins were adversely impacted due to unseasonably mild winter and summer weather, but a number of cost-saving efforts proved critical in obtaining positive year-end results. We are continuing the initiative in 2007 to further reduce costs and streamline operations.

One of the immediate challenges being faced is EKPC's growth in power demand, which continues to increase at twice the average national rate.

To meet future demand, construction began June 2006 on Spurlock Unit #4, a circulating fluidized bed plant that will be one of the nation's cleanest coal generating units. Smith Unit #1, a nearly identical 278-megawatt coal-fired unit, is planned for J.K. Smith Station in Clark County, Ky., in 2011.

EKPC's power supply plans changed at the end of 2006 when Warren RECC announced that it would not be joining EKPC in 2008 as previously planned.

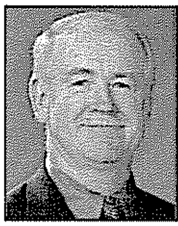
Due to continued strong growth of the system, EKPC's analysis showed that both Spurlock Unit #4 and Smith Unit #1 were still needed in Spring 2009 and Summer 2011, respectively.

Although baseload plans remain unchanged, EKPC's plans for combustion turbine peaking units did change. EKPC will now need two combustion turbines by Summer 2009.

Our renewable energy program continued to thrive, with our fourth landfill gas-to-electric plant in Hardin County making its debut in February 2006, and a fifth plant beginning commercial operation in Pendleton County in February 2007.

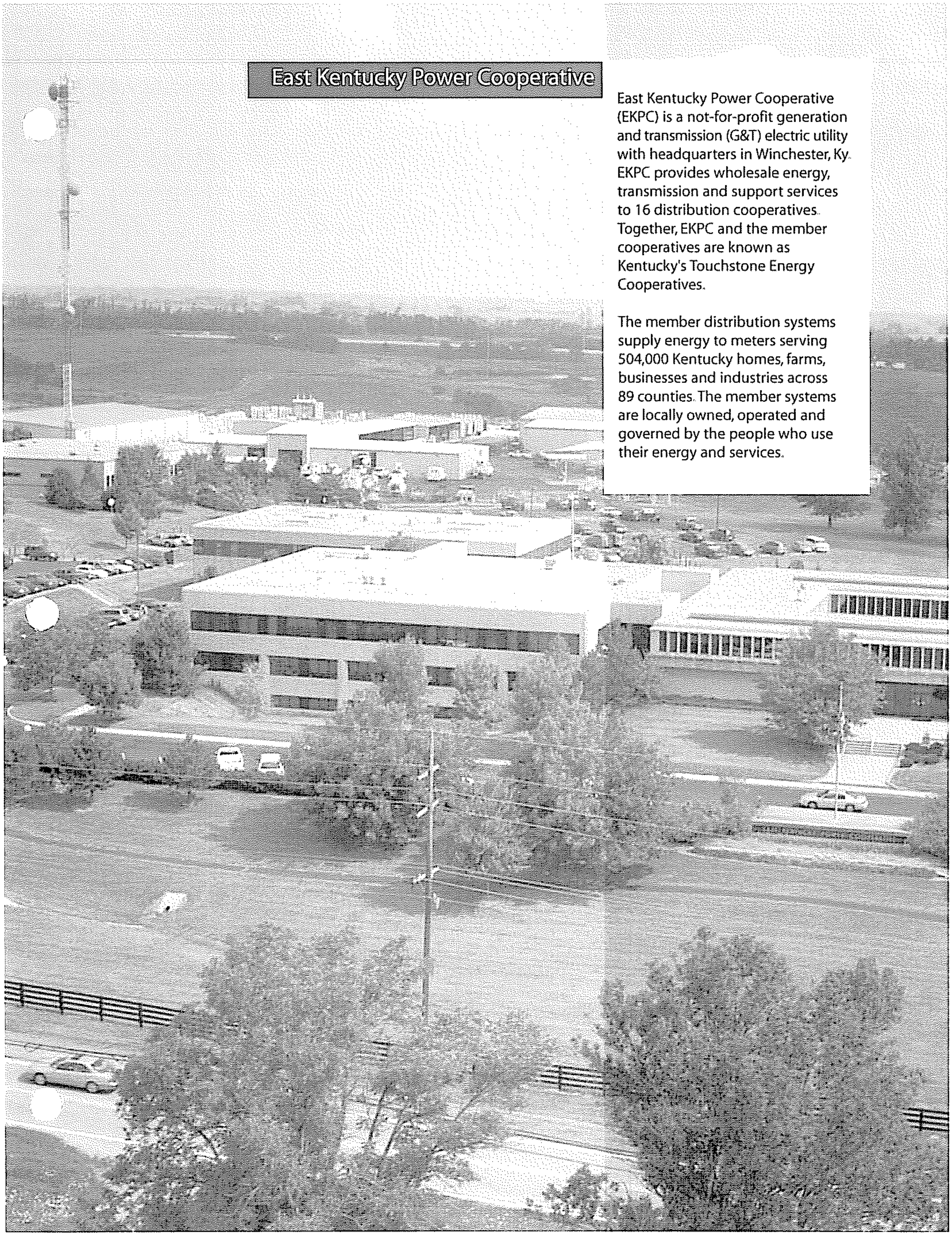
Work also began in 2006 on two major 345-kilovolt (kV) transmission projects that will improve reliability in Central Kentucky. Preliminary project work got underway on the Smith to West Garrard line, a 36-mile 345 kV line, and construction of the 18-mile Smith to North Clark line began in late 2006.

Despite the flurry of challenges, we are moving forward with renewed confidence, and we will focus efforts upon continued steps to strengthen the financial future of our organization. EKPC's primary commitment – to provide both quality service and the most affordable power possible to our member systems – remains strong.



Bob Marshall
President and CEO

Wayne Stratton
Chairman of the Board



East Kentucky Power Cooperative

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving 504,000 Kentucky homes, farms, businesses and industries across 89 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

From Coal to Kilowatts: How Electricity is Made

It takes an around-the-clock effort to make sure we have all the power we need at any time of the day or night. EKPC's coal-fired power plants operate 24 hours a day, generating thousands of megawatts of electricity that are delivered to you at the speed of light – 186,000 miles per second.

So, how do we do it?

Coal

It all starts with coal, which is delivered to our stations by truck, barge or railroad.

The first step in turning coal into kilowatts is to grind the coal into a fine powder using equipment known as a "pulverizer." This powder (allowing the coal to burn faster, hotter and more completely) is then blown into a furnace area inside the boiler, where it burns much like a gas.

YEAR IN REVIEW

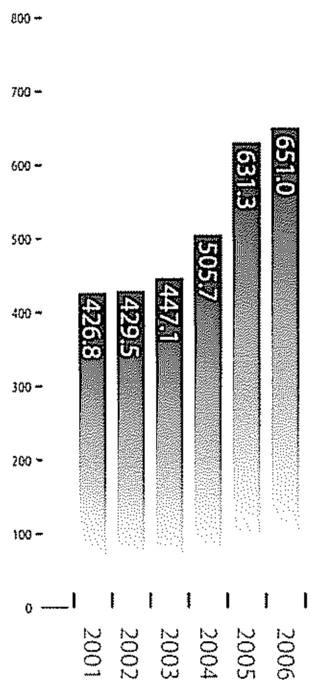
Marshall Named CEO
In December, EKPC's Board of Directors named Owen Electric President and CEO Bob Marshall as EKPC's president and chief executive officer effective January 1, 2007.

Warren RECC Decides Not To Join EKPC
Warren Rural Electric Cooperative's (WRECC) board of directors decided in December to withdraw its previous notice to leave the Tennessee Valley Authority (TVA).

In 2004, WRECC had made the decision to pursue a power supply arrangement with EKPC in order to obtain economical wholesale power and an ownership stake in its power supplier. Though both cooperatives worked diligently to develop the partnership, WRECC's leaders ultimately determined it was in the best interest of their members not to join EKPC.

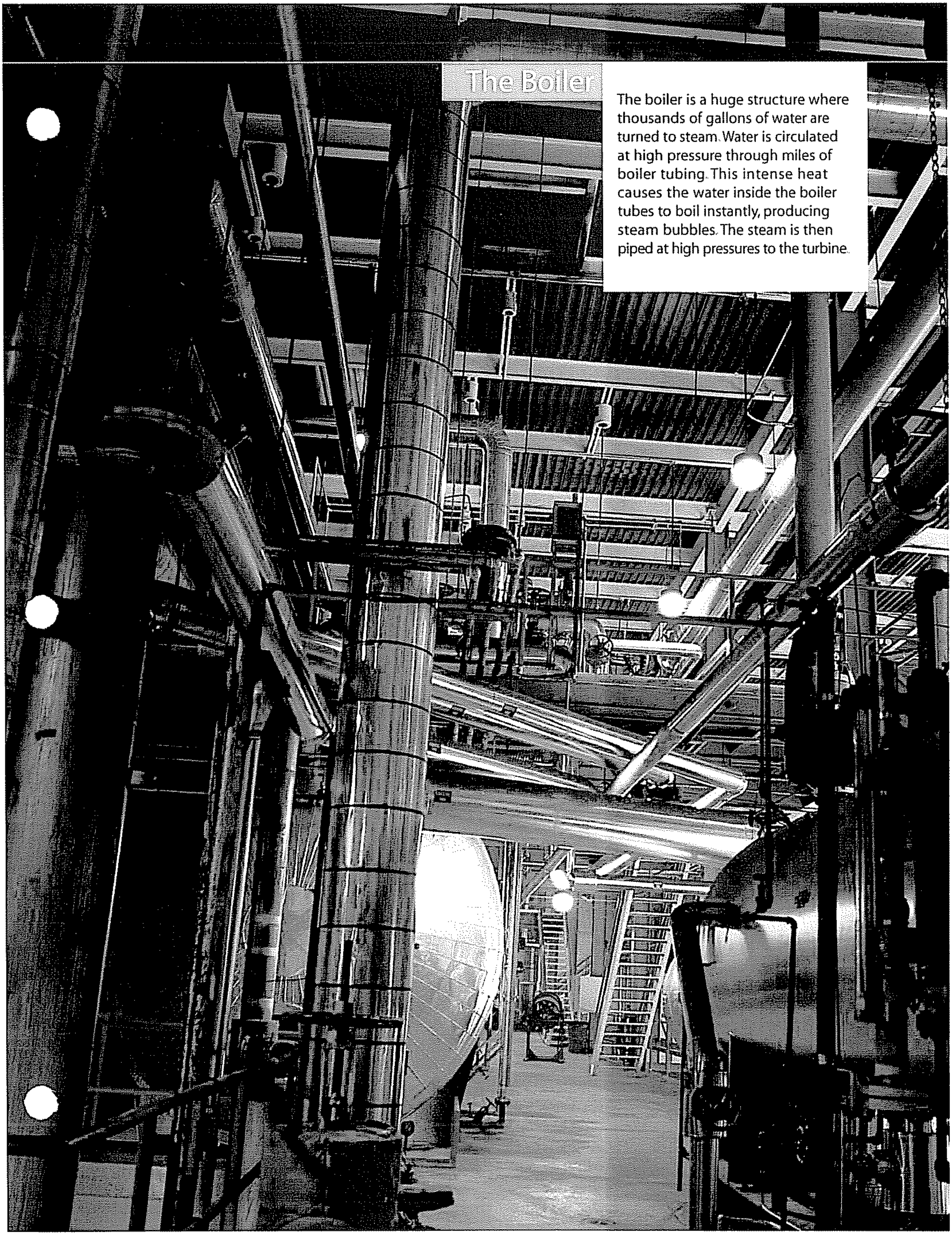
Spurlock Unit #4 Construction Begins
Immediately upon receiving the final air permit from the Kentucky Division of Air Quality, construction began on Spurlock Unit #4, EKPC's second clean coal unit, in mid-June 2006. At peak construction in the summer and fall of 2007, there will be about 700 construction workers on site building the unit. The project is scheduled for completion by Spring 2009. The 278-megawatt unit will rank among the cleanest coal generating units in the nation.

Operating Revenue
in $Millions



The Boiler

The boiler is a huge structure where thousands of gallons of water are turned to steam. Water is circulated at high pressure through miles of boiler tubing. This intense heat causes the water inside the boiler tubes to boil instantly, producing steam bubbles. The steam is then piped at high pressures to the turbine.



Construction Begins on Spurlock Scrubbers

In August 2006, the Kentucky Public Service Commission (PSC) approved construction of a scrubber for Spurlock Unit #1. The $145 million scrubber is required to comply with Environmental Protection Agency (EPA) requirements to reduce emissions of sulfur dioxide by 2010. Construction of the Unit #1 scrubber began in late 2006, and the project is expected to be completed by January 2009. Construction of Spurlock's Unit #2 scrubber began in August, with an anticipated completion by October 2008.

Unit Generation Figures

In 2006, EKPC posted generation of 11.2 million net megawatt hours (MWh). Dale Station generated 1.0 million net MWh. Cooper Station generated 2.0 million net MWh, while Spurlock Station produced more than 7.9 million net MWh and Smith Station generated 200,000 net MWh. EKPC's four landfill gas plants combined for a total generation of 88,000 net MWh in 2006.

Transmission Siting Workshop Held

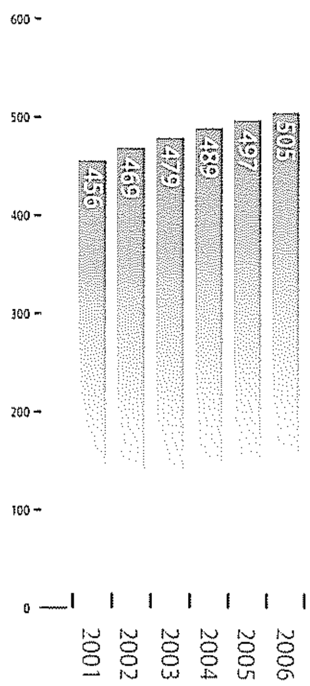
Nearly 60 people, including participants and observers from utilities, environmental groups, and government agencies in Kentucky, attended a workshop in March to develop a model for developing transmission routes. The workshop was co-hosted by EKPC and E.ON U.S., and was led by the same team of experts that first developed the methodology in Georgia.

Copper Thefts Rise

Throughout 2006, Kentucky co-ops reported a rash of copper wire thefts, resulting in thousands of dollars in damage, and in a few tragic instances, death. The primary incentive for the rash of thefts was copper's worth in the scrap metal markets. In August, a fatality occurred at the New Castle, Ky., substation when a man attempted to steal copper groundings from the site.

Member Consumer Meters

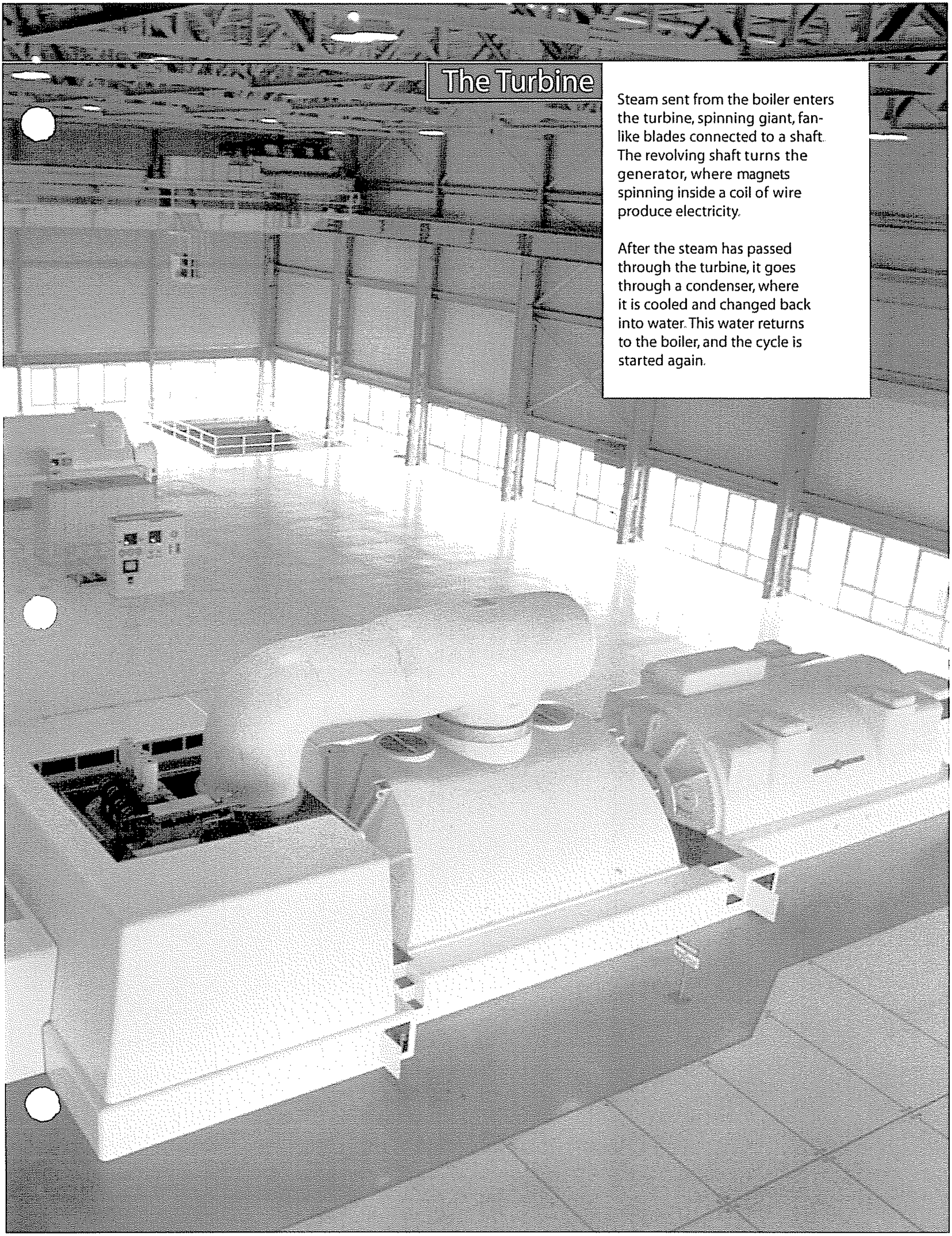
Year-End in Thousands



The Turbine

Steam sent from the boiler enters the turbine, spinning giant, fan-like blades connected to a shaft. The revolving shaft turns the generator, where magnets spinning inside a coil of wire produce electricity.

After the steam has passed through the turbine, it goes through a condenser, where it is cooled and changed back into water. This water returns to the boiler, and the cycle is started again.



Work Progresses On Smith Station 345-kV Lines

EKPC made progress in 2006 on two major 345-kilovolt (kV) transmission projects that will improve reliability in Central Kentucky and provide outlets for additional generating units at Smith Station. Construction began on a link from Smith Station's north side to an interconnection with an existing 345 kV line in northern Clark County. In addition, EKPC began siting work by conducting public open houses that provided input into the routing of a 36-mile line from the Smith Station site to an existing 345-kV line in Garrard County.

System Transmission Construction Continues

During 2006, EKPC built 10 miles of new transmission lines. Throughout the year, crews also completed 8.36 miles of line re-conductoring.

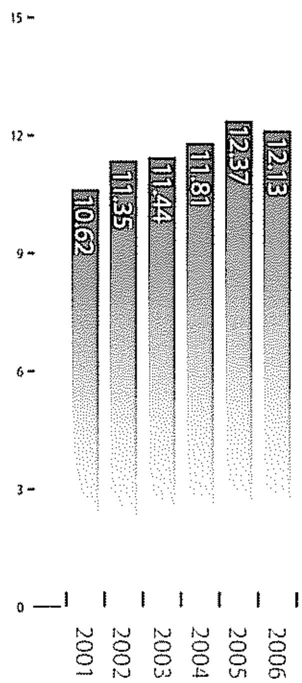
Hardin Co. Plant Begins Operation

Another landfill gas-to-electric project, located at the Pearl Hollow site in Hardin County, Ky., began commercial operation in February 2006. The new plant, which produces electric power from three generating units fueled by methane from the landfill, generates 2.4 megawatts of electricity, or enough to supply about 1,440 homes. The Pearl Hollow facility joins EKPC's three other landfill gas-to-electric plants in Greenup, Laurel and Boone counties.

Early in 2007, construction was completed on a fifth landfill gas-to-electric renewable facility in Pendleton County, near Butler, Ky. The plant, which produces a total of 3.2 MW of renewable power (enough to supply more than 2,300 Kentucky homes), began commercial operation in February 2007.

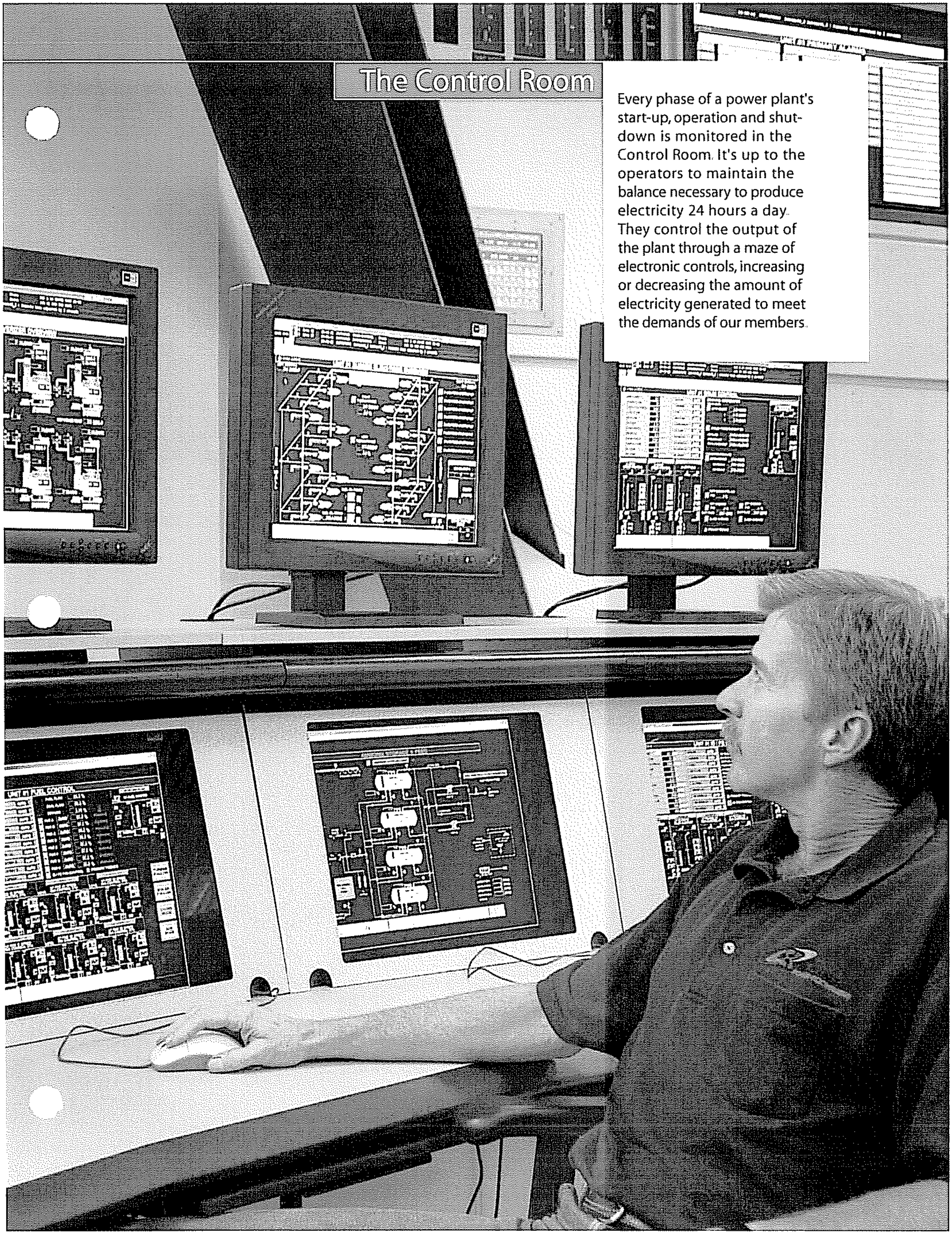
Energy Sales to Members

MWh in Millions



The Control Room

Every phase of a power plant's start-up, operation and shut-down is monitored in the Control Room. It's up to the operators to maintain the balance necessary to produce electricity 24 hours a day. They control the output of the plant through a maze of electronic controls, increasing or decreasing the amount of electricity generated to meet the demands of our members.



Co-op Connections Card Program Continues to Grow

In 2006, a total of 637 co-ops in 48 states participated in Touchstone Energy's Co-op Connections Card program. The program was designed for retail consumer-members to obtain national and local discounts through participating Touchstone Energy cooperatives across the country. EKPC member systems were the first in the nation to launch the program.

Touchstone Energy Expands to 45th State

With the addition of Eastern Maine Electric Cooperative, Touchstone Energy expanded into its 45th state in 2006, and increased its membership to 650 cooperatives.

EKPC Hosts Lineman's Rodeo

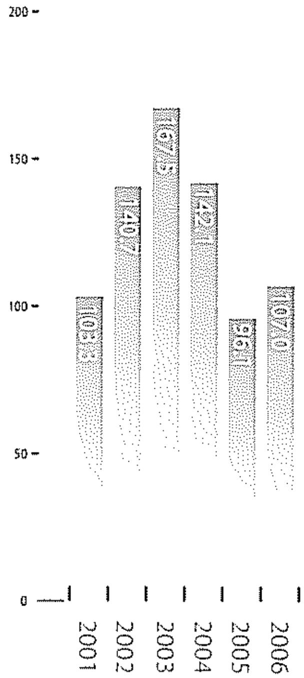
At the 2nd Annual Kentucky Lineman's Rodeo, hosted by EKPC in August, Fleming-Mason Energy in Flemingsburg, Ky., took top honors for the "Overall Team" award. Cross-arm changeout, pole-climb and hurt-man rescue contests rounded out the event's categories.

Governor Signs Affiliated Services Bill

In April 2006, Kentucky Gov. Ernie Fletcher signed House Bill 568 into law. The legislation clarifies the right of Kentucky's electric cooperatives to offer affiliated services such as propane and home security. The bill received overwhelming support in both the Kentucky House and Senate.

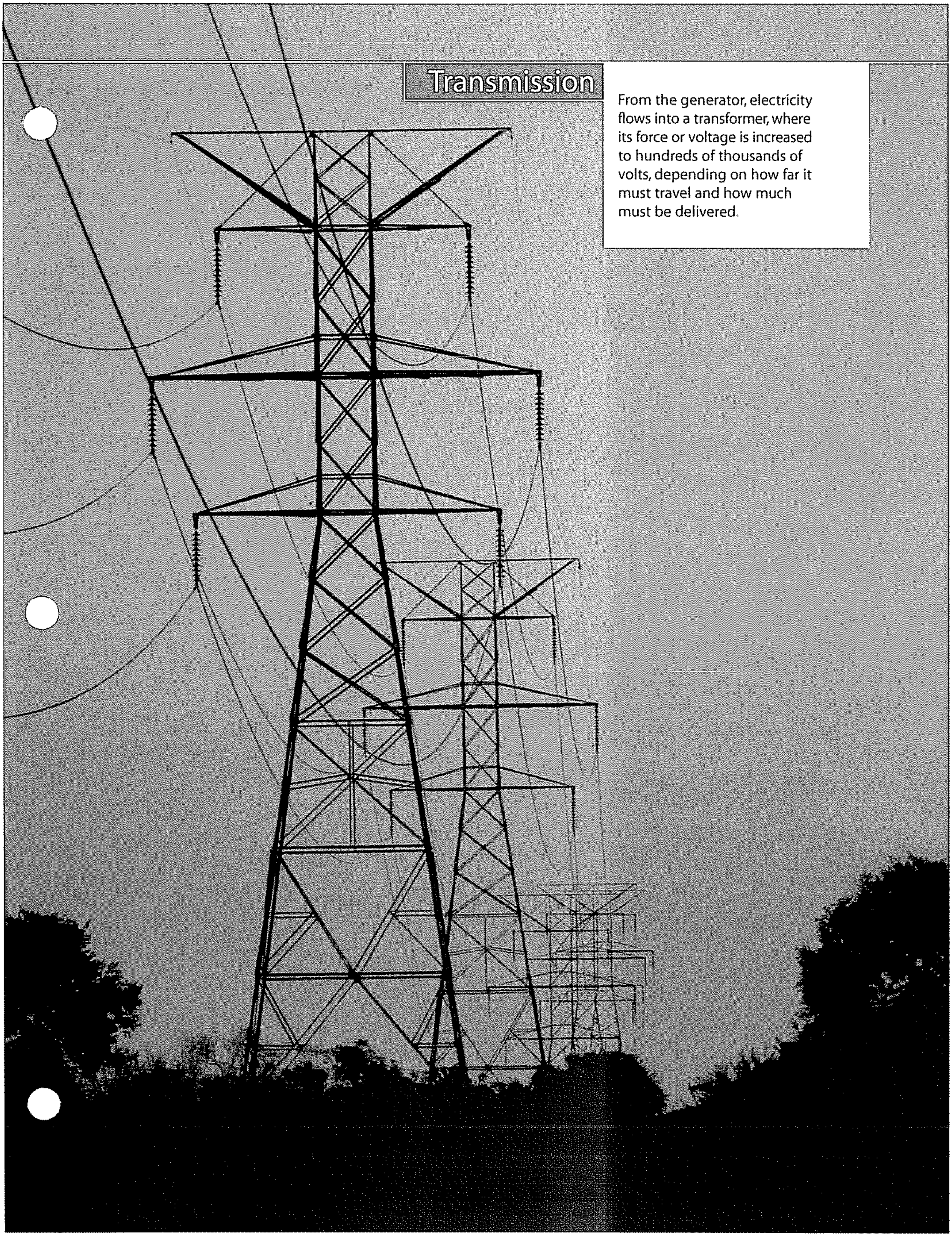
Members' Equities

Year-End in $Millions



Transmission

From the generator, electricity flows into a transformer, where its force or voltage is increased to hundreds of thousands of volts, depending on how far it must travel and how much must be delivered.



Board Votes to Seek Rate Increase

In December 2006, EKPC's Board approved the filing of a request to the Kentucky Public Service Commission (PSC) for a rate increase this year, noting that the membership would best be served by avoiding a rate hike impacting retail members during the highest billing months of the year. The request seeks a 6 to 7 percent wholesale rate increase.

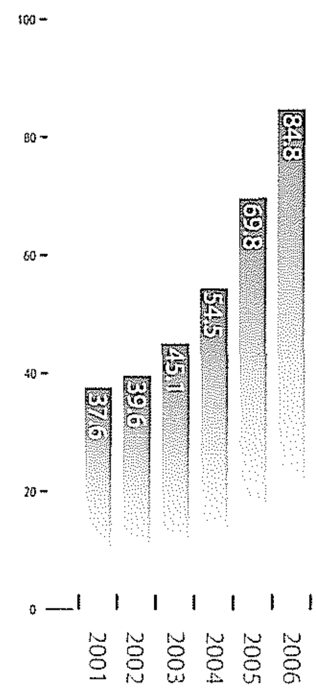
The EKPC request seeks additional revenue to continue providing reliable power and quality service to members, and to meet financial obligations. If approved, this would be the organization's first base rate increase since 1983.

Co-op Receives Special Recognition

In June, EKPC was recognized as Kentucky Employer of the Year by the Veterans of Foreign Wars Department of Kentucky. EKPC's nomination was in the large employer category for 2006. This award was established to recognize employers (featuring more than 250 employees) with records of outstanding achievement in the hiring, promotion and training of veterans. The award followed on the heels of the "Best Places To Work In Kentucky" competition sponsored by the Kentucky Chamber of Commerce, in which EKPC ranked among the top places to work in the state.

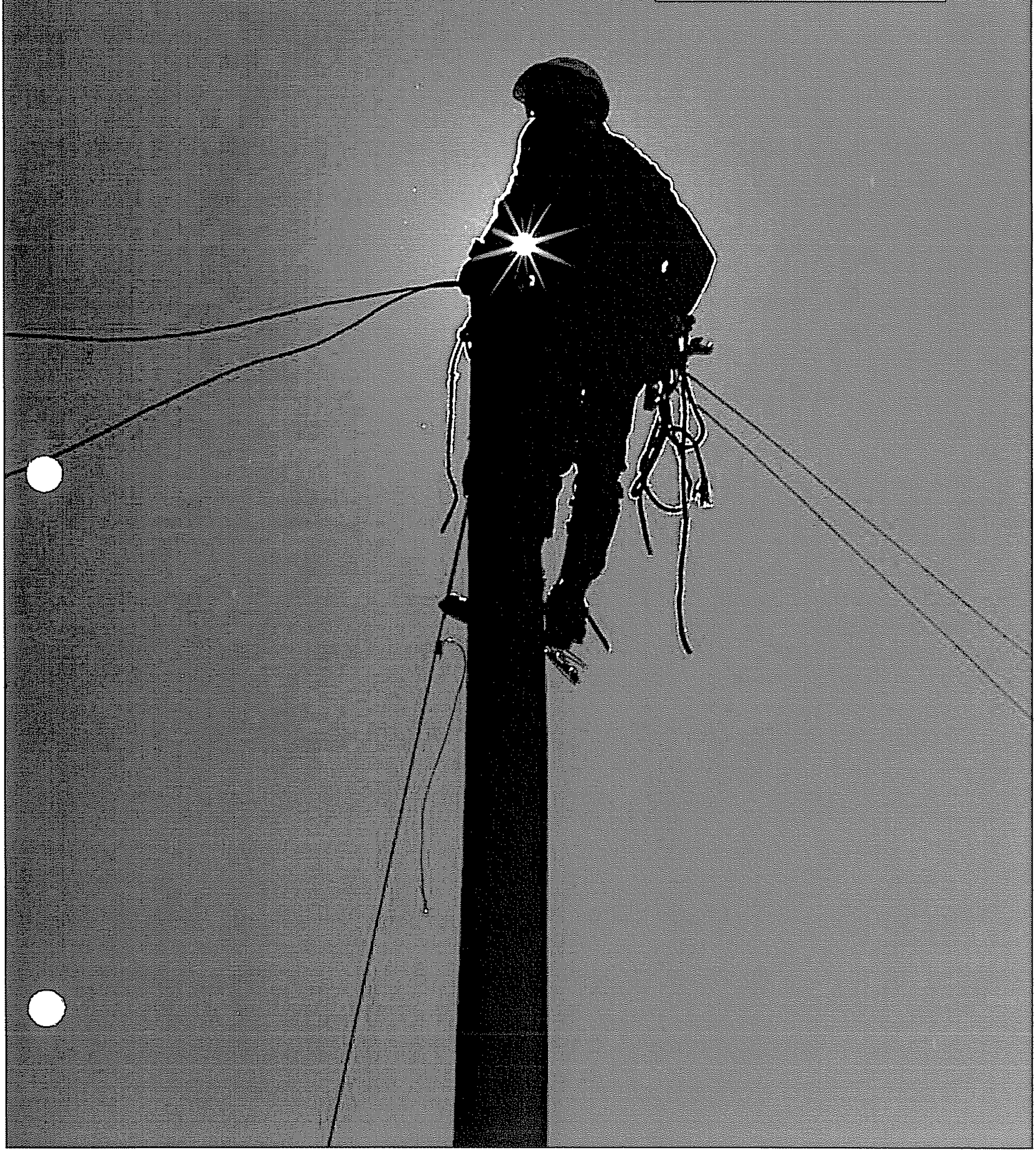
Interest Cost

in $Millions



Distribution

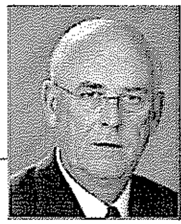
Our co-ops provide power to 504,000 Kentucky homes, farms and businesses.



EXECUTIVE STAFF

Coordinates strategic initiatives with day-to-day operations to further the goals of the company.

Gary Crawford
Member Services



Doug Oliver
Human Resources
and Support Services

Dave Eames
Finance

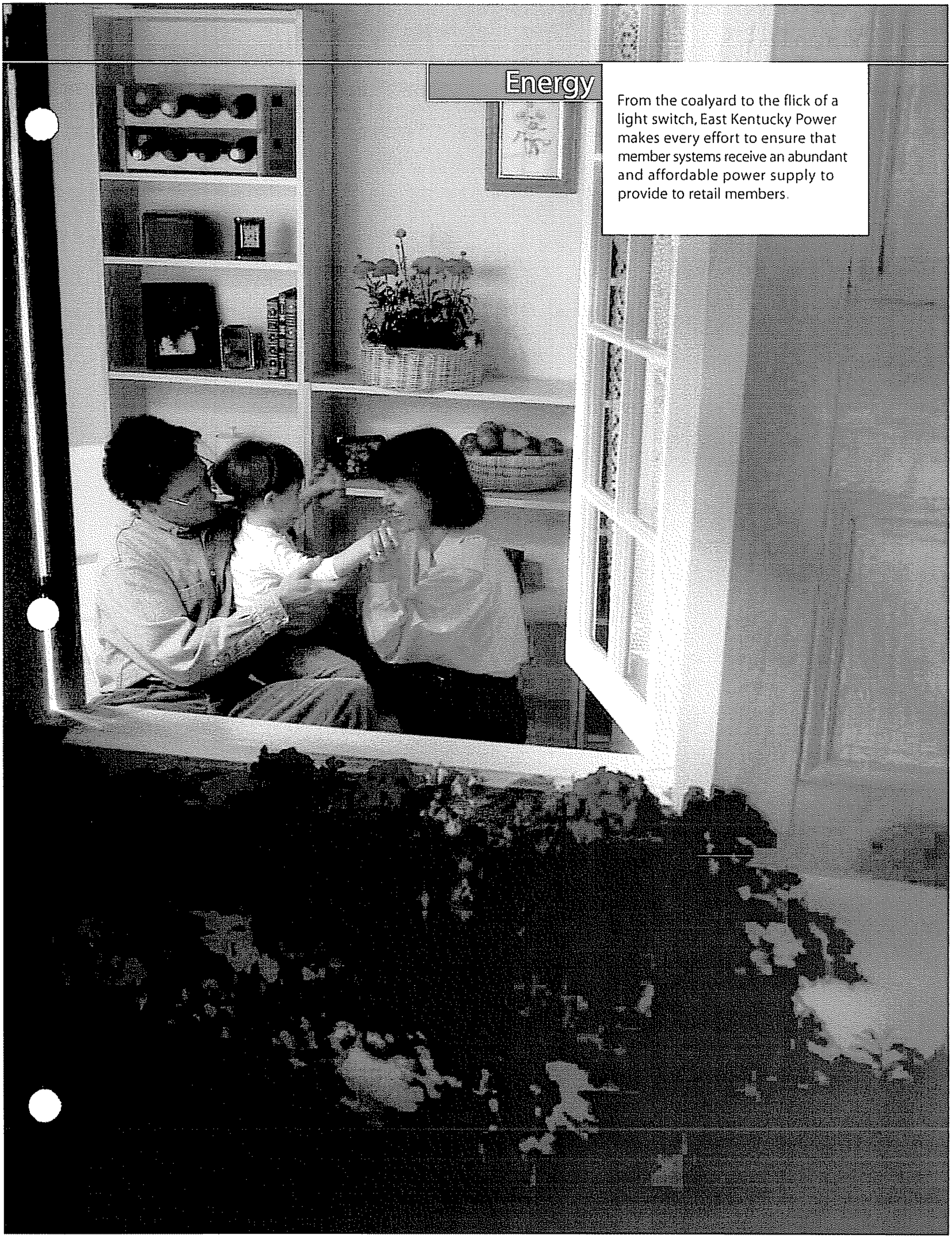
John Twitchell
G&T Operations

David Smart
Legal

Jim Lamb
Power Supply

Energy

From the coalyard to the flick of a light switch, East Kentucky Power makes every effort to ensure that member systems receive an abundant and affordable power supply to provide to retail members.



Financial Highlights

Results of Operations

Operating revenues for the twelve months ended December 31, 2006, increased approximately $19.7 million compared to the same period in 2005. This increase results primarily from the implementation of an environmental cost recovery surcharge. In early 2005, EKPC received approval from the Kentucky Public Service Commission (KPSC) to recover certain costs incurred in complying with the Federal Clean Air Act. This surcharge was effective for service rendered on or after July 1, 2005, and resulted in increased revenue from $27.2 million in 2005 to $56.2 million in 2006, an increase of $29.0 million. Under Kentucky's Fuel Adjustment Clause (FAC), fuel cost above or below a stated amount per MWh is charged or credited to the member cooperatives for all energy sales. Due to the mild weather in 2006, EKPC's FAC recovery decreased from $90.7 million in 2005 to $81.1 million in 2006, a decrease of $9.6 million. Megawatt-hour (MWh) sales to members decreased 1.9 percent, also a result of unusually mild weather in 2006.

In June 2006, the Environmental Protection Agency (EPA) sued EKPC charging operation of Dale Station Units #1 and #2 with technical violations of the Clean Air Act acid rain program, and provisions of the NOx State Implementation Plan. The issue involves whether these units were subject to regulations as generators having a "nameplate" capacity greater than 25 megawatts and were used to generate more than 25 megawatts of electricity. EKPC filed its answer to the complaint in August 2006. Discovery was scheduled to be completed in May 2007. The Court has assigned the action for trial by jury in September 2007. The Kentucky Environmental and Public Protection Cabinet has joined as a party.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. EKPC's coal costs have increased as a result of increased demand for low-sulfur coal and decreased supply of such coal. In the twelve months ended December 31, 2006, compared to the same period in 2005, fuel costs increased $14.8 million. For the twelve-month period ended December 31, 2006, EKPC incurred $76.8 million in purchased power expense. Depreciation expense decreased $12.7 million in 2006. This decrease is due to the PSC environmental surcharge order requiring EKPC to conduct a depreciation study by an outside firm. As a result, useful lives of production plants were extended, and rates on transmission and distribution plants were changed.

Generation of Power

East Kentucky has coal-fired generating facilities at Dale Station in Clark County, Cooper Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at Smith Station in Clark County. East Kentucky's generating facilities produced 11.2 million megawatt-hours in 2006, compared with 11.1 in 2005.

East Kentucky's power stations burned 4.71 million tons of coal in 2006, compared with 4.51 tons in 2005. The cost of coal burned during 2006, including handling, was $2.362 per million Btu, or $55.60 per ton. The cost of coal purchased during 2006 was $2.353 per million Btu, or $55.82 per ton.

The combustion turbines at Smith Station consumed 33,486 gallons of oil with a cost of $1.02 per gallon, or $7.33 per million Btu. The combustion turbines also consumed 2,675,125 MCF of natural gas with a cost of $8.75 per MCF.

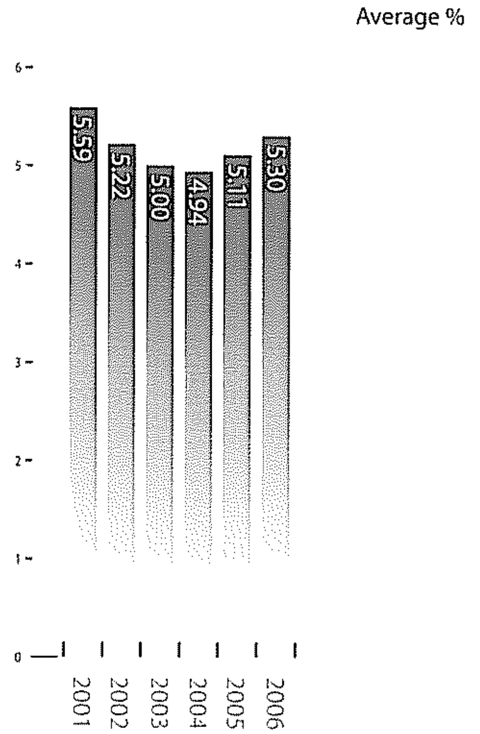
Interest Costs

Gross interest expense was $84.8 million. The prime rate increased from 7.25 percent to 8.25 percent during 2006. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.66 to 4.82 percent.

Of the total $1,701.1 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2006. The average annual rate on all debt increased from 5.1 percent in 2005 to 5.3 percent in 2006.

Virtually all of East Kentucky's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $109.2 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 3.51 percent for 2006.

Average Interest Rate on Long-Term Debt Year-End



OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs and other corporate functions.

BOARD MEMBERS

Grayson RECC

Donnie
Crum

Cumberland Valley Electric

Elbert
Hampton

Big Sandy RECC

Wade
May

Farmers RECC

Randy
Sexton

Clark Energy

Bill
Shearer

Fleming-Mason Energy

Vice-Chairman

Lonnie
Vice

SYSTEM MANAGERS

Blue Grass Energy

Dan
Brewer

Salt River Electric

Larry
Hicks

Owen Electric

Bob
Hood

Licking Valley RECC

Kerry
Howard

Shelby Energy

Debbie
Martin

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS

Taylor County RECC

P.D.
Depp

Blue Grass Energy

E.A.
Gilbert

Owen Electric

Hope
Kinman

Salt River Electric

Jimmy
Longmire

Shelby Energy
Chairman

Wayne
Stratton

SYSTEM MANAGERS

South Kentucky
Rural Elecric

Allen
Anderson

Inter-County Energy

Jim
Jacobus

Nolin RECC

Mickey
Miller

Jackson Energy

Don
Schaefer

Big Sandy RECC

Bobby
Sexton

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS


Licking Valley RECC

Mike
Adams


Jackson Energy

Fred
Brown


Inter-County Energy

Danny
Divine


Nolin RECC
Secretary/Treasurer

A.L.
Rosenberger


South Kentucky
Rural Electric

Rick
Stephens

SYSTEM MANAGERS


Farmers RECC

Jackie
Browning


Clark Energy

Paul
Embs


Grayson RECC

Carol Ann
Fraley


Cumberland Valley
Electric

Ted
Hampton


Taylor County RECC

Barry
Myers


Fleming-Mason
Energy

Chris
Perry

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Fleming-Mason Energy

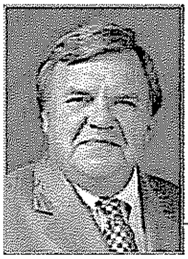
Vice-Chairman

Lonnie Vice

Clark Energy

Bill Shearer

SYSTEM MANAGERS



Farmers RECC

Jackie Browning

Jackson Energy

Don Schaefer

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

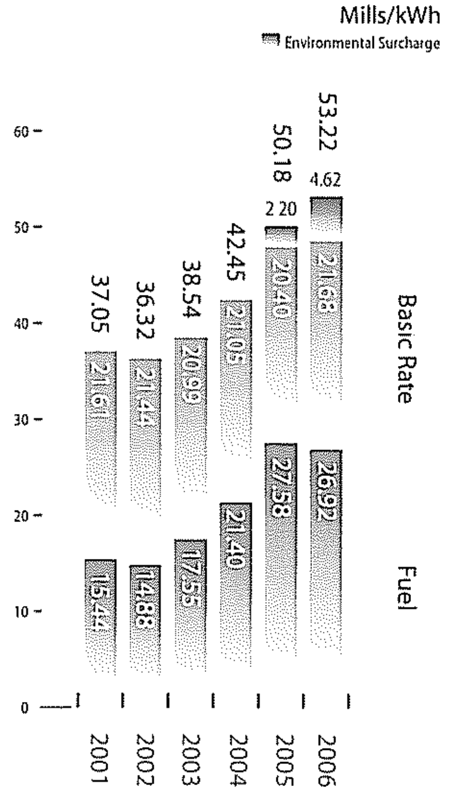
The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Bob Marshall
President and CEO

David G. Eames
Vice President, Finance

Power Cost to Members



Crowe

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc.
and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2006 and 2005, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2007 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary'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 the 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Crowe Chizek and Company LLC

Lexington, Kentucky
March 14, 2007

Crowe Chizek and Company LLC

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005
(Dollars in Thousands)

ASSETS	2006	2005
Electric plant, at original cost		
In-service	$ 2,079,932	$ 2,039,674
Construction in progress	402,387	152,585
	2,482,319	2,192,259
Less accumulated depreciation	798,533	774,996
Electric plant, net	1,683,786	1,417,263
Long-term accounts receivable	8,572	9,002
Investment securities		
Available for sale	43,956	42,581
Held to maturity	8,216	8,237
Current assets		
Cash and cash equivalents	69,202	43,863
Accounts receivable	62,091	77,663
Fuel	44,682	39,236
Materials and supplies	37,129	33,578
Emission allowances	58,920	4,087
Other	1,986	1,769
Total current assets	274,010	200,196
Deferred charges	4,499	4,751
Other	7,053	5,864
Total assets	$ 2,030,092	$ 1,687,894
LIABILITIES AND MEMBERS' EQUITIES		
Members' equities	$ 107,033	$ 96,108
Long-term debt, excluding current portion	1,643,305	1,339,263
Current liabilities		
Current portion of long-term debt	57,782	53,085
Accounts payable	90,977	75,855
Accrued expenses	23,846	20,101
Total current liabilities	172,605	149,041
Accrued postretirement benefit cost	48,663	46,604
Other	58,486	56,878
Total liabilities and members' equities	$ 2,030,092	$ 1,687,894

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Operating revenue	$ 650,960	$ 631,297
Operating expenses		
Production		
Fuel	278,210	263,434
Other	113,382	103,632
Purchased power	76,781	109,571
Transmission and distribution	27,557	21,029
Depreciation	39,384	52,038
General and administrative	38,436	38,642
	573,750	588,346
Operating margins	77,210	42,951
Interest expense	84,834	69,844
Net operating deficit	(7,624)	(26,893)
Nonoperating margins		
Interest income	8,433	5,898
Allowance for interest on borrowed funds used during construction	9,192	6,226
Assessments	-	(32,555)
Miscellaneous	858	742
	18,483	(19,689)
Capital credits and patronage capital allocations	315	575
Net margin (deficit)	$ 11,174	$ (46,007)

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
Balances, January 1, 2005	$ 2	$ 138,393	$ 3,035	$ 620	$ 142,050
Comprehensive loss					
Net deficit	-	(46,007)	-	-	(46,007)
Unrealized gains on investments available for sale	-	-	-	65	65
Total comprehensive loss					(45,942)
Balances, December 31, 2005	2	92,386	3,035	685	96,108
Comprehensive income					
Net margin	-	11,174	-	-	11,174
Unrealized losses on investments available for sale	-	-	-	(249)	(249)
Total comprehensive income					10,925
Balances, December 31, 2006	$ 2	$ 103,560	$ 3,035	$ 436	$ 107,033

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Cash flows from operating activities		
Net margin (deficit)	$ 11,174	$ (46,007)
Adjustments to reconcile net deficit to net cash from operating activities		
Depreciation	39,384	52,038
Amortization of loan costs	2,843	1,418
Changes in:		
Accounts receivable	15,572	(21,156)
Fuel	(19,237)	(21,158)
Materials and supplies	(4,034)	(6,206)
Emission allowances	(54,833)	(3,888)
Accounts payable, trade	43,810	42,630
Accrued expenses	3,745	3,980
Accrued postretirement benefit cost	2,059	1,972
Other	(18,236)	33,669
Net cash from operating activities	22,247	37,292
Cash flows from investing activities		
Additions to electric plant	(304,474)	(190,277)
Maturities and calls of securities available for sale	57,785	79,465
Purchases of securities available for sale	(59,409)	(82,278)
Maturities of securities held to maturity	21	14,311
Payments received on long-term accounts receivable	430	799
Net cash from investing activities	(305,647)	(177,980)
Cash flows from financing activities		
Proceeds from long-term debt	360,000	345,132
Principal payments on long-term debt	(51,261)	(220,691)
Net cash from financing activities	308,739	124,441
Net change in cash and cash equivalents	25,339	(16,247)
Cash and cash equivalents at beginning of year	43,863	60,110
Cash and cash equivalents at end of year	$ 69,202	$ 43,863

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

		2006		2005
Supplemental disclosure of cash flow information				
Cash paid for interest	$	82,183	$	65,925
Non-cash operating transaction				
Fuel included in accounts payable	$	13,791	$	18,434
Materials and supplies included in accounts payable		483		-
Non-cash investing transaction				
Additions to electric plant included in accounts payable	$	14,414	$	23,332
Unrealized (losses) gains on securities available for sale		(249)		65

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals 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.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates or end dates generally as follows:

Production plant	years 2019 - 2045
Transmission and distribution plant	0.71% - 3.42%
General plant	2.00% - 20.00%

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2006 or 2005.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The state regulatory authority has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

In September 2004, the Cooperative applied to the KPSC for the recovery of certain costs incurred in compliance with the Federal Clean Air Act. This environmental surcharge was effective for service rendered on or after July 1, 2005, and is being billed on a percentage of revenue basis.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $645,476,000 and $620,509,000 for 2006 and 2005, respectively. Accounts receivable at December 31, 2006 and 2005 were primarily from billings to member cooperatives. At December 31, 2006 and 2005, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2006	2005
Owen Electric Cooperative	$ 8,748,000	$10,137,000
South Kentucky RECC	6,408,000	-
Blue Grass Energy Cooperative	6,304,000	-

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2006 and 2005, respectively, the Cooperative had $1,205,394 and $674,661 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at average cost.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are recognized using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2006, no patronage capital was available for refunds or retirement.

Comprehensive Income: Comprehensive income includes both net margin (deficit) and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

Reclassifications: Certain 2005 amounts have been reclassified in these consolidated financial statements to conform to the 2006 presentation. Such reclassifications had no effect on net deficit or members' equities as previously presented.

(Continued)

NOTE 2 – ELECTRIC PLANT

Electric plant in-service consisted of the following:

	2006	2005
	(in thousands)	
Production plant	$ 1,558,660	$ 1,141,340
Transmission plant	432,580	409,889
General plant	68,517	69,724
Completed construction, not classified and other	20,175	418,721
Electric plant in service	$ 2,079,932	$ 2,039,674

Depreciation expense was $39,384,000 and $52,038,000 for 2006 and 2005, respectively.

As required by the KPSC environmental surcharge order (addressed in Note 1), the Cooperative engaged an outside firm to conduct a depreciation study. As a result, useful lives of production plant were extended, and rates on transmission and distribution plant were changed. These changes in estimated useful lives reduced 2006 depreciation expense by approximately $16.1 million.

NOTE 3 – LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems will make five years of interest-only (prime rate minus one-half of one percent, adjust annually) payments, with principal and interest payments beginning in 2005. The notes will be payable in full in 2015.

(Continued)

NOTE 4 – INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2006				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	39,698	28	-	39,726
Zero Coupon Bond	2,737	397	-	3,134
Other	1,061	11	-	1,072
	$ 43,520	$ 436	$ -	$ 43,956
2005				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	37,374	-	(10)	37,364
Zero Coupon Bond	2,563	465	-	3,028
Other	1,935	230	-	2,165
	$ 41,896	$ 695	$ (10)	$ 42,581

Proceeds from maturities and calls of securities were $57,785,000 and $79,465,000 in 2006 and 2005, respectively. There were no realized gains or losses on those calls.

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2006				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (459)	$ 7,196
6.5875% subordinated term certificate	455	87	-	542
0% subordinated term certificate	106	-	(26)	80
	$ 8,216	$ 87	$ (485)	$ 7,818
2005				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (1,624)	$ 6,031
6.5875% subordinated term certificate	470	113	-	583
0% subordinated term certificate	112	-	(28)	84
	$ 8,237	$ 113	$ (1,652)	$ 6,698

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31 not recognized in net margin (deficit) are as follows (in thousands):

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2006				
3-5% capital term certificates	$ -	$ -	$ 7,196	$ (459)
0% subordinated term certificate	-	-	80	(26)
	$ -	$ -	$ 7,276	$ (485)
2005				
3-5% capital term certificates	$ -	$ -	$ 6,031	$ (1,624)
0% subordinated term certificate	-	-	84	(28)
	$ -	$ -	$ 6,115	$ (1,652)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2006, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 40,063	$ 40,085
Due after one year through five years	2,396	2,799
Due after ten years	1,061	1,072
	$ 43,520	$ 43,956
Held to maturity		
Due after ten years	$ 8,216	$ 7,818
	$ 8,216	$ 7,818

(Continued)

NOTE 5 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
First mortgage notes:		
4.241% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2038	$ 1,108,580	$ 1,107,491
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	49,507	54,643
3.8%, payable quarterly to CFC in varying amounts through 2014	20,440	21,769
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	8,400	9,600
Promissory notes:		
6.20% - 6.45% variable rate note payable to CFC in 2010	405,000	80,000
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 4.03% at December 31, 2006 and 3.70% at December 31, 2005	82,100	88,600
Series 1984J, variable rate bonds, due October 15, 2014, 3.55% at December 31, 2006 and 2.95% at December 31, 2005	18,260	21,145
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 3.68% at December 31, 2006 and 2.85% at December 31, 2005	8,800	9,100
	1,701,087	1,392,348
Less current portion of long-term debt	57,782	53,085
	$ 1,643,305	$ 1,339,263

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, $15,200,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, $49,863,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2006, $14,453,000 of these amounts remained to be advanced.

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2006, $2,240,000 of these amounts remained to be advanced.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, this loan has not been cleared by RUS for advance of loan funds.

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2006, $245,000,000 of this amount remained to be advanced.

(Continued)

NOTE 5 – LONG-TERM DEBT (Continued)

In March 2006, RUS approved a loan application in the amount of $481,388,000 for the construction of the Unit #4 at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2006, this loan has not been cleared by RUS for advance of loan funds.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2006 and 2005, the Cooperative's cushion of credit account balance was $75,875,000 and $26,375,000.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series 1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $7,500,000 in 2007 to $13,150,000 in 2013; Series 1984J – payments range from $3,190,000 in 2007 to $4,325,000 in 2010; and Series 1993B – payments range from $300,000 in 2007 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $20,567,000 at December 31, 2006.

Estimated maturities of long-term debt for the five years subsequent to December 31, 2006 are as follows: 2007 - $57,782,000; 2008 - $60,438,000; 2009 - $63,618,000; 2010 - $471,990,000; 2011 - $70,241,000; and thereafter - $977,018,000.

NOTE 5 – LONG-TERM DEBT (Continued)

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage. Because of the 2006 Environmental Protection Agency ("EPA") Notice of Violation discussed in detail in Note 7, the Cooperative was in technical default of the members' equities covenant related to the $80,000,000 in outstanding debt under the Credit Facility in 2005. Under the terms of the Credit Facility loan agreement, the required lenders had the right to immediately demand payment of the entire principal and interest balances owed them, or to terminate the loan commitment. On April 6, 2006, the required lenders waived their rights related to this technical default. On April 6, 2006, the covenants in the Credit Facility loan agreement were modified and the Cooperative was in compliance with the amended agreement.

Effects of this Notice of Violation have caused the Cooperative not to meet certain loan covenants as of December 31, 2006. Although the Cooperative is not in default of any of its loan agreements, the lenders have required the Cooperative to file a plan of corrective action. The Cooperative has developed a plan of corrective action and presented it to the lenders.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 6 – RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $7,883,000 and $7,094,000 for 2006 and 2005, respectively. The Cooperative expects to contribute approximately $8,500,000 to the plan in 2007.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $775,000 and $743,000 to the plan in 2006 and 2005, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $743,000 to the plan in 2007.

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2006 and 2005 (dollars in thousands):

	2006	2005
Change in plan assets:		
Fair value of plan assets at beginning of year	$	$ -
Employer contribution	487	611
Plan participants' contribution	487	610
Benefits paid	(974)	(1,221)
Fair value of plan assets at end of year	-	-
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 35,151	$ 34,258
Service cost-benefits attributed to service during the period	1,219	1,166
Interest cost on accumulated postretirement benefit obligation	2,095	1,931
Benefits paid	(974)	(1,221)
Plan participants' contribution	487	610
Actuarial gain	249	(1,593)
Benefit obligation at end of year	38,227	35,151

(Continued)

NOTE 6 – RETIREMENT BENEFITS (Continued)

	2006	2005
Funded status	$ (38,227)	$ (35,151)
Unrecognized actuarial gain	(10,436)	(11,453)
Accrued benefit cost	$ (48,663)	$ (46,604)
Components of net periodic postretirement benefit cost (dollars in thousands):		
Service cost-benefits attributed to service during the period	$ 1,219	$ 1,166
Interest cost on accumulated postretirement benefit obligation	2,095	1,931
Amortization of unrecognized actuarial gain	(767)	(514)
Net periodic benefit cost	$ 2,547	$ 2,583

The discount rate used in determining the accumulated postretirement benefit obligation for 2006 and 2005 was 6.00%.

The Cooperative expects to contribute approximately $805,000 to the plan in 2007.

The following expected benefit payments from the plan, which reflect anticipated future service, are (dollars in thousands):

2007	$ 805
2008	934
2009	1,046
2010	1,173
2011	1,312
2012 - 2016	9,147
Total	$ 14,417

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2006. The rate is assumed to decline to 5 percent after five years.

NOTE 6 – RETIREMENT BENEFITS (Continued)

The health care cost trend rate assumption has a significant effect on the amounts reported.

	2006	2005
Effect on total of service cost and interest cost components (dollars in thousands)		
1-percentage-point increase	$ 697	$ 705
1-percentage-point decrease	(540)	(514)
Effect on postretirement benefit obligation (dollars in thousands)		
1-percentage-point increase	$ 6,776	$ 6,986
1-percentage-point decrease	(5,381)	(5,476)

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158 (SFAS 158). SFAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The Cooperative is required to adopt SFAS 158 in 2007. Had the Cooperative adopted SFAS 158 in 2006, comprehensive income would have increased by approximately $10,436,000.

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the five years subsequent to December 31, 2006 as follows (dollars in thousands):

2007	$ 4,553
2008	5,314
2009	7,595
2010	7,595
2011	7,595

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2007	$ 163,741
2008	99,612
2009	85,845
2010	56,334
2011	45,159

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

On January 28, 2004, the federal Environmental Protection Agency (EPA) sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA. The lawsuit seeks injunctive relief, and civil penalties of up to $25,000 a day before January 31, 1997, and $27,500 a day since then.

As a result of this lawsuit, the Cooperative has done the following:

On January 17, 2006, EKPC filed four motions with the court asking that most, if not all of the claims, be dismissed. These motions for summary judgment involved,

(a) statute of limitation issues;
(b) federal enforceability of the Spurlock No. 2 operating permit;
(c) applicability of the routine maintenance exclusion; and
(d) calculation of emissions under PSD based on post-change actual annual emission where the baseline emission calculations are based on actual historic annual emissions prior to project work, and not based on hypothetical emissions.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

On September 26, 2006, the court issued an order dismissing most of the government's motions without prejudice pending a final decision in a similar case. A decision in this similar case is expected in summer 2007.

The Cooperative believes that when all the evidence is presented, the facts will bear out that the Cooperative complied with the requirements, and acted in good faith.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue is EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004.

Under a strict application of the Acid Rain Program, owners and operators of a unit that is determined to have excess emissions of SO2 are subject to non-discretionary penalties, must surrender SO2 allowances to cover previous emissions, and also may be subject to discretionary penalties. There may also be penalties relating to NOx emissions requirements.

Because the Cooperative did not have emissions monitoring equipment in place on Dale Units 1 and 2, on March 1, 2006, the Cooperative petitioned EPA to allow the calculation of the emissions on coal burn fuel data versus missing data procedures. Depending on the resolution of this petition, an additional $68,000,000 in non-discretionary penalties could be assessed. At this time, it is not possible to predict the likelihood of success or whether these non-discretionary penalties could be waived or reduced by the agency or a court. The Cooperative is also required to surrender SO2 allowances to cover the emissions for 2000 through 2004. Additional expense to cover such emissions, assuming current market prices, could be $25,000,000. Civil penalties similar to those outlined above from the EPA lawsuit may also apply.

The Cooperative has certain generating plants that contain asbestos, which is required by law to be removed or contained if the plants are renovated or demolished. The Cooperative has no plans to retire any of its generating plants. Because there is an indeterminate settlement date for the asset retirement obligation, the range of time over which the Cooperative may settle the obligation is unknown. Therefore, a fair value determination of an asset retirement obligation cannot be reasonably estimated.

(Continued)

NOTE 7 – COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $522 million.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $625 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. Construction of three of the combustion turbines has been deferred until after 2009. The first two combustion turbines are expected to cost approximately $66 million and are scheduled to become operational in 2009.

In September 2005, the Board approved construction of a new limestone scrubber for Spurlock Unit 2, with a wet precipitator, at a cost of approximately $159 million.

In January 2006, the Board approved the construction of a new limestone scrubber for Spurlock Unit 1, with a wet precipitator, at a cost of approximately $145 million.

The construction projects mentioned above are subject to KPSC approval.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts Receivable and Accounts Payable: The fair values of accounts receivable and payable are based on carrying value due to the short-term nature of the instruments.

Investment Securities: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

Long-Term Accounts Receivable: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

(Continued)

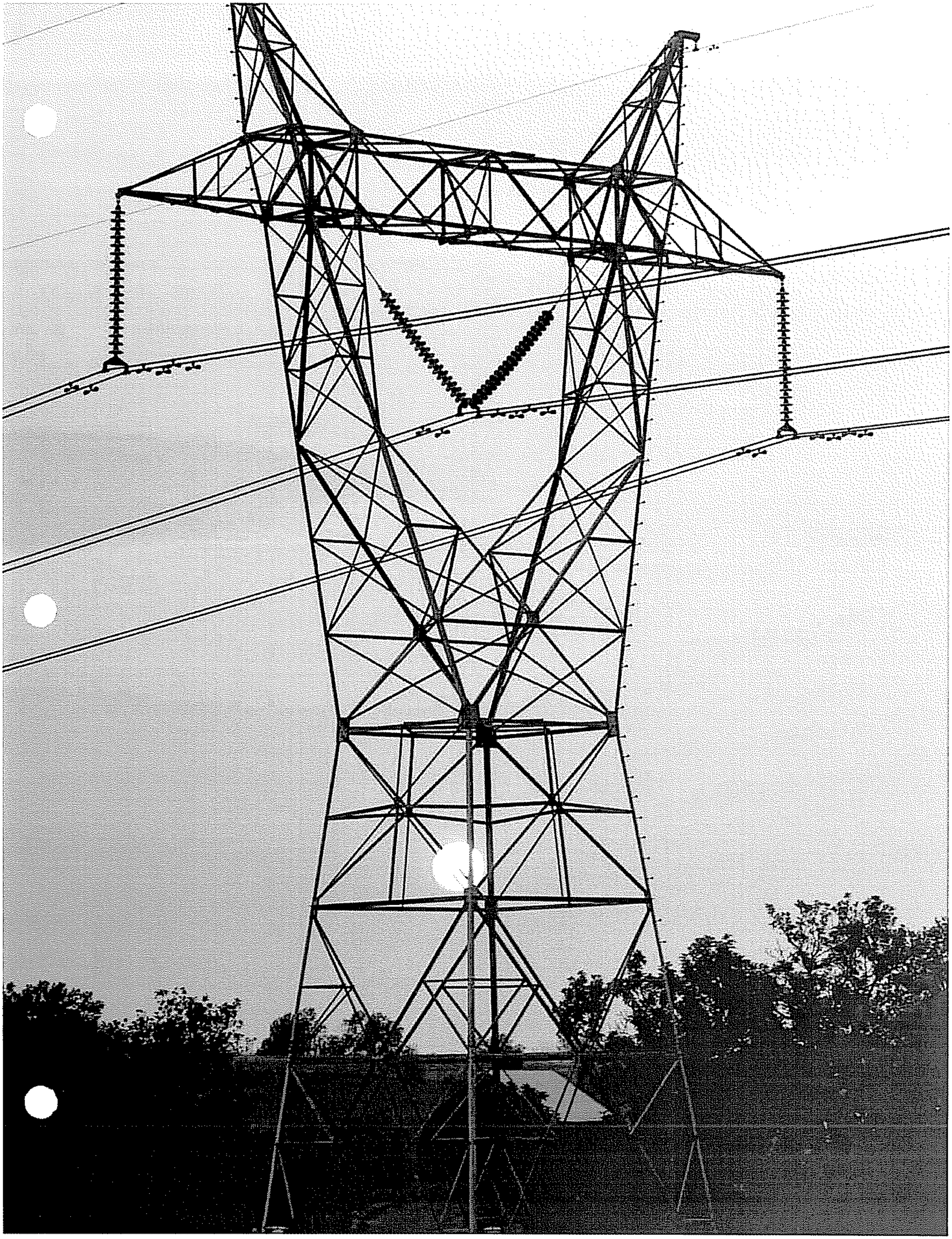
NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any.

The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 69,202	$ 69,202	$ 43,863	$ 43,863
Accounts receivable	62,091	62,091	77,663	77,663
Investment securities				
Available for sale	43,956	43,956	42,581	42,581
Held to maturity	8,216	7,818	8,237	6,698
Long-term accounts receivable	8,572	9,266	9,002	10,067
Financial liabilities				
Long-term debt	$1,701,087	$1,713,203	$1,392,348	$1,418,017
Accounts payable	90,977	90,977	75,855	75,855



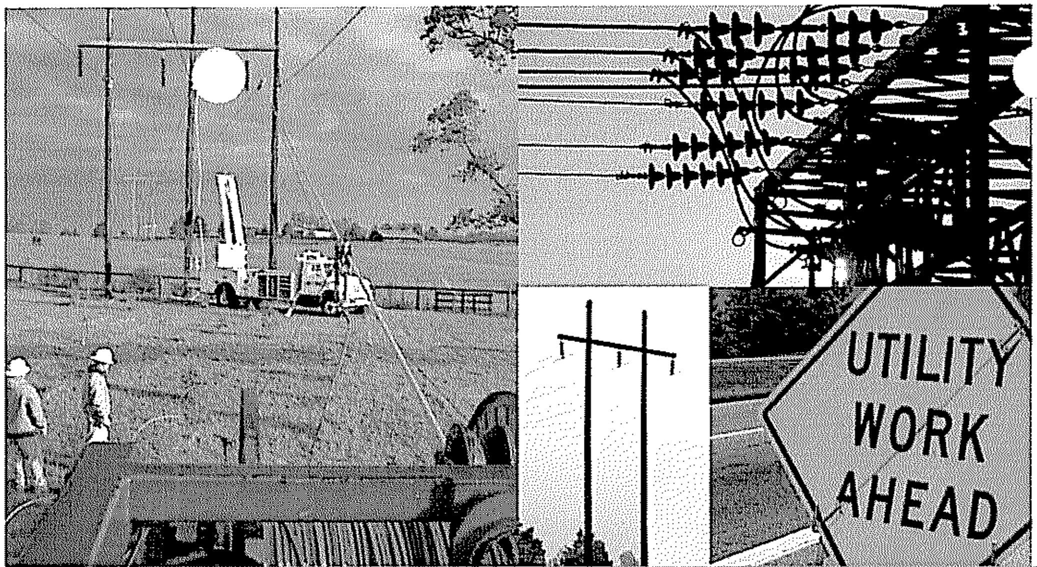
EAST KENTUCKY POWER COOPERATIVE

4775 Lexington Road, 40391
P.O. Box 707,
Winchester, KY 40392-0707
Telephone: 859-744-4812
Fax: 859-744-6008
www.ekpc.coop

A Touchstone Energy Cooperative

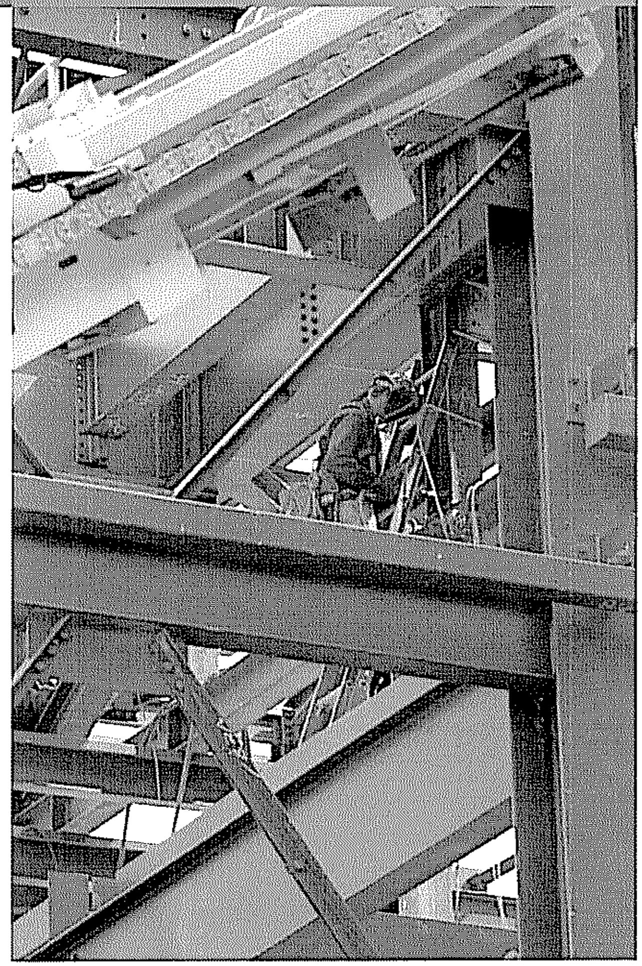
East Kentucky Power Cooperative, Inc.

2005 Annual Report



EAST KENTUCKY POWER COOPERATIVE

2005 ANNUAL REPORT

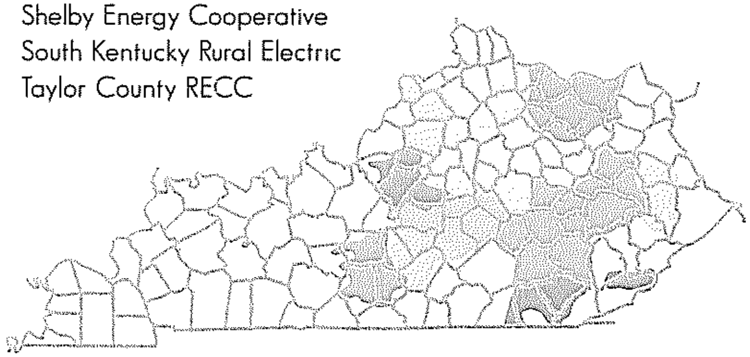


EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy Cooperative

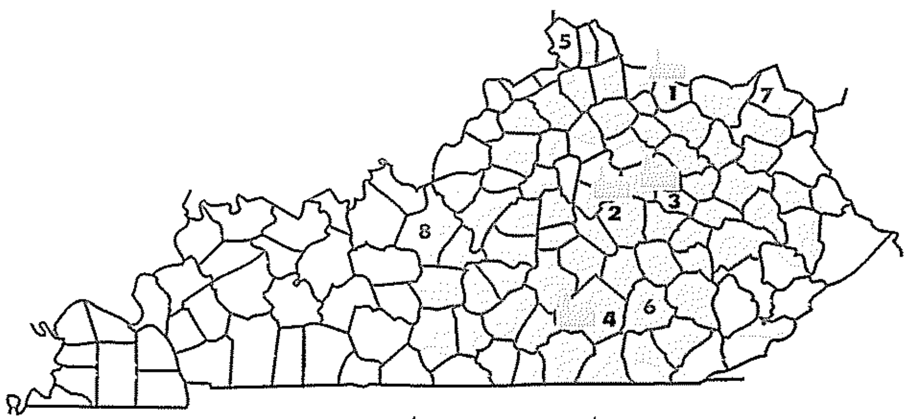
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Bavarian	3.2 net MW
6	Laurel Ridge	4.8 net MW
7	Green Valley	2.4 net MW
8	Pearl Hollow	2.4 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system wide service area

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EAST KENTUCKY POWER COOPERATIVE

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving almost 500,000 Kentucky homes, farms, businesses and industries across 89 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

EAST KENTUCKY POWER COOPERATIVE

Financial Highlights (Dollars in Thousands)

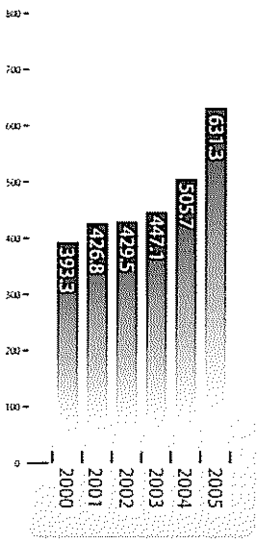
	2005	2004	% Increase (Decrease)
Operating Revenue	**$631,297**	$505,681	24.8
Operating Expenses	**$588,346**	$497,737	18.2
Net Deficit	**($46,007)**	($27,267)	68.7
Fuel Expenses for Generation	**$263,434**	$173,506	51.8
Purchased Power Cost	**$109,571**	$134,795	(18.7)
Interest Cost	**$69,844**	$54,490	28.2
Members' Equities	**$96,108**	$142,050	(32.3)
Construction Expenditures	**$162,607**	$205,015	(20.7)
Assets	**$1,687,894**	$1,558,161	8.3
Sales to Member Cooperatives (MWh)	**12,365,466**	11,807,384	4.7
System Peak Demand (MW)			
Winter Season	**2,642** *	2,711	(2.5)
Summer Season	**2,227**	2,041	9.1
Number of Member System Consumers	**496,906**	489,210	1.6

* set December 20, 2005

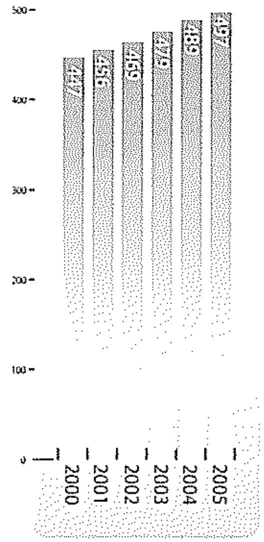
	2005	2004	2003	2002	2001
Net Margins - $1,000 (Deficit)	**($46,007)**	($27,267)	$29,398	$37,428	$30,418
TIER	**0.34**	0.49	1.66	1.95	1.81
DSC	**0.66**	0.72	1.35	1.73	1.76
Fuel Expense - $1,000	**$263,434**	$173,506	$137,103	$146,506	$132,044
Construction Expenditures -$1,000					
Generation	**$131,756**	$166,351	$221,949	$155,713	$137,155
Transmission	**$26,987**	$35,818	$27,101	$25,149	$18,691
General	**$3,864**	$2,846	$12,762	$9,649	$1,833
Investment In Facilities - $1,000					
Original Cost	**$2,192,259**	$2,025,314	$1,810,211	$1,558,890	$1,367,586
Long-Term Debt - $1,000	**$1,339,263**	$1,223,164	$952,987	$762,079	$688,839
Total Assets - $1,000	**$1,687,894**	$1,558,561	$1,328,532	$1,026,947	$912,811
Number of Employees - Full-Time	**635**	629	599	600	616
Cost of Coal Purchased					
$/ton	**$49.95**	$43.24	$34.13	$32.35	$32.93
$/MBtu	**$2.09**	$1.78	$1.39	$1.33	$1.36
Amount of Coal Purchased - tons	**4,559,035**	3,859,339	3,615,196	3,815,851	4,052,988
Generation - MWh	**11,105,626**	9,046,449	9,061,760	9,873,289	9,211,819
System Peak Demand - MW					
Winter Season	**2,642**	2,711	2,589	2,568	2,217
Summer Season	**2,227**	2,041	1,996	2,120	1,980
Sales to Other Utilities - MWh	**144,197**	53,466	71,224	513,874	899,286
Member Load Growth - %					
Energy	**4.7**	3.2	0.7	6.9	2.8
Demand	**6.2**	4.0	(0.6)	6.2	3.6
Load Factor - %	**52**	51	51	58	52
Miles of Line	**2,663**	2,638	2,629	2,607	2,579
Installed Capacity - kVA	**8,919,666**	8,863,666	8,824,466	8,722,747	8,637,947
Distribution Substations	**311**	304	299	292	284

2000-2005 information

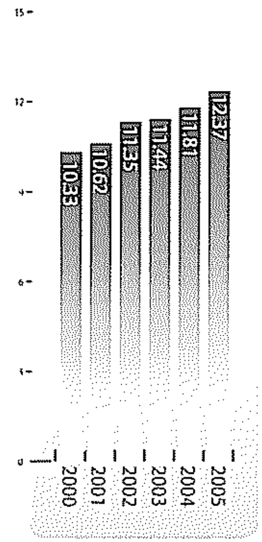
Operating Revenue
in $Millions



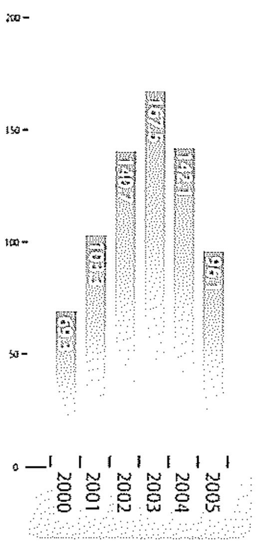
Member Consumer Meters
Year-End in Thousands



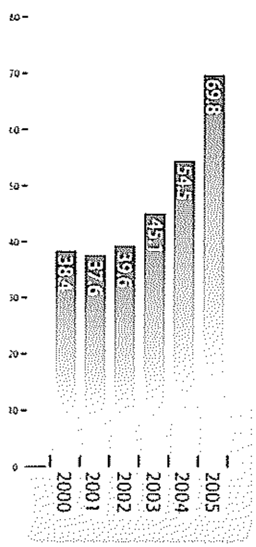
Energy Sales to Members
MWh in Millions



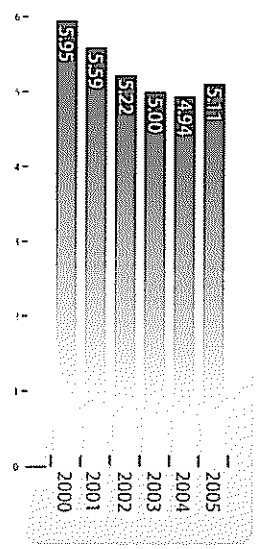
Members' Equities
Year-End in $Millions



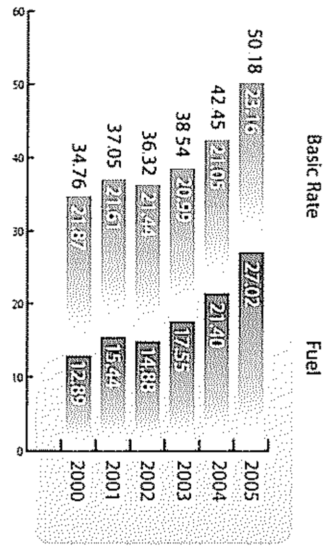
Interest Cost
in $Millions



Average Interest Rate on Long-Term Debt Year-End
Average %



Power Cost to Members
Mills/kWh



from left:
Roy Palk, President and CEO
Wayne Stratton, Chairman of the Board

Rising to the Challenge

For East Kentucky Power Cooperative, 2005 ushered in an era of both unprecedented growth and unprecedented challenges.

In April, EKPC dedicated the 268-megawatt E.A. Gilbert Generating Unit at Spurlock Station in Maysville, Ky., and expressed appreciation to Ned Gilbert for more than 30 years of service to the people of Kentucky and the EKPC Board.

Utilizing a cutting-edge technology known as circulating fluidized bed (CFB) process, the unit features low emissions and will assist the Commonwealth with its new energy plan to maintain the lowest average electric rates in the nation.

Also integral to generating and transmitting the power needed to meet the system's unprecedented growth was the Kentucky Public Service Commission approval of construction of Spurlock Unit #4, a clean-coal unit that will be identical to the Gilbert Unit. The project is scheduled for completion by the end of the decade.

The unit will be essential in order to supply power to the newest EKPC member, Bowling Green, Ky.-based Warren RECC. The construction of Spurlock Unit #4 will create hundreds of jobs and bring millions of dollars in new tax revenues to local and state governments.

During 2005, EKPC also applied to the PSC for permission to build a third clean coal unit and five additional combustion turbines. Smith Unit #1 will be the first baseload unit located at J.K. Smith Station in Clark County.

EKPC also completed construction of its fourth renewable energy plant. The Pearl Hollow Landfill Gas-to-Electric Plant went commercial in January 2006.

Though great strides were made in 2005 to build the generation needed for the future, EKPC accomplished other major projects.

In October, the Kentucky Public Service Commission approved EKPC's application for the Warren RECC transmission project. This project will construct 97 miles of transmission lines, stretching from Barren to Ohio counties.

The PSC rejected a proposed transmission project in Rowan County, however, which is needed to alleviate transmission congestion on the system. After submitting additional information, EKPC refiled for permission to build along the same route, with additional documents supporting why EKPC's proposed route is preferred over alternatives.

Following months of debate and discussion during 2005, the Federal Energy Regulatory Commission (FERC) handed down a historic order in January 2006, issuing a final order that the Tennessee Valley Authority (TVA) must provide EKPC with three interconnections with its transmission system. EKPC successfully argued that the interconnections were needed to avoid the unnecessary duplication of facilities.

Rising fuel and environmental costs significantly impacted EKPC and utilities across the nation during 2005. After absorbing the costs of meeting EPA rules for nearly 12 years, EKPC obtained approval in February 2005 to begin recovering those costs by implementing an environmental surcharge. The surcharge was effective for service rendered on or after July 1, 2005.

Following hurricanes that hit the Gulf Coast during 2005, natural gas costs and other energy costs soared during the fall. The rise in natural gas costs impacted the system because transmission constraints increased the need to run combustion turbines.

As environmental compliance costs rose significantly during the fall, EKPC's Board approved the construction of a new scrubber on Spurlock Unit #2. Early in 2006, the Board also approved building a scrubber on Spurlock Unit #1.

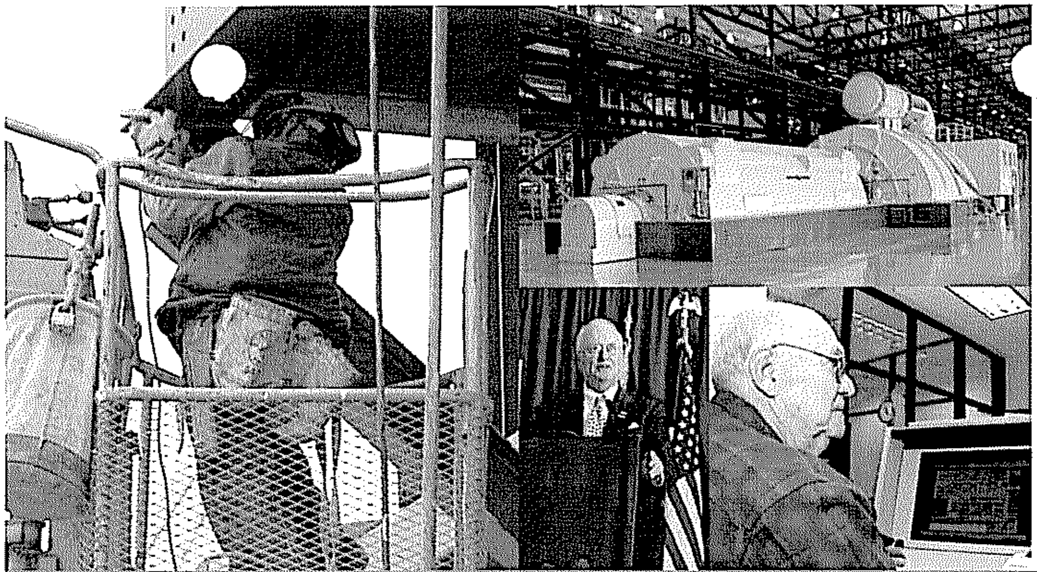
In early 2006, EKPC recieved a Notice of Violation (NOV) from the Environmental Protection Agency on Dale Station Units #1 and #2. EKPC is working closely with regulatory officials to address the case.

EKPC launched a Cost Containment initiative during 2005 that will review expenditures by each business unit. The Production Business Unit completed this effort during 2005 as teams of employees analyzed the major drivers of costs at EKPC. The effort is designed to contain costs wherever practical in an effort to increase competitiveness.

Rising costs for environmental compliance and fuel will likely continue to impact the bottom line of utilities for the foreseeable future, but EKPC remains committed to taking the steps that will ensure a strong future both for the Cooperative and its member systems.

Roy M. Palk
President and CEO

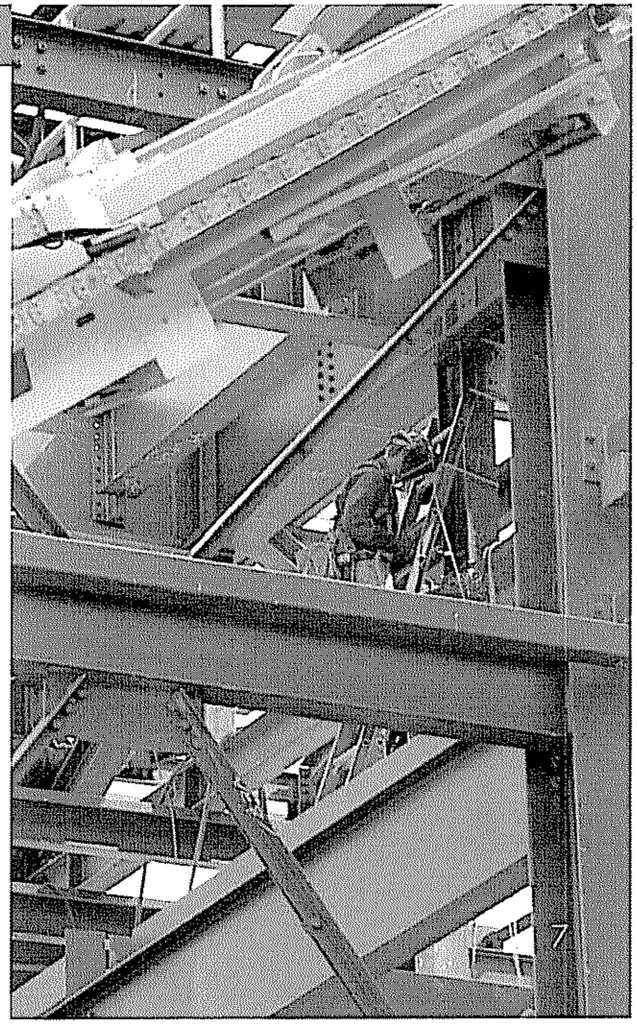
Wayne Stratton
Chairman of the Board



Public Service Commission Approves Spurlock Unit #4

In granting EKPC permission to construct Spurlock Unit #4, the PSC noted that EKPC will need the additional capacity to begin supplying power to Warren RECC in 2008, and concluded that the unit would be the most cost-effective way to meet future need for baseload generation. The 278-megawatt unit will rank among the cleanest coal generating units in the nation.

Gilbert Unit Dedicated, Named One of Top U.S. Plants



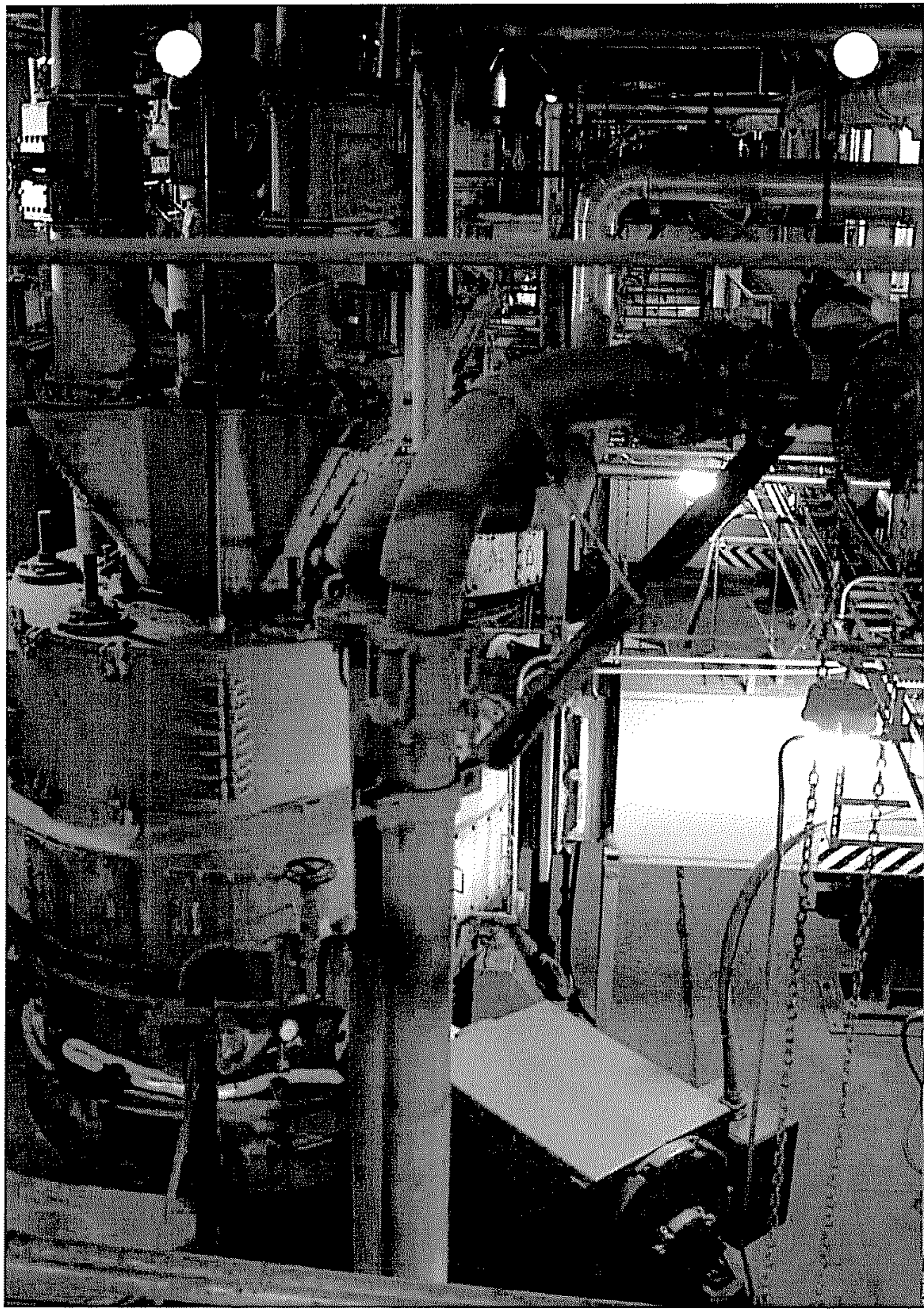
The 268-megawatt E.A. Gilbert Generating Unit at Spurlock Station, Kentucky's first coal-fired unit in 15 years, was dedicated in April and ranks as one of the cleanest coal-powered units in the nation, and the cleanest in Kentucky.

The Gilbert Unit is named after former EKPC Board Chairman E.A. "Ned" Gilbert, who played a crucial role in efforts to expand the benefits of rural electrification in Kentucky.

Hundreds of state and local leaders came to Spurlock Station in April to dedicate the unit. The unit produces 98 percent less sulfur dioxide and 80 percent less nitrogen oxide compared with conventional coal-powered plants. The unit went online March 1, 2005, one month ahead of schedule.

"This is the face of energy's future in Kentucky," said then state Commerce Secretary Jim Host, who spoke at the dedication. "The Gilbert Generating Unit is a $400 million investment in the environment, the economy and the people of Kentucky."

In its July/August issue, *Power Magazine* named the Gilbert Unit one of 2005's top electric power plants. *Power Engineering* magazine also named it one of the best power projects worldwide.



Environmental Compliance Costs Escalate

In February, the Kentucky PSC approved EKPC's application to recover compliance costs through an environmental surcharge. Government mandates for cleaner air have made it necessary for EKPC to install new equipment to reduce emissions.

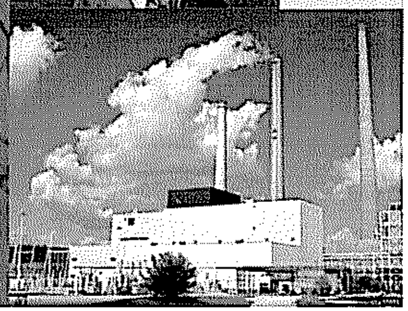
In recent years, EKPC has spent more than $200 million installing environmental control equipment, including two selective catalytic reduction units and other emission controls.

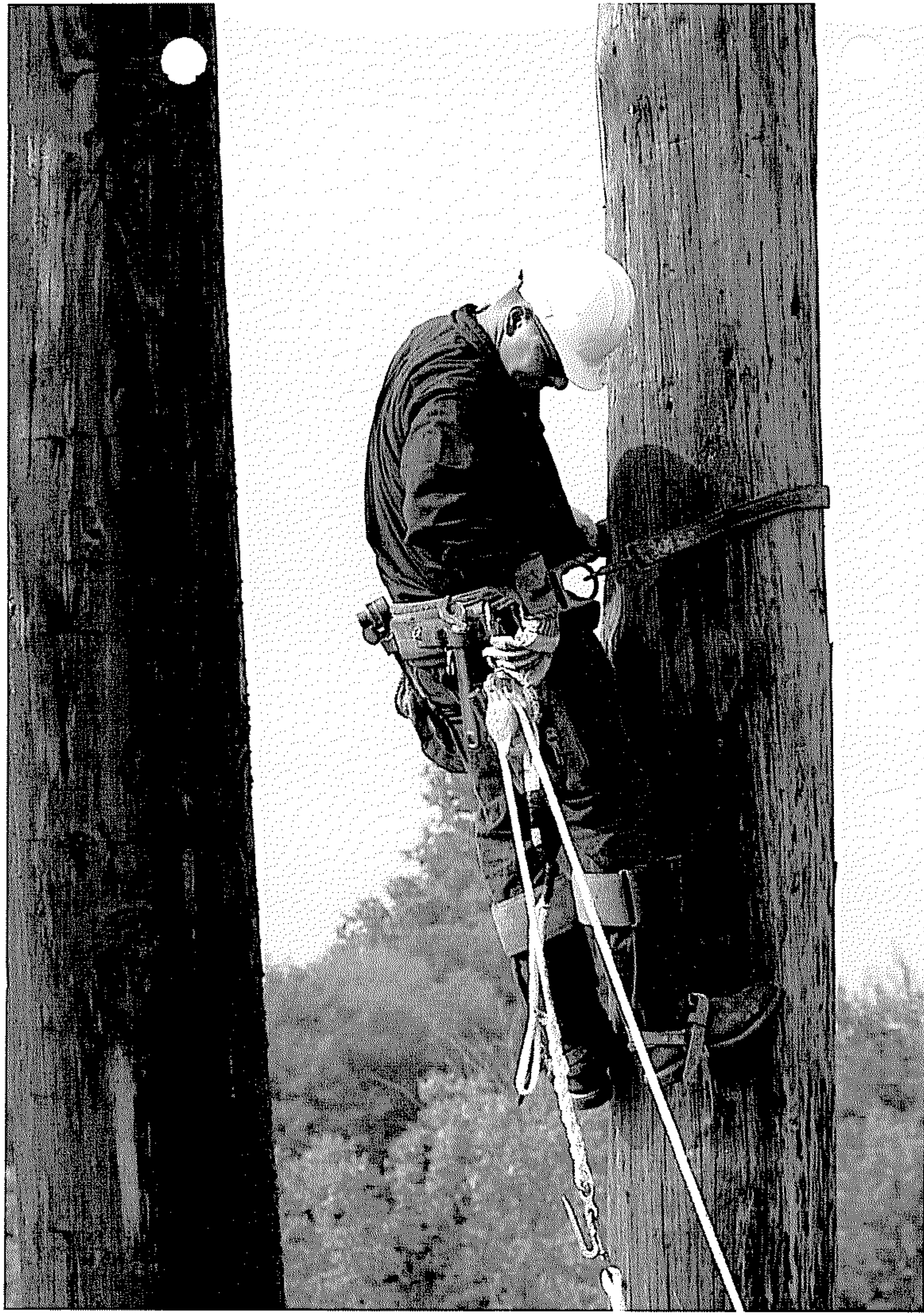
During the year, the environmental surcharge increased as EKPC and utilities across the nation saw significant increases in market costs to comply with the EPA emission allowance program for sulfur dioxide.

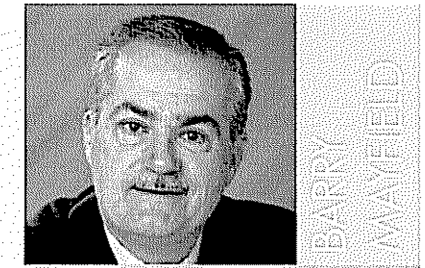
RANDY DIALS

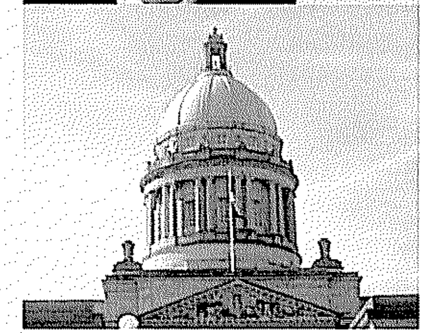
Power Production

Responsible for operation and maintenance of the generating facilities, design engineering and construction of new generation, sustaining plant equipment through production engineering, fuel procurement, environmental affairs and generation dispatch.









Governmental Affair

Oversees governmental relations at both the national and state levels, which includes monitoring all pertinent legislation and ensuring that cooperative principles are protected and enhanced.

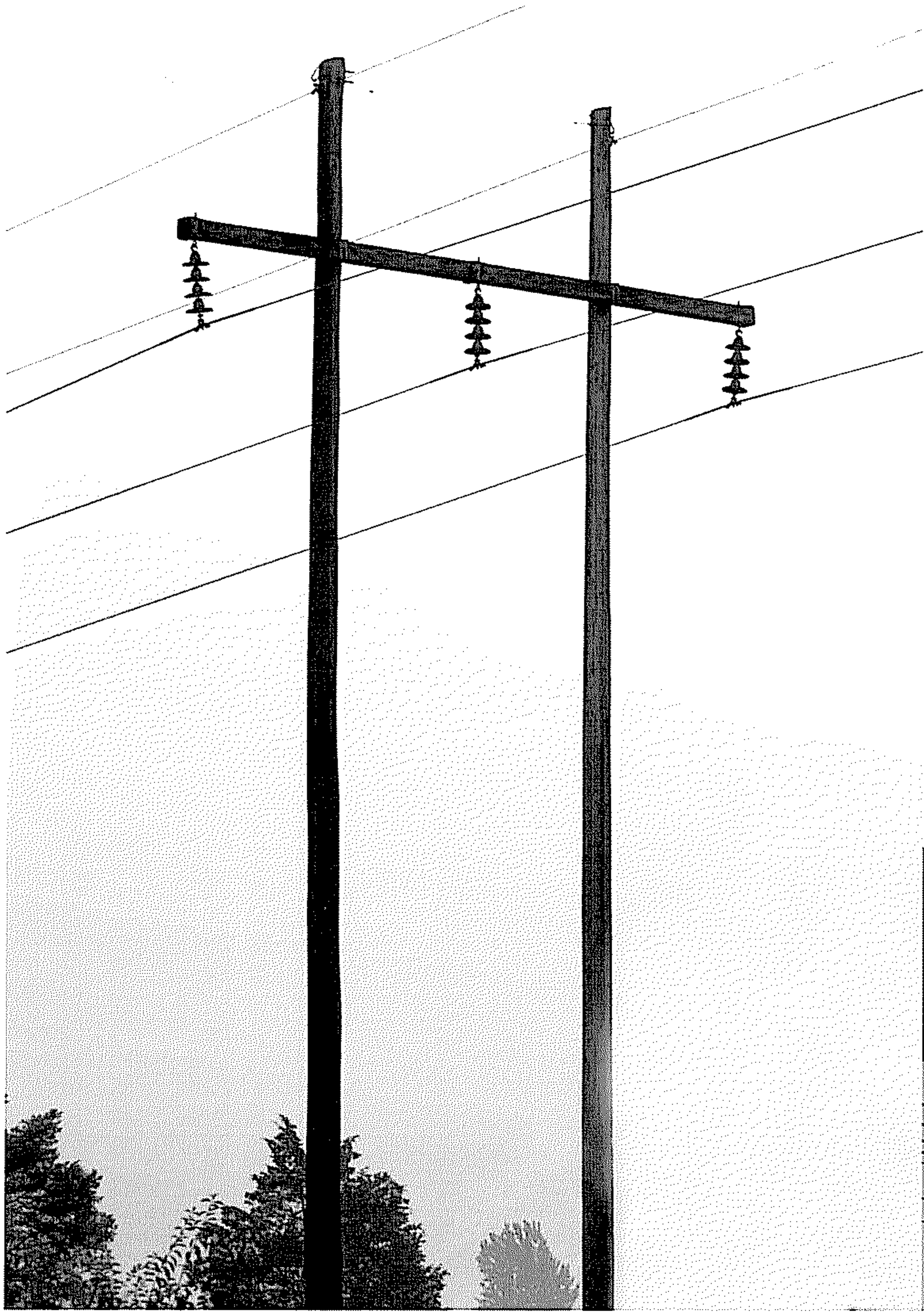
Smith Community Advisory Group

Comprised of nearly 20 Trapp and Clark County citizens, the Smith Community Advisory Group assists EKPC in communicating to the Trapp community about J.K. Smith Station's Unit #1 construction and permitting progress.

In 2005, the group invited a variety of government representatives and EKPC officials to discuss such topics as transportation issues, air quality and future construction plans for the plant.

Unit Generation Figures

In 2005, EKPC posted generation of 11.1 million net megawatthours. Dale Station generated 1.2 million net MWh (an all-time record for the power plant). Cooper Station generated 2.0 million net MWh (also an all-time record), while Spurlock Station produced almost 7.4 million net MWh and Smith Station generated 432,291 net MWh. EKPC's three landfill gas plants combined for a total generation of 62,098 net MWh in 2005.



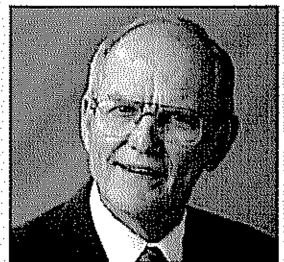
Warren Transmission Facilities Approved

Seven open houses were conducted during 2005 with potentially affected property owners on the Warren transmission project, and more than 1,500 information packets were mailed to local citizens and officials across the affected areas.

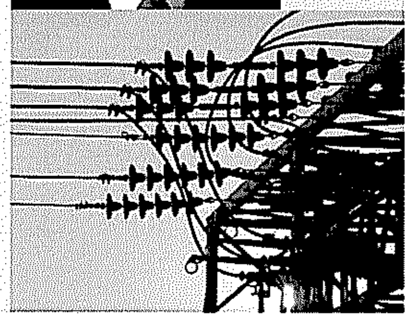
Following the PSC approval of the Warren RECC transmission project in October, EKPC is proceeding with plans to construct nearly 97 miles of 161-kilovolt transmission lines from northern Barren County to Bowling Green and then northwest to Big Rivers Electric Corp.'s D.B. Wilson Generating Station in Ohio County. A sophisticated computer modeling system developed by the Electric Power Research Institute (EPRI) was used to develop the proposed transmission centerline.

Nearly 50 miles of the total length will be rebuilt lines or will parallel existing power lines. Construction began in the spring of 2006 and is scheduled for completion by December 2007.

Warren RECC will join EKPC as its 17th member-owner cooperative in 2008.

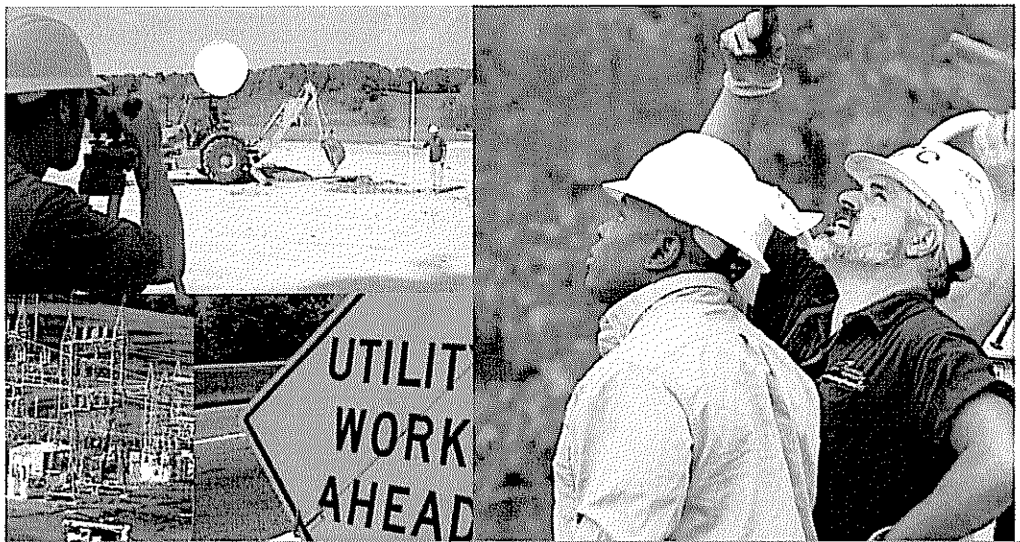


PAUL ATCHISON



Power Delivery

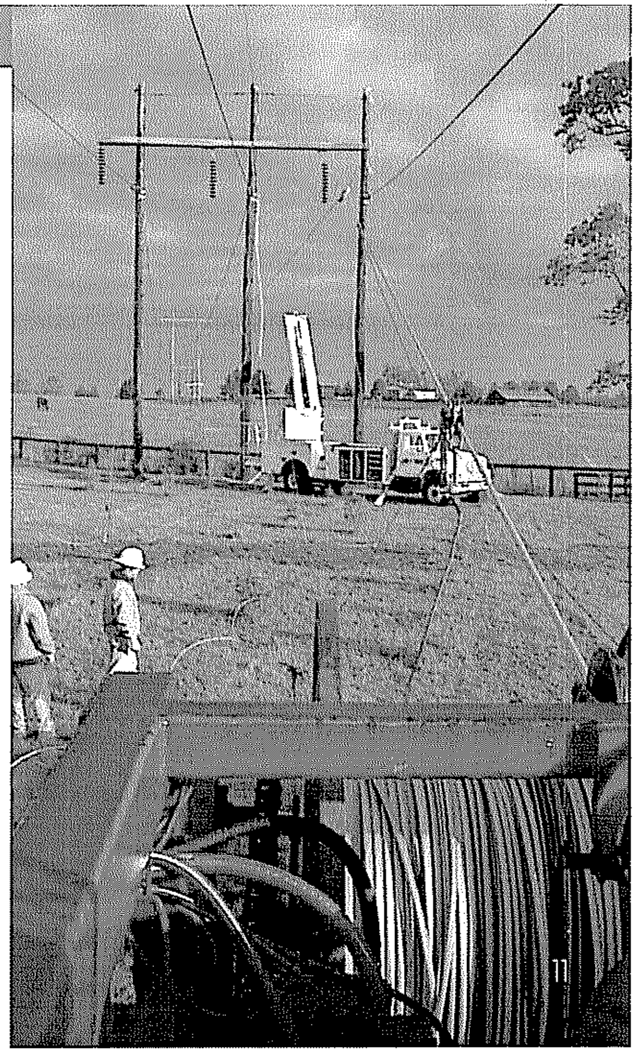
Responsible for the transmission system from the generating plant substation through the distribution substation. This includes transmission planning, dispatch, engineering, construction, operations and maintenance.



System Transmission Construction Continues at Rapid Pace

During 2005, construction crews built 25 miles of new transmission lines. Throughout the year, crews also completed 42 miles of line re-conductoring.

EKPC Refiles Cranston-Rowan Application



In the August order rejecting EKPC's proposed Cranston transmission line, the PSC stated that EKPC should have considered alternate routes along existing lines. EKPC's proposed line crossed 4.8 miles of the Daniel Boone National Forest.

EKPC maintained that the Cranston line, which would be nearly 7 miles in total length, was the best option to balance impact upon the community, environment and ratepayers. In the re-application for approval of the Cranston line, EKPC argued that delays to the project increased the possibility of cascading blackouts in northeastern Kentucky, increased costs for Kentucky ratepayers and increased the impact upon private local property owners.

After three years of extensive study, the Forest Service found that EKPC's proposed line was the best alternative to cross the forest and that it had no significant impact.

Emission Violations Alleged

In early 2006, EKPC received a Notice of Violation (NOV) from the Environmental Protection Agency (EPA) alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units #1 and #2. At issue is EPA's allegation that EKPC incorrectly reported the turbine nameplate ratings, thus placing the Units under the Acid Rain Program. Also, EKPC received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004; the impact is reflected in the enclosed financial statements.

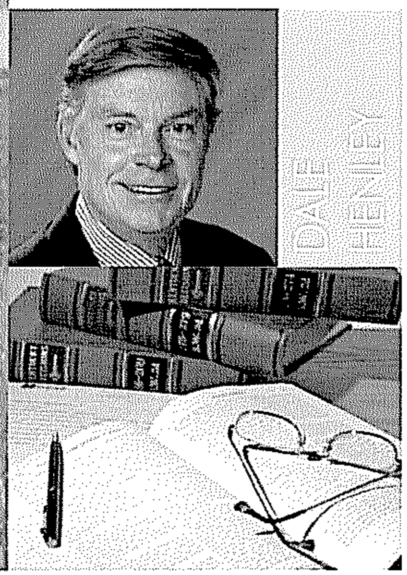
Construction Completed on Landfill Gas Plar..

EKPC completed construction of its fourth methane gas-to-electric renewable energy plant at the Pearl Hollow Landfill in eastern Hardin County. The plant produces electric power from decaying trash, joining EKPC's three existing landfill gas-to-electric plants (in Greenup, Laurel and Boone counties).

The plant provides clean renewable energy for member systems to supply electricity to more than 2,000 Kentucky homes. EKPC was the first utility in Kentucky to open renewable energy plants.

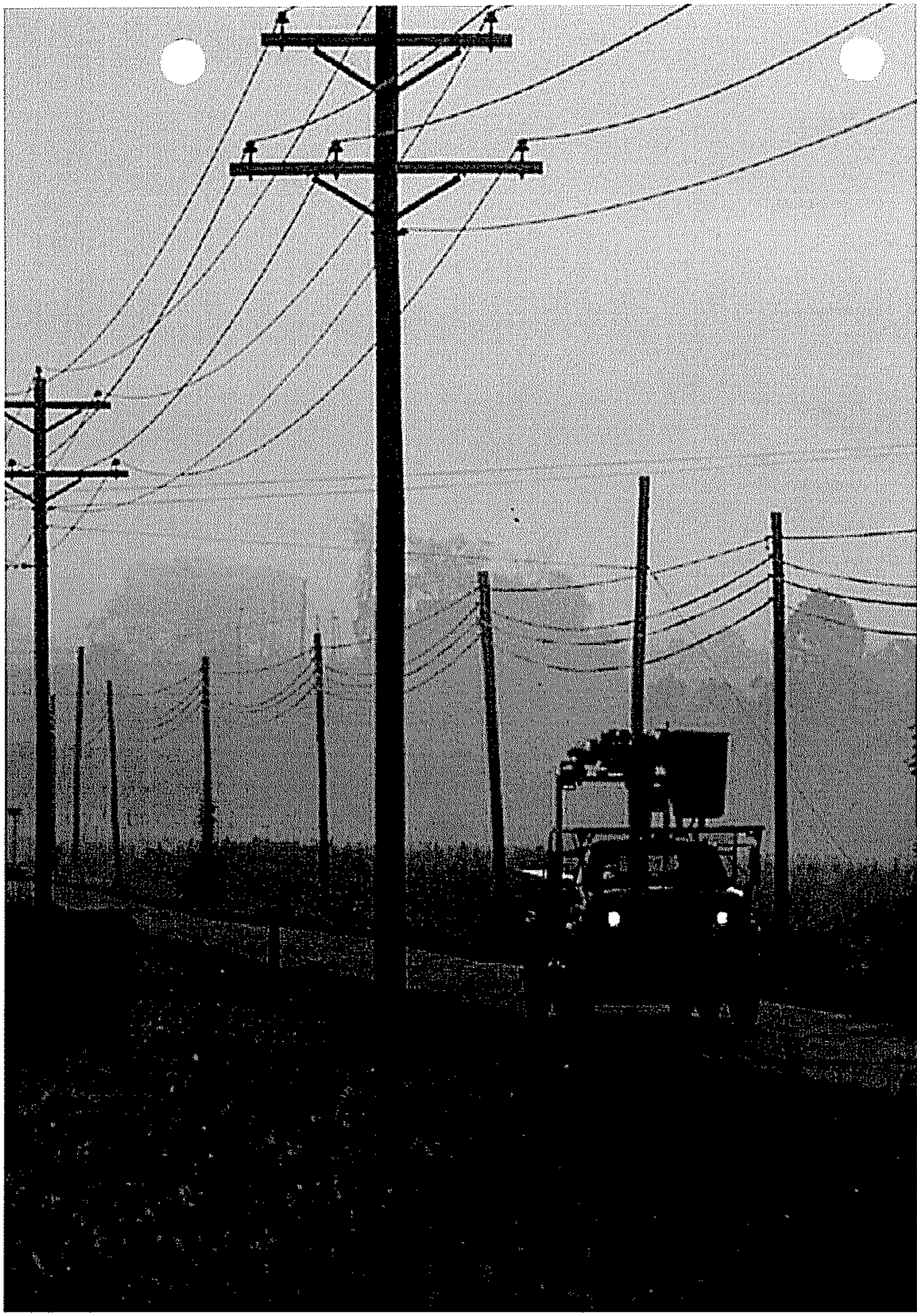
In December, a fifth engine was added to the Laurel Ridge Landfill Gas-to-Electric Plant. The engine increased the plant's total net megawatt capacity from 3.2 MW to 4.0 MW.

The EKPC Board in May approved a budget for the development of a new landfill gas-to-electric facility in Pendleton County, near Butler, Ky.



Legal

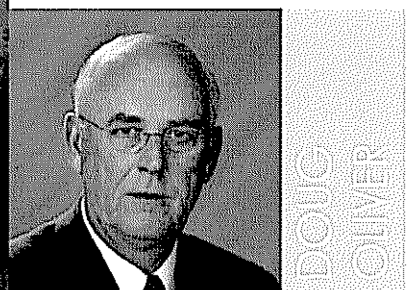
Provides corporate-wide legal guidance and counsel to ensure maximum protection of the Cooperative's legal rights and further ensures that operations are within the limits prescribed by law.



EnviroWatts Program Continues to Grow

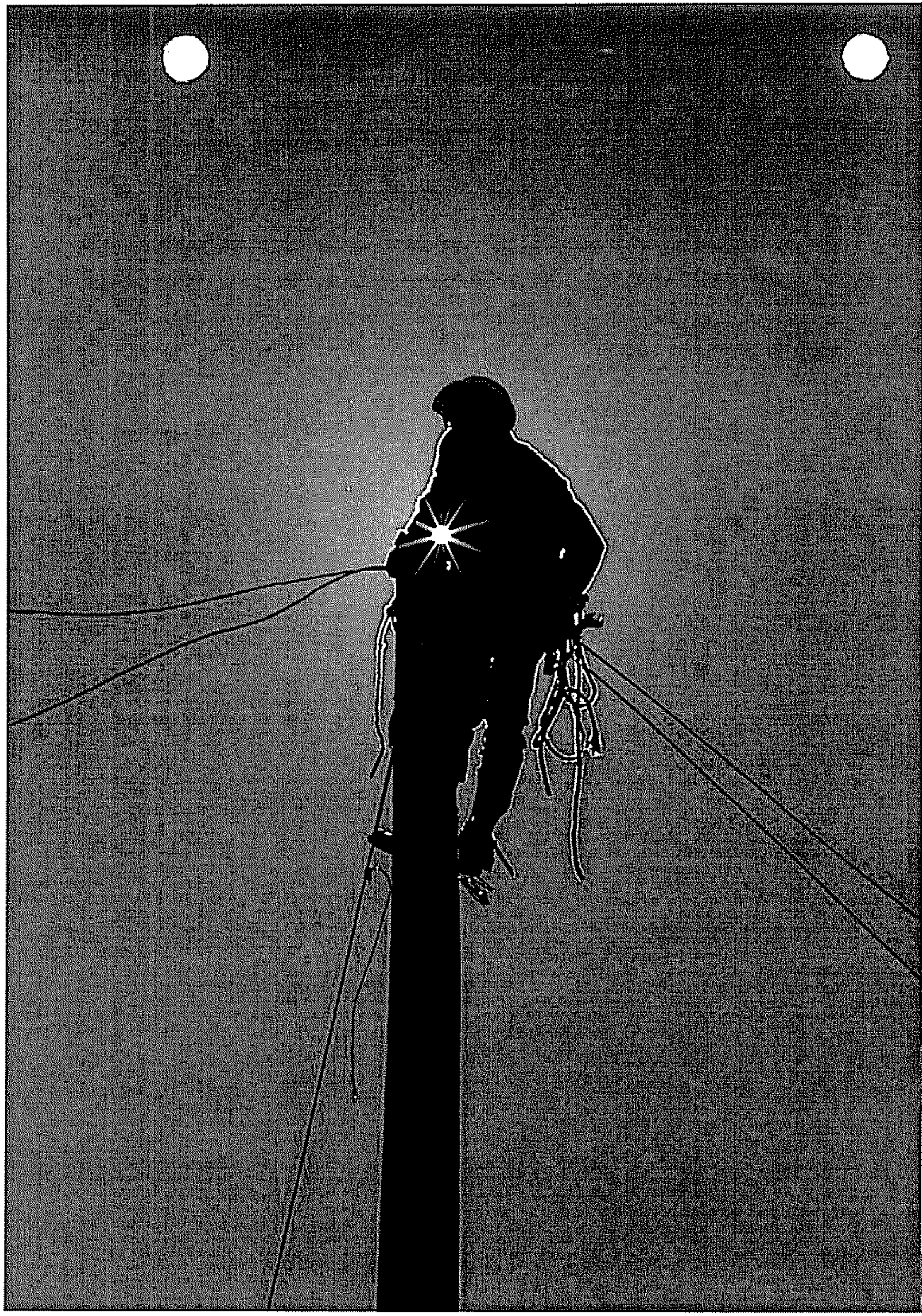
The second largest purchaser of renewable energy produced by the landfill gas plants, the Sisters of Charity, agreed in 2005 to buy 257 blocks of EnviroWatts power per month for their Nazareth campus from Salt River Electric Cooperative.

EKPC is currently one of the largest wholesale suppliers of renewable energy in the southeastern United States.



Human Resources and Support Services

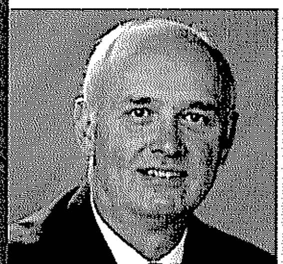
Responsible for human resources, administrative services, records management, travel and meetings, headquarters facilities, information technology and telecommunications.



Co-op Connections Card Program

Participating EKPC cooperatives were the first in the nation to offer the Co-op Connections Card, which provides retail members discounts at participating local and national businesses.

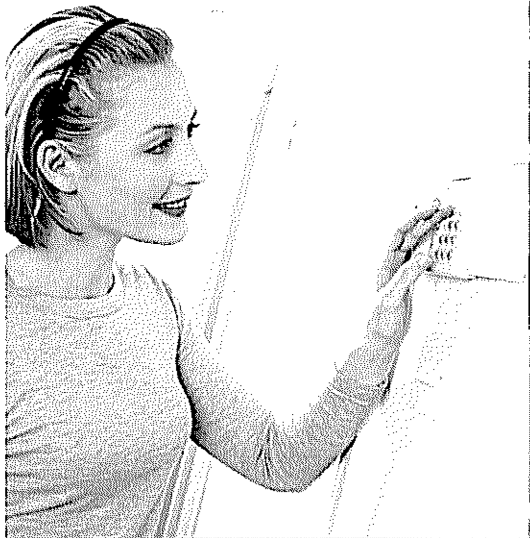
The card reinforced Touchstone Energy co-ops' longstanding commitment to community and provided members another tool to demonstrate the value of participation in the Touchstone Energy brand nationwide. More than 5 million Co-op Connections Cards have been printed.

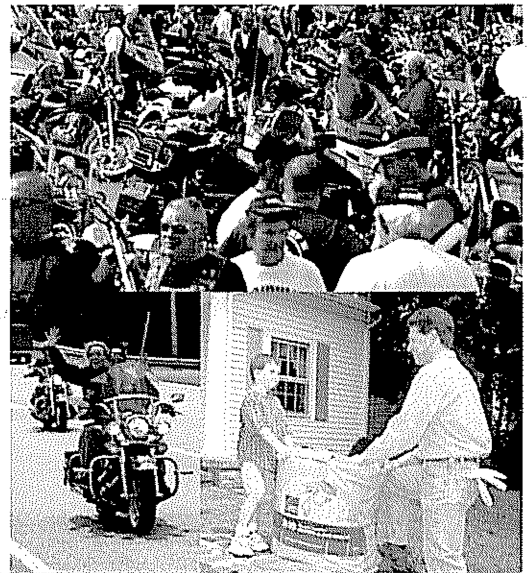


GARY CRAWFORD

Member Services

Responsible for providing value added support to the member systems in the areas of marketing, communications, market research, environmental communications, Envision Energy Services, renewable energy and economic development.





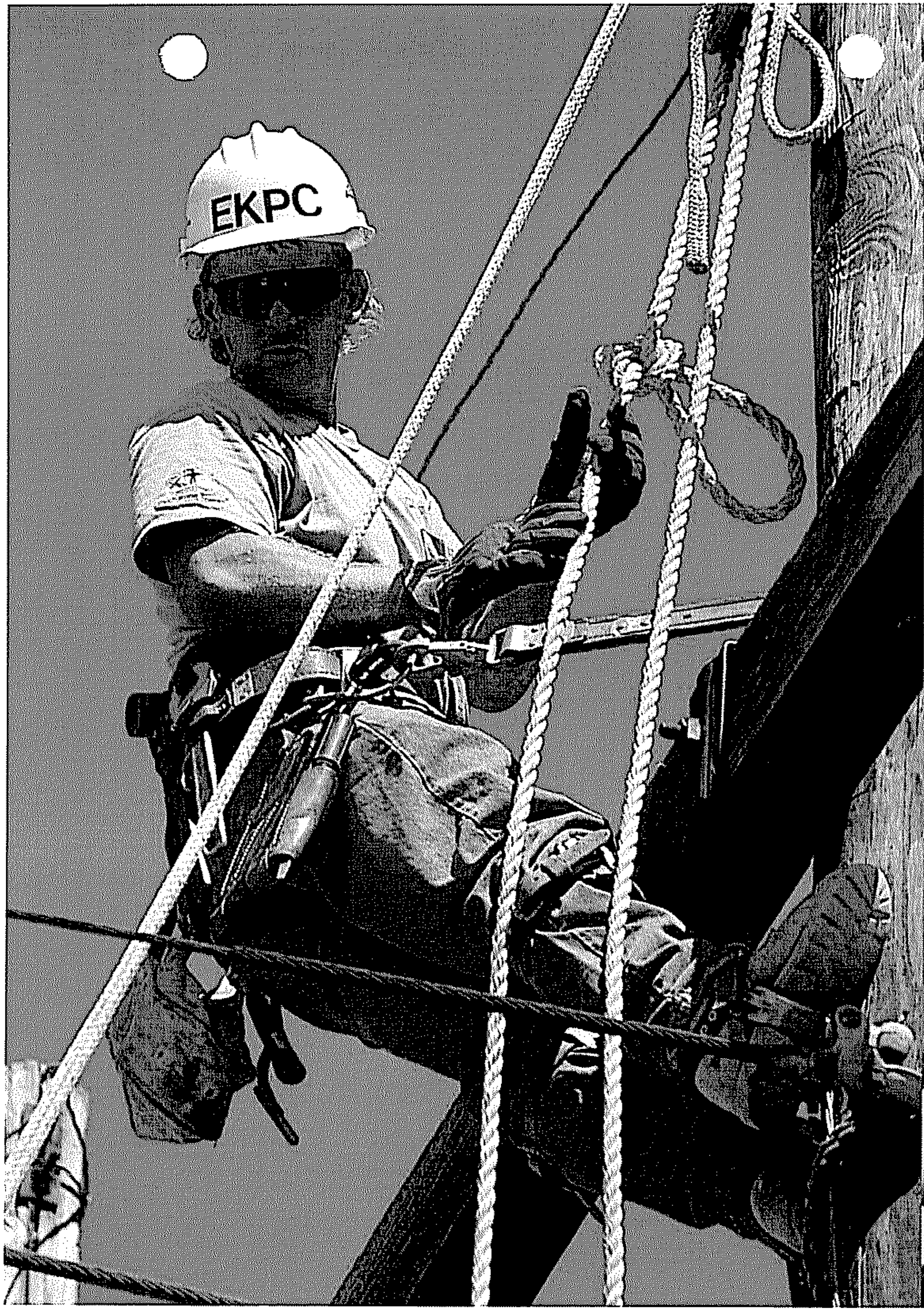
Partners Plus Enjoys Fruitful Year

With energy costs increasing throughout the global economy, EKPC's Partners Plus program and a variety of conservation programs saw a dramatic increase in interest during 2005, including Electric Thermal Storage Units, Touchstone Energy Home, Residential Energy Audits, Tune-Up and Button Up. In addition, EKPC's 16 members used PartnersPlus money for local scholarships, advertising and community support programs.

Touchstone Energy Programs Benefit Kentucky Youth

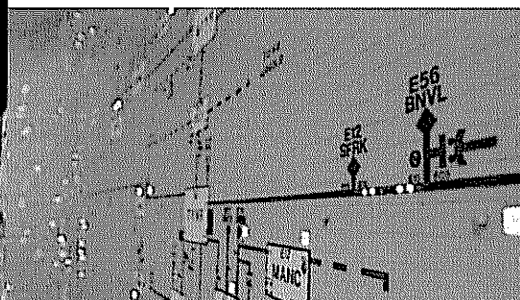
More than 500 motorcyclists from as far away as California made their way to Kentucky in August 2005 for the 6th annual Touchstone Energy Motorcycle Charity Poker Run, raising nearly $5,000 for the WHAS Crusade for Children.

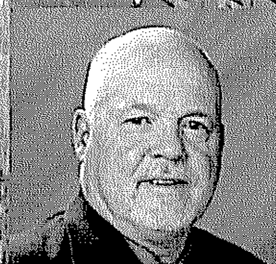
The Touchstone Energy All "A" Classic, which showcases student competitions in basketball, baseball and softball, the arts, academics, cheerleading and ROTC team drills, awarded $50,000 in scholarship funds to deserving high school seniors across the Commonwealth.



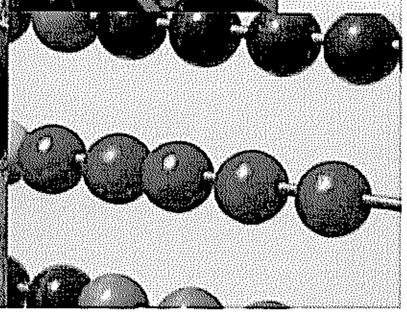
Cost Containment Program

In May, EKPC President and CEO Roy Palk reported to the Board of Directors that EKPC would begin an effort to determine what steps could be taken to contain costs. The initiative was inspired by a spring Board of Directors' retreat, at which potential methods were discussed to address such issues as rising fuel, generation, construction and purchased power prices.



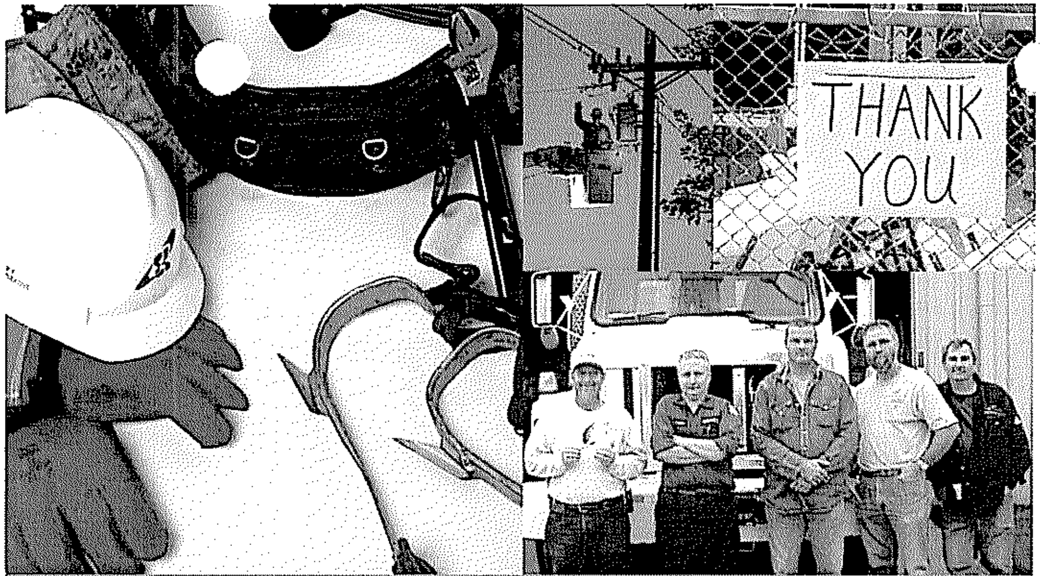


DAVE EAMES



Finance

Responsible for accounting, budgeting, treasury management, risk management, business insurance, materials management and pricing.

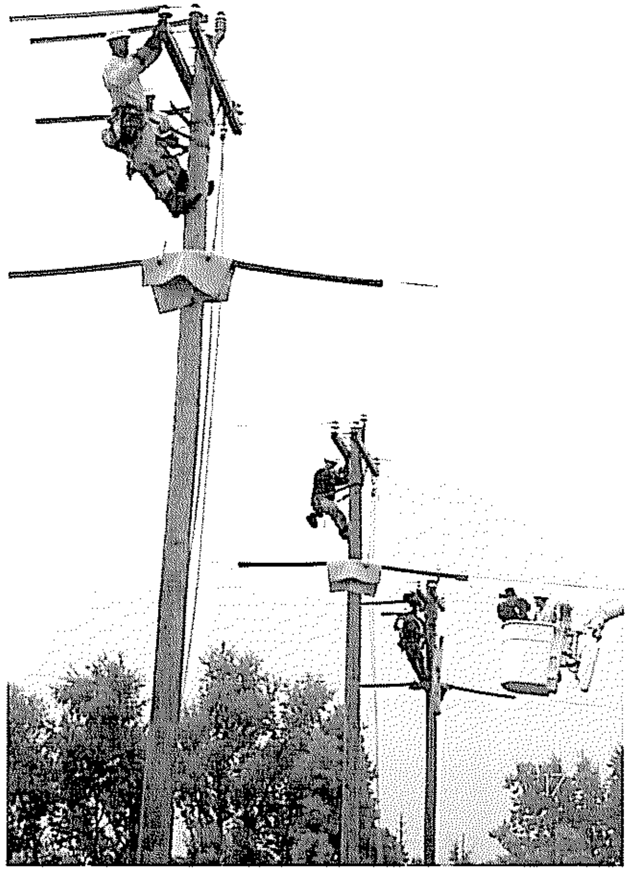


Public Service Commission Approves Credit Facil

The Kentucky Public Service Commission in August approved EKPC's proposed Credit Facility for $650 million. As a result of the order, EKPC proceeded with securing short-term financing with various banks through the Cooperative Finance Corp. for Spurlock Unit #4, Smith Unit #1 and combustion turbines 8-12, until longer-term financing is secured through the federal Rural Utilities Service.

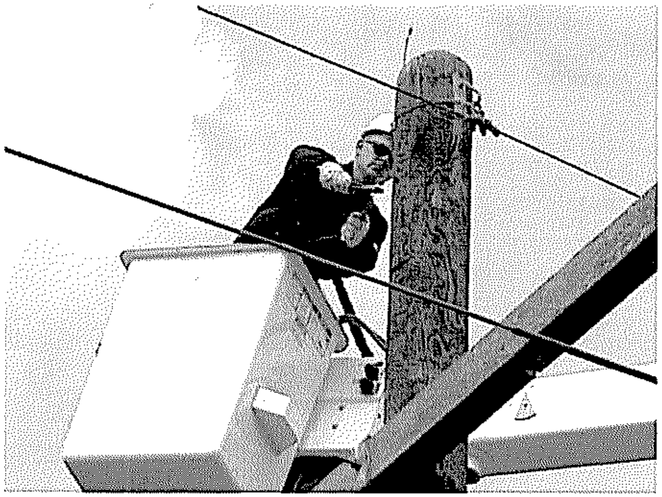
EKPC Celebrates First-Ever Kentucky Lineman's Rodeo

EKPC hosted nearly 70 linemen from 16 cooperatives around the state in August 2005 as they competed in the first Kentucky Lineman's Rodeo. McKee, Ky.-based Jackson Energy claimed the overall winning team trophy at the event. Categories included cross-arm changeout, pole-climb and hurt-man rescue contests.



Co-ops Assist with Hurricane Aftermath

In early September 2005, EKPC and member systems volunteered men, pick-ups, service trucks and other equipment to restore power to Mississippi following devastating Gulf hurricanes. During their stint working long days on repair and clean-up, the Kentucky crews restored power to more than 6,000 customers in 18 days. After a second wave of devastation struck in the form of Hurricane Rita, EKPC responded by sending a five-man crew to a territory near Jennings, La., to restore power.



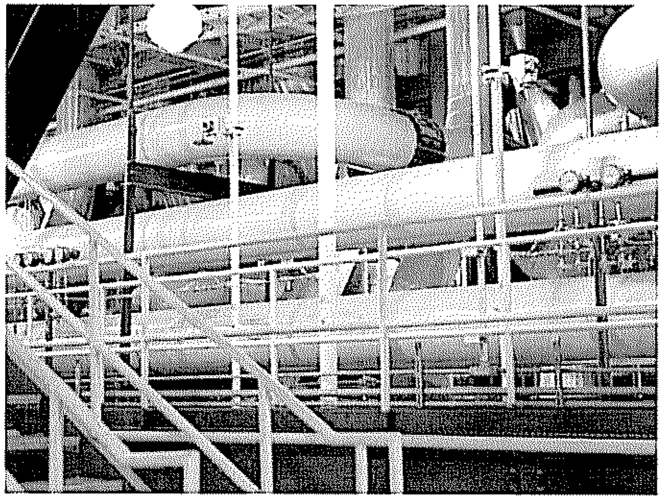
FINANCIAL HIGHLIGHTS

RESULTS OF OPERATIONS

Operating revenues for the twelve months ended December 31, 2005 increased approximately $125.6 million compared to the same period in 2004. This increase was due to several factors. Megawatt-hour (MWh) sales to members increased 4.7% as a result of growth in the EKPC system. Under Kentucky's Fuel Adjustment Clause (FAC), fuel cost above or below a stated amount per MWh is charged or credited to the member cooperatives for all energy sales. Because of rising fuel and purchased power costs, discussed below, EKPC's FAC recovery has increased $37.7 million. In early 2005, EKPC received approval from the Kentucky Public Service Commission to recover certain costs incurred in complying with the Federal Clean Air Act. This environmental surcharge was effective for service rendered on or after July 1, 2005, and resulted in increased revenue of $27.2 million.

In early 2006, EKPC received a Notice of Violation (NOV) from the Environmental Protection Agency (EPA) alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units #1 and #2. At issue is the EPA's allegation that EKPC incorrectly reported the turbine nameplate ratings, thus placing the Units under the Acid Rain Program. Also, EKPC received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004; the impact is reflected in the enclosed financial statements.

Production Operating Expense, which includes fuel, other production and purchased power, are categories that should be considered together for comparative purposes. On an hour-to-hour basis, EKPC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economic source. EKPC's coal costs have increased as a result of increased demand for low-sulfur coal and decreased supply of such coal. In the twelve months ended December 31, 2005 compared to the same period in 2004, coal costs have increased $50.6 million. The natural gas market has been extremely volatile in the twelve month period ended December 31, 2005, compared to the same period last year. Supply and demand issues, coupled with transmission constraints which increased EKPC's use of combustion turbines (CT's), caused fuel expense for the CT's to increase $38.3 million. With the addition of the Gilbert Unit in March 2005, EKPC's reliance on the purchased power market has decreased somewhat. However, for the twelve-month period ended December 31, 2005, EKPC incurred $109.6 million in purchased power expense. Depreciation expense increased $13.0 due primarily to the energization of the Gilbert Unit in Maysville, KY.



FINANCIAL HIGHLIGHTS

GENERATION OF POWER

East Kentucky has coal fired generating facilities at Dale Station in Clark County, Cooper Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units is supplemented during peak times by combustion turbines at the J.K. Smith Station in Clark County. East Kentucky's generating facilities produced 11.11 million megawatt-hours in 2005, compared with 9.05 in 2004.

East Kentucky's power stations burned 4.51 million tons of coal in 2005, compared with 3.70 million tons in 2004. The cost of coal burned during 2005, including handling, was $2.079 per million Btu, or $49.67 per ton. The cost of coal purchased during 2005 was $2.086 per million Btu or $49.95 per ton.

The combustion turbines at the J.K. Smith Station consumed 897,304 gallons of oil with a cost of $0.883 per gallon or $6.371 million Btu. The combustion turbines also consumed 5,369,844 MCF of natural gas with a cost of $9.89 per MCF.

FINANCIAL HIGHLIGHTS

INTEREST COSTS

Gross interest expense was $69.8 million. The prime rate increased from 5.25 percent to 7.25 percent during 2005. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.15 to 4.81 percent.

Of the total $1,392.3 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2005. The average annual rate on all debt increased from 4.941 percent in 2004 to 5.111 percent in 2005.

Virtually all of East Kentucky's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $118.8 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 2.50 percent for 2005.

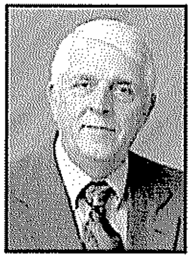
OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs, marketing & member support and other corporate functions.

BOARD MEMBERS


Grayson RECC

Donnie Crum


Cumberland Valley Electric

Elbert Hampton


Farmers RECC

Neil Pendygraft


Clark Energy

William Shearer

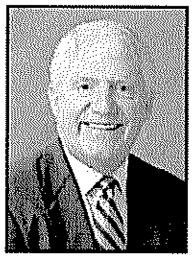

Fleming-Mason Energy
Vice Chairman

Lonnie Vice

SYSTEM MANAGERS


Shelby Energy

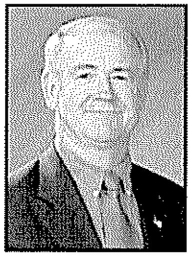
Dudley Bottom


Blue Grass Energy

Dan Brewer


Licking Valley RECC

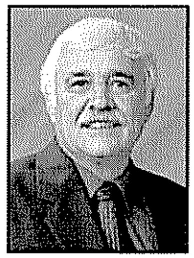
Kerry Howard


Owen Electric

Bob Marshall


Salt River Electric

Larry Hicks


Big Sandy RECC

Bobby Sexton

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS


Taylor County RECC

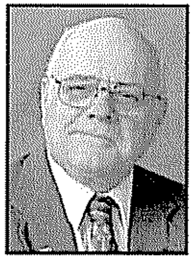
**P. D.
Depp**


Blue Grass Energy

**E. A.
Gilbert**


Owen Electric

**Hope
Kinman**


Salt River Electric

**Jimmy
Longmire**


Shelby Energy
Chairman

**Wayne
Stratton**

SYSTEM MANAGERS


South Kentucky
Rural Electric

**Allen
Anderson**


Farmers RECC

**Jackie
Browning**


Inter-County Energy

**Jim
Jacobus**


Nolin RECC

**Mickey
Miller**


Jackson Energy

**Don
Schaefer**

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS

Licking Valley RECC

Mike Adams

Jackson Energy

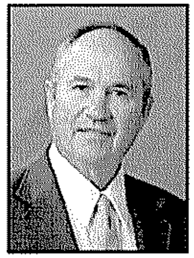
Fred Brown

Inter-County Energy

Danny Divine

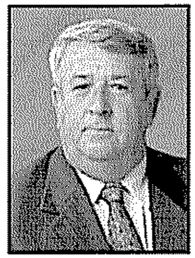
Big Sandy RECC

Wade May



Nolin RECC
Secretary-Treasurer

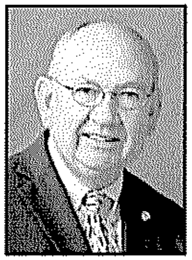
A. L. Rosenberger



South Kentucky
Rural Electric

Rick Stephens

SYSTEM MANAGERS



Clark Energy

Paul Embs

Grayson RECC

Carol Ann Fraley

Cumberland Valley Electric

Ted Hampton

Taylor County RECC

Barry Myers

Fleming-Mason Energy

Tony Overbey

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Clark Energy

William Shearer

Shelby Energy
Chairman

Wayne Stratton

SYSTEM MANAGERS

Salt River Electric

Larry Hicks

Jackson Energy

Don Schaefer

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Roy M. Palk

Roy M. Palk
President and CEO

David G. Eames

David G. Eames
Vice President, Finance

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2005 and 2004, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2006 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary'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 the 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 compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Lexington, Kentucky
February 16, 2006, except for Note 6,
as to which the date is April 6, 2006

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in Thousands)

ASSETS	2005	2004
Electric plant, at original cost		
In-service	$ 2,039,674	$ 1,544,046
Construction in progress	152,585	481,268
	2,192,259	2,025,314
Less accumulated depreciation	774,996	726,858
Electric plant, net	1,417,263	1,298,456
Long-term accounts receivable	9,002	9,801
Investment securities		
Available for sale	42,581	39,703
Held to maturity	8,237	22,548
Current assets		
Cash and cash equivalents	43,863	60,110
Accounts receivable	77,663	56,507
Fuel	39,236	36,512
Materials and supplies	33,578	27,372
Emission allowances	4,087	199
Other	1,769	1,506
Total current assets	200,196	182,206
Deferred charges	4,751	919
Other	5,864	4,528
Total assets	$ 1,687,894	$ 1,558,161

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in Thousands)

LIABILITIES AND MEMBERS' EQUITIES

	2005	2004
Members' equities	$ 96,108	$ 142,050
Long-term debt, excluding current portion	1,339,263	1,223,164
Current liabilities		
Current portion of long-term debt	53,085	44,743
Accounts payable	75,855	74,991
Accrued expenses	20,101	16,121
Total current liabilities	149,041	135,855
Accrued postretirement benefit cost	46,604	44,632
Other	56,878	12,460
Total liabilities and members' equities	$ 1,687,894	$ 1,558,161

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Operating revenue	$ 631,297	$ 505,681
Operating expenses		
Fuel	263,434	173,506
Other	103,632	88,324
Purchased power	109,571	134,795
Transmission and distribution	21,029	25,598
Depreciation	52,038	38,994
General and administrative	38,642	36,520
	588,346	497,737
Operating margins	42,951	7,944
Interest expense	69,844	54,490
Net operating deficit	(26,893)	(46,546)
Nonoperating margins		
Interest income	5,898	2,524
Allowance for interest on borrowed funds used during construction	6,226	16,080
Assessments	(32,555)	-
Miscellaneous	742	420
	(19,689)	19,024
Capital credits and patronage capital allocations	575	255
Net deficit	$ (46,007)	$ (27,267)

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income	Total Members' Equities
Balances, January 1, 2004	$ 2	$ 165,660	$ 3,035	$ (1,162)	$ 167,535
Comprehensive loss					
Net deficit	-	(27,267)	-	-	(27,267)
Unrealized gains on investments available for sale	-	-	-	1,782	1,782
Total comprehensive loss					(25,485)
Balances, December 31, 2004	2	138,393	3,035	620	142,050
Comprehensive loss					
Net deficit	-	(46,007)	-	-	(46,007)
Unrealized gains on investments available for sale	-	-	-	65	65
Total comprehensive loss					(45,942)
Balances, December 31, 2005	$ 2	$ 92,386	$ 3,035	$ 685	$ 96,108

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Cash flows from operating activities		
Net deficit	$ (46,007)	$ (27,267)
Adjustments to reconcile net deficit to net cash from operating activities		
Depreciation	52,038	38,994
Amortization of loan costs	364	85
Changes in:		
Accounts receivable	(21,156)	(7,163)
Fuel	(21,158)	(28,669)
Materials and supplies	(6,206)	(570)
Emission allowances	(3,888)	(10,138)
Accounts payable, trade	42,630	71,454
Accrued expenses	3,980	11,027
Accrued postretirement benefit cost	1,972	1,602
Other	34,723	(10,226)
Net cash from operating activities	37,292	39,129
Cash flows from investing activities		
Additions to electric plant	(190,277)	(235,933)
Maturities and calls of securities available for sale	79,465	36,150
Purchases of securities available for sale	(82,278)	(36,123)
Maturities of securities held to maturity	14,311	-
Purchases of securities held to maturity	-	(7,145)

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Payments received on long-term accounts receivable	799	757
Net cash from investing activities	(177,980)	(242,294)
Cash flows from financing activities		
Proceeds from long-term debt	345,132	281,092
Principal payments on long-term debt	(220,691)	(60,598)
Advances on notes payable	-	176,509
Payment on notes payable	-	(176,509)
Net cash from financing activities	124,441	220,494
Net change in cash and cash equivalents	(16,247)	17,329
Cash and cash equivalents at beginning of year	60,110	42,781
Cash and cash equivalents at end of year	$ 43,863	$ 60,110

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

		2005		2004
Supplemental disclosure of cash flow information				
Cash paid for interest	$	65,925	$	42,717
Non-cash operating transaction				
Fuel included in accounts payable	$	18,434	$	14,167
Emission allowances included in accounts payable		-		10,678
Non-cash investing transaction				
Additions to electric plant included in accounts payable	$	23,332	$	20,829
Unrealized gains on securities available for sale		65		1,782
Non-cash financing transaction				
Application of notes payable to other liabilities	$	-	$	6,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction. During 2005, the Cooperative began capitalizing certain power delivery expansion employees' salaries and overhead; these costs were previously expensed. Capitalized costs in 2005 were approximately $1,506,000. Capitalized costs in 2004 would have been approximately $1,121,000.

The cost of maintenance and repairs, including renewals 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.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates generally as follows:

Production plant	3.30%
Transmission plant	2.75% - 8.00%
General plant	2.00% - 20.00%

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2005 or 2004.

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The state regulatory authority has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

In September 2004, the Cooperative applied to the KPSC for the recovery of certain costs incurred in compliance with the Federal Clean Air Act. This environmental surcharge was effective for service rendered on or after July 1, 2005, and is being billed on a percentage of revenue basis.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $620,509,000 and $501,169,000 for 2005 and 2004, respectively. Accounts receivable at December 31, 2005 and 2004 were primarily from billings to member cooperatives. At December 31, 2005 and 2004, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2005	2004
Owen Electric Cooperative	$ 10,137,000	$ 8,224,000
South Kentucky RECC	-	5,928,000

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2005 and 2004, respectively, the Cooperative had $674,661 and $301,915 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at the lower of average cost or market.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are stated using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2005, no patronage capital was available for refunds or retirement.

Comprehensive Income: Comprehensive income includes both net deficit and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

Reclassifications: Certain 2004 amounts have been reclassified in these consolidated financial statements to conform to the 2005 presentation. Such reclassifications had no effect on net deficit or members' equities as previously presented.

NOTE 2 - ELECTRIC PLANT

Electric plant in-service consisted of the following:

	2005	2004
	(in thousands)	
Production plant	$ 1,141,340	$ 1,080,525
Transmission plant	409,889	374,394
General plant	69,724	67,518
Completed construction, not classified	418,721	21,609
Electric plant in service	$ 2,039,674	$ 1,544,046

Depreciation expense was $52,038,000 and $38,994,000 for 2005 and 2004, respectively.

(Continued)

NOTE 3 - LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems will make five years of interest-only (prime rate minus one-half of one percent, adjust annually) payments, with principal and interest payments beginning in 2005. The notes will be payable in full in 2015.

NOTE 4 - INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	37,374	-	(10)	37,364
Zero Coupon Bond	2,563	465	-	3,028
Other	1,935	230	-	2,165
	$ 41,896	$ 695	$ (10)	$ 42,581
2004				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	35,611	-	-	35,611
Zero Coupon Bond	2,387	601	-	2,988
Other	1,061	19	-	1,080
	$ 39,083	$ 620	$ -	$ 39,703

(Continued)

NOTE 4 - INVESTMENT SECURITIES (Continued)

Proceeds from maturities and calls of securities were $79,465,000 and $36,150,000 in 2005 and 2004, respectively. There were no realized gains or losses on those calls. Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (1,624)	$ 6,031
6.5875% subordinated term certificate	470	113	-	583
0% subordinated term certificate	112	-	(28)	84
	$ 8,237	$ 113	$ (1,652)	$ 6,698
2004				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,656	$ -	$ (1,461)	$ 6,195
6.5875% subordinated term certificate	485	104	-	589
2.72% - 5.440% equity term certificate	14,290	505	-	14,795
0% subordinated term certificate	117	-	(32)	85
	$ 22,548	$ 609	$ (1,493)	$ 21,664

(Continued)

NOTE 4 - INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31 not recognized in net deficit are as follows (in thousands):

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2005				
3-5% capital term certificates	$ -	$ -	$ 6,031	$ (1,624)
0% subordinated term certificate	-	-	84	(28)
	$ -	$ -	$ 6,115	$ (1,652)
2004				
3-5% capital term certificates	$ -	$ -	$ 6,195	$ (1,461)
0% subordinated term certificate	-	-	85	(32)
	$ -	$ -	$ 6,280	$ (1,493)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2005, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Continued)

NOTE 4 - INVESTMENT SECURITIES (Continued)

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 38,272	$ 38,477
Due after one year through five years	2,563	3,028
Due after ten years	1,061	1,076
	$ 41,896	$ 42,581
Held to maturity		
Due after ten years	$ 8,237	$ 6,698
	$ 8,237	$ 6,698

(Continued)

NOTE 5 – NOTES PAYABLE

On March 22, 2006, the Cooperative received a line of credit with CFC totaling $10,000,000. The interest rate will not exceed the prevailing bank prime rate plus one percent per annum. This line of credit expires on September 1, 2006.

NOTE 6 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2005 and 2004 consisted of the following (in thousands):

	2005	2004
First mortgage notes:		
4.241% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2038	$ 1,133,867	$ 932,641
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	28,267	59,727
3.8%, payable quarterly to CFC in varying amounts through 2014	21,769	23,049
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	9,600	10,600
Promissory notes:		
4.20% variable rate note payable to CFC in 2006	-	50,000
3.40% fixed rate note payable to CFC in 2006	-	7,145
4.20% variable rate note payable to CFC in 2023	-	50,000
6.80% fixed rate note payable to CFC in 2023	-	7,145
5.155% - 5.474% variable rate note payable to CFC in 2010	80,000	-

(Continued)

NOTE 6 – LONG-TERM DEBT (Continued)

	2005	2004
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 3.70% at December 31, 2005 and 220% at December 31, 2004	$ 88,600	$ 94,450
Series 1984J, variable rate bonds, due October 15, 2014, 2.95% at December 31, 2005 and 1.75% at December 31, 2004	21,145	23,750
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 2.85% at December 31, 2005 and 1.50% at December 31, 2004	9,100	9,400
	1,392,348	1267,907
Less current portion of long-term debt	53,085	44,743
	$ 1,339,263	$ 1,223,164

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, $21,700,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, $74,863,000 of these amounts remained to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2005, $14,453,000 of these amounts remained to be advanced.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

In May 2005, RUS approved a loan application in the amount of $55,240,000 for the construction of two additional combustion turbines at the J.K. Smith site, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, this loan has not been cleared by RUS for advance of loan funds.

In August 2005, RUS approved a loan application in the amount of $64,240,000 for the construction of various transmission projects. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2005, this loan has not been cleared by RUS for advance of loan funds.

In September 2005, the Cooperative entered into an unsecured credit facility syndicate with the co-arrangers of CFC and the Bank of Tokyo-Mitsubishi. This loan was approved for a total of $650,000,000 for general operating expenses and capital construction projects. As of December 31, 2005, $570,000,000 of this amount remained to be advanced.

In accordance with the Rural Electrification Act of 1936 (RE Act), as amended, the RUS established a cushion of credit program. Under this program, RUS borrowers may make voluntary deposits into a special cushion of credit account. This cushion of credit account balance accrues interest at a rate of 5 percent per annum. The amounts in the cushion of credit account (deposits and earned interest) can only be used to make scheduled payments on loans made or guaranteed under the RE Act. As of December 31, 2005, the Cooperative's cushion of credit account balance was $26,375,000.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series 1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $6,500,000 in 2006 to $13,150,000 in 2013; Series 1984J – payments range from $2,885,000 in 2006 to $4,325,000 in 2010; and Series 1993B – payments range from $300,000 in 2006 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $19,700,000 at December 31, 2005.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

Estimated maturities of long-term debt for the five years subsequent to December 31, 2005 are as follows: 2006 - $53,085,000; 2007 - $56,412,000; 2008 - $59,084,000; 2009 - $62,140,000; 2010 - $145,437,000; and thereafter - $1,016,190,000.

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of members' equities, interest coverage, and debt service coverage. Because of the 2006 Environmental Protection Agency ("EPA") Notice of Violation discussed in detail in Note 8, the Cooperative is in technical default of the members' equities covenant related to the $80,000,000 in outstanding debt under the Credit Facility. Under the terms of the Credit Facility loan agreement, the required lenders had the right to immediately demand payment of the entire principal and interest balances owed them, or to terminate the loan commitment. On April 6, 2006, the required lenders waived their rights related to this technical default. On April 6, 2006, the covenants in the Credit Facility loan agreement were modified; the Cooperative is in compliance with the amended agreement. Effects of this Notice of Violation may cause the Cooperative to be in technical default of other loan covenants at December 31, 2006. If further defaults of these loan covenants occur in 2006, lenders may require the Cooperative to file a plan of corrective action. This plan of corrective action is currently being developed by the Cooperative.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 7 - RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $7,094,000 and $6,201,000 for 2005 and 2004, respectively. The Cooperative expects to contribute approximately $7,900,000 to the plan in 2006.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $743,000 and $719,000 to the plan in 2005 and 2004, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $785,000 to the plan in 2006.

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded.

The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2005 and 2004 (dollars in thousands):

	2005	2004
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	611	548
Plan participants' contribution	610	546
Benefits paid	(1,221)	(1,094)
Actual return on plan assets	-	-
Fair value of plan assets at end of year	-	-

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 34,258	$ 34,799
Service cost-benefits attributed to service during the period	1,166	1,039
Interest cost on accumulated postretirement benefit obligation	1,931	1,798
Benefits paid	(1,221)	(1,094)
Plan participants' contribution	610	546
Actuarial gain	(1,593)	(2,830)
Benefit obligation at end of year	35,151	34,258
Funded status	$ (35,151)	$ (34,258)
Unrecognized actuarial gain	(11,453)	(10,374)
Accrued benefit cost	$ (46,604)	$ (44,632)
Components of net periodic postretirement benefit cost (dollars in thousands):		
Service cost-benefits attributed to service during the period	$ 1,166	$ 1,039
Interest cost on accumulated postretirement benefit obligation	1,931	1,798
Amortization of unrecognized actuarial gain	(514)	(687)
Net periodic benefit cost	$ 2,583	$ 2,150

(Continued)

NOTE 7 – RETIREMENT BENEFITS (Continued)

The discount rate used in determining the accumulated postretirement benefit obligation for 2005 and 2004 was 6.00% and 5.75%, respectively. The Cooperative expects to contribute approximately $723,000 to the plan in 2006.

The following expected benefit payments from the plan, which reflect anticipated future service, are:

2006	$	723
2007		828
2008		973
2009		1,081
2010		1,210
2011 - 2015		8,310
Total	$	13,125

For measurement purposes, a 12.0 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2005. The rate is assumed to decline to 5 percent after seven years. The health care cost trend rate assumption has a significant effect on the amounts reported.

		2005		2004
Effect on total of service cost and interest cost components (dollars in thousands)				
1-percentage-point increase	$	705	$	621
1-percentage-point decrease		(514)		(479)
Effect on postretirement benefit obligation (dollars in thousands)				
1-percentage-point increase	$	6,986	$	6,716
1-percentage-point decrease		(5,476)		(5,258)

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

The Cooperative offers prescription drug benefits to its postretirement health care plan, and has implemented FASB Staff Position (FSP) 106-1 as of December 31, 2005. At the adoption date, the accumulated postretirement benefit obligation is estimated to decrease $1,900,000 and the aggregated service and interest costs are estimated to decrease $180,000 due to the prescription drug subsidy.

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the five years subsequent to December 31, 2005 as follows (dollars in thousands):

2006	$ 4,553
2007	4,553
2008	5,314
2009	7,595
2010	7,595

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2006	$ 190,015
2007	173,220
2008	57,708
2009	23,406
2010	11,770

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be

(Continued)

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

On January 28, 2004, the federal Environmental Protection Agency (EPA) sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA. The lawsuit seeks injunctive relief, and civil penalties of up to $25,000 a day before January 31, 1997, and $27,500 a day since then.

As a result of this lawsuit, the Cooperative has done the following:

On January 17, 2006, EKPC filed four motions with the court asking that most, if not all of the claims, be dismissed. These motions for summary judgment involved,

(a) statute of limitation issues;
(b) federal enforceability of the Spurlock No. 2 operating permit;
(c) applicability of the routine maintenance exclusion; and
(d) calculation of emissions under PSD based on post-change actual annual emission where the baseline emission calculations are based on actual historic annual emissions prior to project work, and not based on hypothetical emissions.

The court has previously set this matter for trial in late May/early June 2006; but this schedule could change depending upon whether the court rules favorably upon all or some of these motions.

The Cooperative believes that when all the evidence is presented, the facts will bear out that the Cooperative complied with the requirements, and acted in good faith.

On January 17, 2006, the Cooperative received a Notice of Violation (NOV) from the EPA alleging violations of the Federal Clean Air Act's Acid Rain Program and NOx SIP Call Allowance Trading Program at Dale Units 1 and 2. At issue is EPA's allegation that the Cooperative incorrectly reported the turbine, rather than the generator, nameplate ratings, thus placing the Units under the Acid Rain Program. On February 10, 2006, the Cooperative received an NOV from the Kentucky Environmental and Public Protection Cabinet regarding the same matter. The NOV's cover the years 2000 through 2004.

(Continued)

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

Under a strict application of the Acid Rain Program, owners and operators of a unit that is determined to have excess emissions of SO2 are subject to non-discretionary penalties, must surrender SO2 allowances to cover previous emissions, and also may be subject to discretionary penalties. There may also be penalties relating to NOx emissions requirements.

Because the Cooperative did not have emissions monitoring equipment in place on Dale Units 1 and 2, on March 1, 2006, the Cooperative petitioned EPA to allow the calculation of the emissions on coal burn fuel data versus missing data procedures. Depending on the resolution of this petition, an additional $68,000,000 in non-discretionary penalties could be assessed. At this time, it is not possible to predict the likelihood of success or whether these non-discretionary penalties could be waived or reduced by the agency or a court. The Cooperative is also required to surrender SO2 allowances to cover the emissions for 2000 through 2004. Additional expense to cover such emissions, assuming current market prices, could be $25,000,000. Civil penalties similar to those outlined above from the EPA lawsuit may also apply.

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $473 million.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $534 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. The combustion turbines are expected to cost approximately $255 million. These combustion turbines are scheduled to become operational in 2007 and 2008.

In September 2005, the Board approved construction of a new limestone scrubber for Spurlock Unit 2, with a wet precipitator, at a cost of approximately $159 million.

In January 2006, the Board approved the construction of a new limestone scrubber for Spurlock Unit 1, with a wet precipitator, at a cost of approximately $145 million.

The construction projects mentioned above are subject to KPSC approval.

(Continued)

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Accounts Receivable and Accounts Payable: The fair values of accounts receivable and payable are based on carrying value due to the short-term nature of the instruments.

Investment Securities: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

Long-Term Accounts Receivable: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any. The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 43,863	$ 43,863	$ 60,110	$ 60,110
Accounts receivable	77,663	77,663	56,507	56,507
Investment securities				
Available for sale	42,581	42,581	39,703	39,703
Held to maturity	8,237	6,698	22,548	21,664
Long-term accounts receivable	9,002	10,067	9,801	9,200
Financial liabilities				
Long-term debt	$ 1,392,348	$ 1,418,017	$ 1,267,907	$ 1,280,676
Accounts payable	75,855	75,855	74,991	74,991

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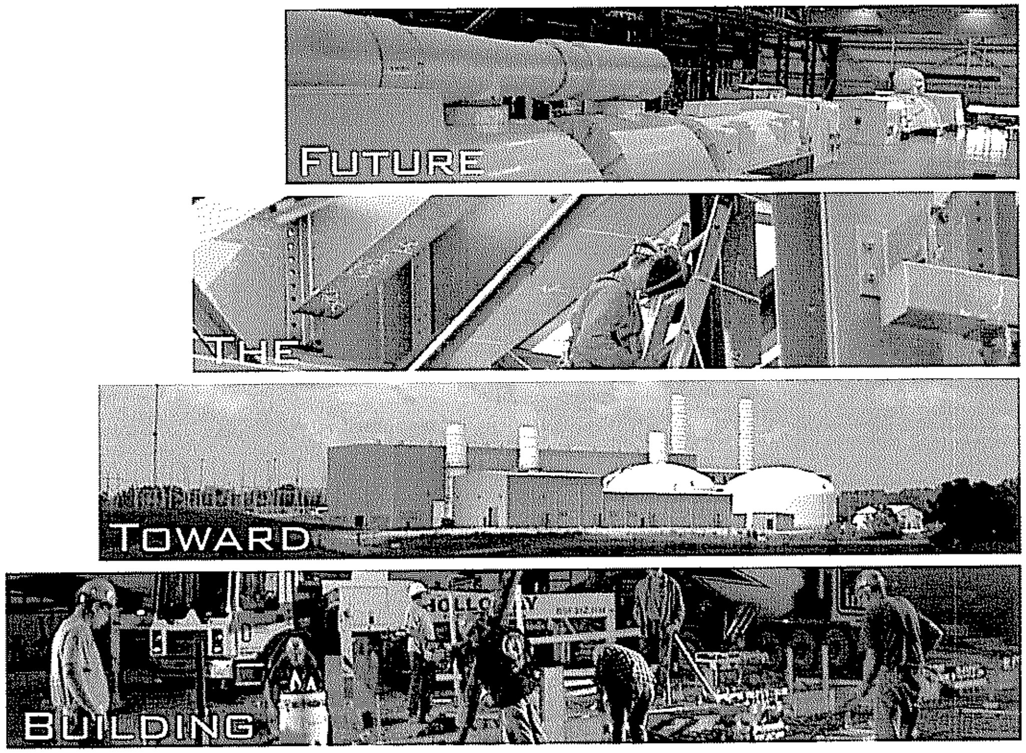
A Touchstone Energy Cooperative

East Kentucky Power Cooperative, Inc.

2004 Annual Report



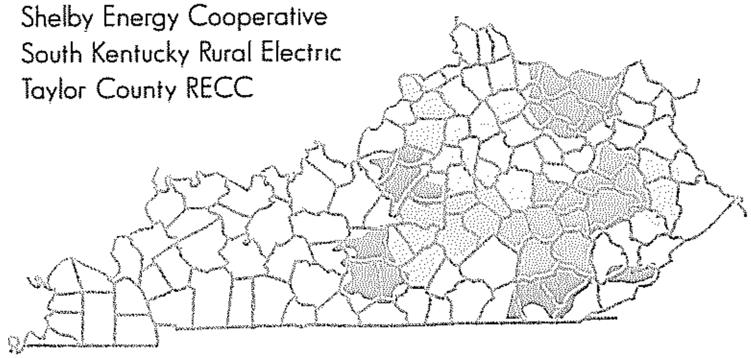
2004 Annual Report

East Kentucky Power Cooperative

A Touchstone Energy Cooperative

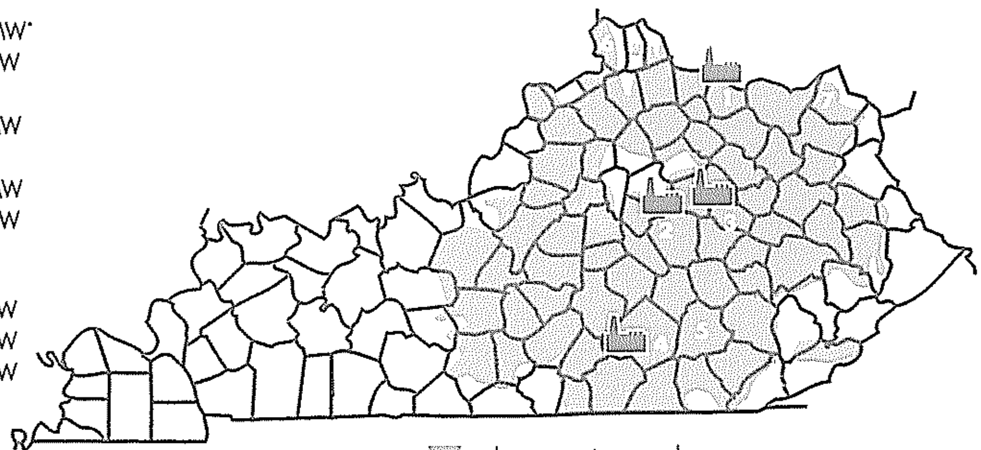
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	1,118 net MW*
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 626 net MW Winter 842 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Laurel Ridge	3.2 net MW
6	Bavarian	3.2 net MW
7	Green Valley	2.4 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system wide service area

* Includes 268 MW of the Gilbert Unit, which went online in March 2005.

The member distribution systems supply energy to meters serving more than 489,000 Kentucky homes, farms, businesses and industries across 89 counties.

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to go to that section.

Enclosed Documents

EAST KENTUCKY POWER COOPERATIVE

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving nearly 489,000 Kentucky homes, farms, businesses and industries across 89 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

EAST KENTUCKY POWER COOPERATIVE

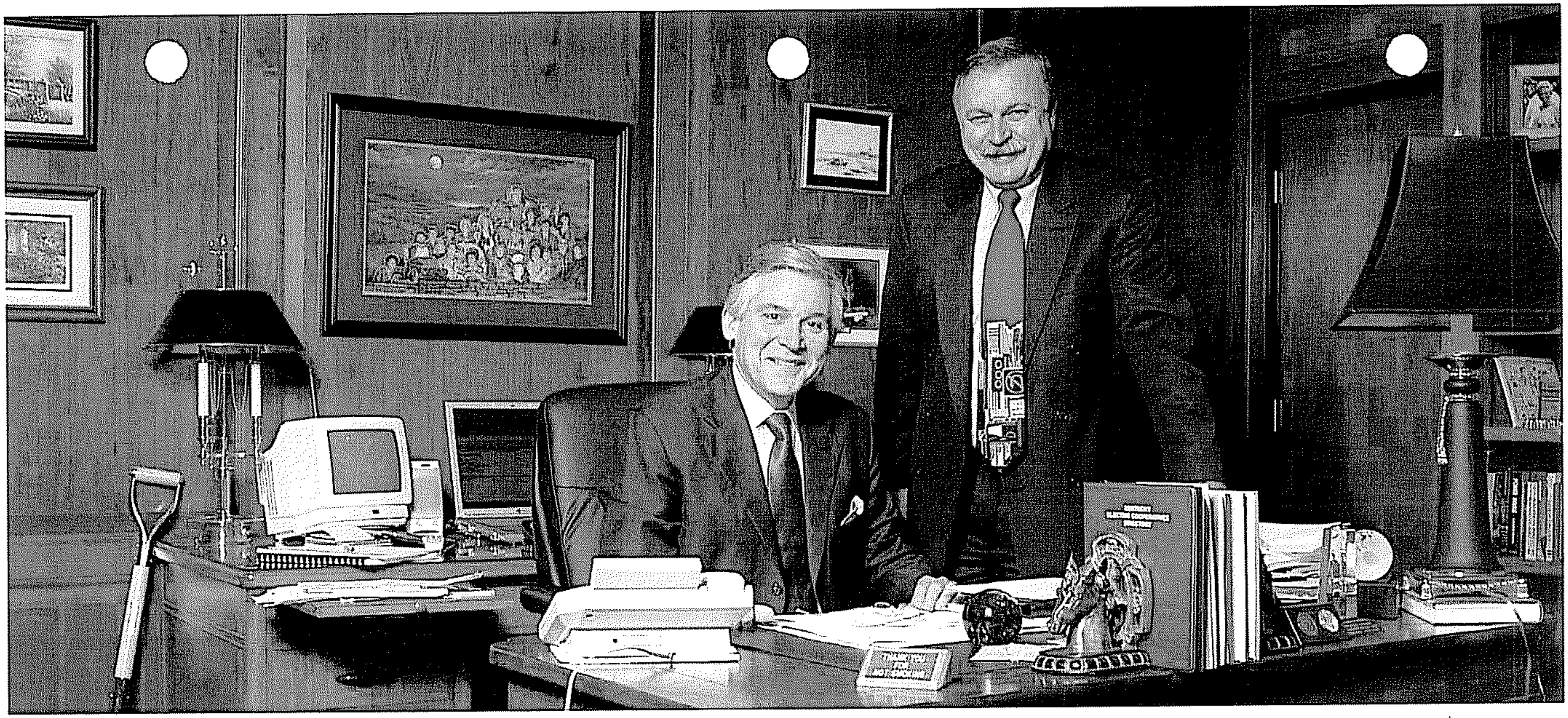
Financial Highlights (Dollars in Thousands)

	2004	2003	% Increase (Decrease)
Operating Revenue	**$505,681**	$447,124	13.1
Operating Expenses	**$497,737**	$384,888	29.3
Net Margins (Deficit)	**($27,267)**	$29,398	(192.8)
Fuel Expenses for Generation	**$173,506**	$137,103	26.6
Purchased Power Cost	**$134,795**	$102,028	32.1
Interest Cost	**$54,490**	$45,069	20.9
Members' Equities	**$142,050**	$167,535	(15.2)
Construction Expenditures	**$205,015**	$261,812	(21.7)
Assets	**$1,558,561**	$1,328,532	17.3
Sales to Member Cooperatives (MWh)	**11,807,384**	11,442,556	3.2
System Peak Demand (MW)			
Winter Season	**2,711** *	2,589	4.7
Summer Season	**2,041**	1,996	2.3
Number of Member System Consumers	**489,210**	478,944	2.1

* set January 18, 2005

	2004	2003	2002	2001	2000
Net Margins - $1,000 (Deficit)	**($27,267)**	$29,398	$37,428	$30,418	$8,742
TIER	**0.49**	1.66	1.95	1.81	1.23
DSC	**0.72**	1.35	1.73	1.76	1.45
Fuel Expense - $1,000	**$173,506**	$137,103	$146,506	$132,044	$114,139
Construction Expenditures -$1,000					
Generation	**$166,351**	$221,949	$155,713	$137,155	$56,334
Transmission	**$35,818**	$27,101	$25,149	$18,691	$16,720
General	**$2,846**	$12,762	$9,649	$1,833	$3,205
Investment In Facilities - $1,000					
Original Cost	**$2,025,314**	$1,810,211	$1,558,890	$1,367,586	$1,210,372
Long-Term Debt - $1,000	**$1,223,164**	$952,987	$762,079	$688,839	$631,084
Total Assets - $1,000	**$1,558,561**	$1,328,532	$1,026,947	$912,811	$829,247
Number of Employees - Full-Time	**629**	599	600	616	645
Cost of Coal Purchased					
$/ton	**$43.24**	$34.13	$32.35	$32.93	$27.94
$/MBtu	**$1.78**	$1.39	$1.33	$1.36	$1.14
Amount of Coal Purchased - tons	**3,859,339**	3,615,196	3,815,851	4,052,988	3,541,601
Generation - MWh	**9,046,449**	9,061,760	9,873,289	9,211,819	9,162,952
System Peak Demand - MW					
Winter Season	**2,711**	2,589	2,568	2,217	2,322
Summer Season	**2,041**	1,996	2,120	1,980	1,941
Sales to Other Utilities - MWh	**53,466**	71,224	513,874	899,286	770,747
Member Load Growth - %					
Energy	**3.2**	0.7	6.9	2.8	6.1
Demand	**4.0**	(0.6)	6.2	3.6	5.6
Load Factor - %	**51**	51	58	52	52
Miles of Line	**2,638**	2,629	2,607	2,579	2,560
Installed Capacity - kVA	**8,863,666**	8,824,466	8,722,747	8,637,947	8,583,147
Distribution Substations	**304**	299	292	284	276

EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives.



from left:
Roy Palk, President and CEO
Wayne Stratton, Chairman of the Board

FROM THE CEO AND CHAIRMAN

Building Toward the Future

Author Thomas Kempis once wrote, "The loftier the building, the deeper must the foundation be laid."

The spirit of those words fueled the ideas and efforts of East Kentucky Power Cooperative (EKPC) employees throughout 2004. As a result, the year saw a period of new challenges and unparalleled growth, capping off a decade in which power sales by member systems grew by an average of more than 5 percent each year – a rate more than twice the national average for electric utilities.

EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

Pivotal events that helped lay the foundation for our year included the following:

- EKPC finalized efforts to bring Bowling Green-based Warren RECC on board as the 17th member. On May 27, 2004, Warren signed a wholesale power contract that goes into effect April 1, 2008.
- Spurlock Station's newest addition, the $430 million E.A. Gilbert Generating Unit, was in the final stages of construction during 2004, and the unit went online in March 2005.
- In order to meet strong anticipated growth on the EKPC system, in April 2004, EKPC issued a Request for Proposal (RFP) to the marketplace, seeking 1,150 megawatts to help meet system demand.
- After analyzing proposals submitted during the RFP, EKPC announced plans to self-build a new coal-generating unit at Spurlock Station in Maysville.
- In 2004, EKPC's Board also approved the construction of a 278 MW clean-coal power unit at J.K. Smith Station in Trapp.
- Two new combustion turbine units were purchased, moved and added to Smith Station in 2004. EKPC brought the units online in January 2005, and EKPC announced plans on Dec. 14, 2004 to add five additional combustion turbine peaking units at Smith by 2008.

Roy M. Palk

Roy Palk
President and CEO

Wayne Stratton
Chairman of the Board

For all the positive progress and growth met throughout the year, we also faced our share of challenges in 2004.

The Environmental Protection Agency filed a lawsuit against EKPC on Jan. 28, 2004, claiming that modifications to units at Dale and Spurlock Station should have triggered new source permitting. EKPC has denied that it violated any federal or state operating permits. EKPC is in negotiations to resolve the case.

Also during the year, Spurlock Unit #1 had a forced outage that negatively impacted the 2004 operating results. For the calendar year ending in December, EKPC showed a net deficit of $27.3 million.

Although it took the talent and dedication of many individuals to make 2004 one of the most important, pivotal years in EKPC's history, it is never any one person or individual component that makes an organization successful; it takes a combined, united effort – a solid foundation.

And that foundation will help our cooperative to move forward with progress, face challenges in our path and build upon the significant strides we made in 2004.

Power Production

In order to accommodate expanding growth needs, EKPC's Gilbert Unit neared completion during 2004. Two additional combustion turbines were added and EKPC announced plans to build two new baseload generating units. At a projected total cost of about $1.4 billion, Spurlock Unit #4, Smith Unit #1 and the Gilbert Unit will rank among America's cleanest coal-burning electric generating units.

Workers complete final year of Gilbert Unit construction

The new $430 million E.A. Gilbert Generating Unit (named after former EKPC chairman and long-time board member E.A. "Ned" Gilbert) finished its final full year of construction at the end of 2004.

Spurlock's third coal-fired generating unit will burn up to 1.2 million tons of coal annually to produce 268 megawatts.

The William C. Dale Station, the first of EKPC's generating plants, celebrated its 50th year of commercial operation on Dec. 1, 2004.

Gilbert Unit Facts

- Construction crews used a total of 17,200 cubic yards of concrete, 6,400 tons of structural steel and 266 miles of electrical cable.
- The project has pumped about $20 million annually in construction payroll into the Mason County area economy since construction began in October 2002.
- In its first 20 years of operation, the plant is projected to provide more than $9 million in property taxes to Kentucky.

Board terminates power purchase agreement

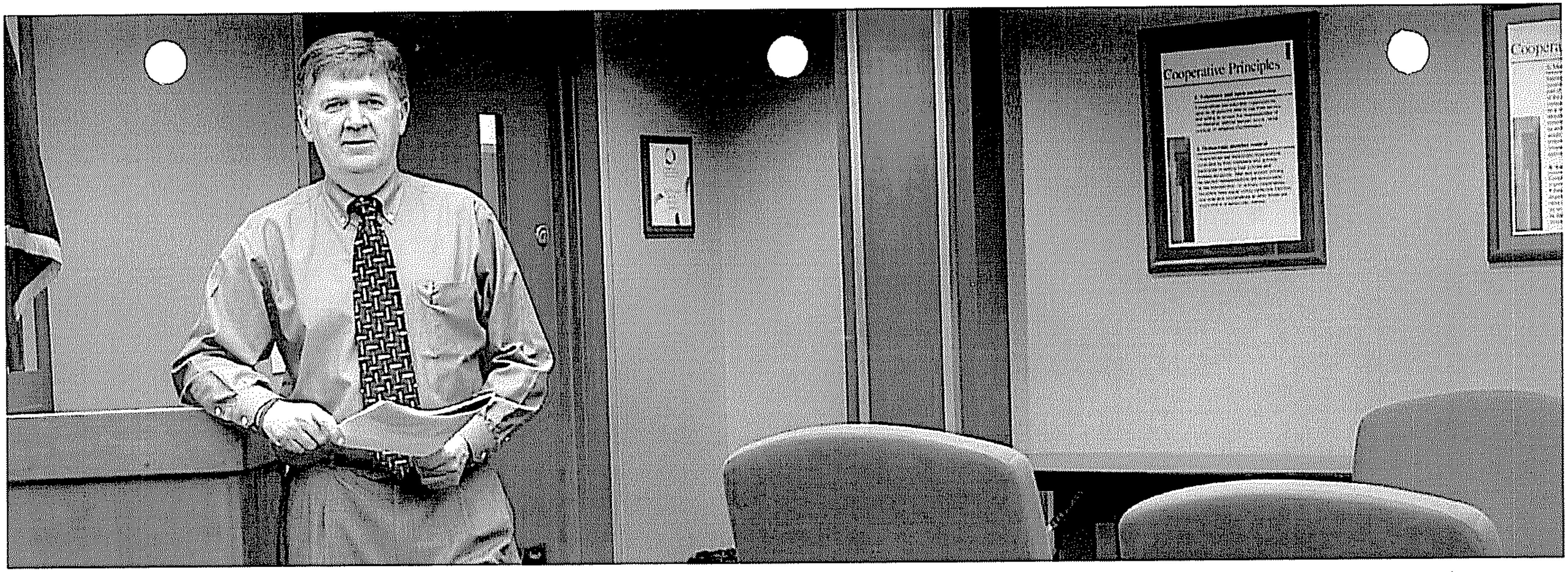
In October 2004, the Board voted to terminate EKPC's power purchase agreement with Kentucky Pioneer Energy (KPE). Signed by both parties almost six years ago, the power purchase agreement led to KPE's announced intention to build a 540 MW coal gasification plant on EKPC's land at Smith Station in Clark County.

Because KPE failed to both obtain financing and achieve commercial operation, EKPC's Board decided it could no longer wait for the uncertainties surrounding the project to be resolved.

EKPC issues request for proposal

To accommodate future anticipated power sales to members, EKPC issued a Request For Proposal (RFP) to the marketplace in April 2004. The request sought up to 600 MW of peaking capacity to be online by June 2008. It also sought 275 MW baseload capacity for April 2008 and 275 MW of baseload capacity for December 2008.

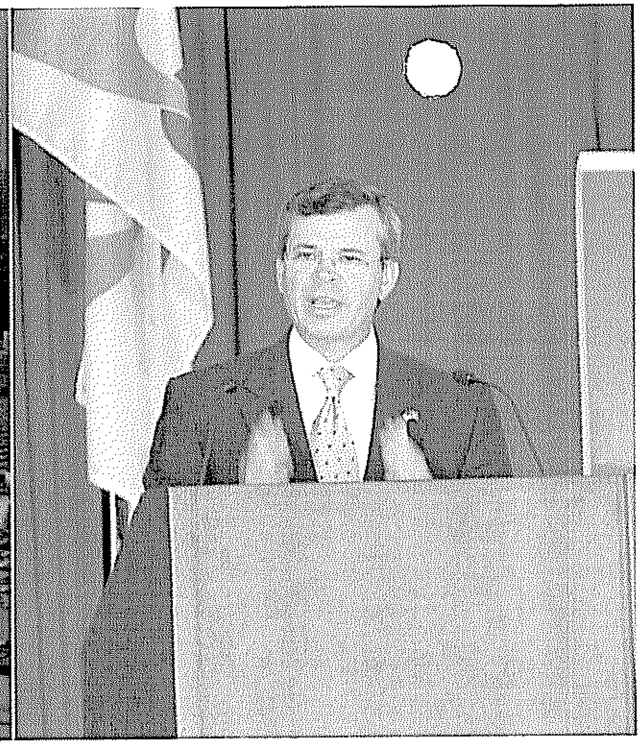
After an independent consulting firm analyzed more than three dozen proposals, the results revealed that self-building two additional baseload units, and signing a turnkey contract for five additional combustion turbines was the best, lowest-cost option to meet member systems' future power supply needs.



RANDY DIALS

Power Production

Responsible for operation and maintenance of the generating facilities, design engineering and construction of new generation, sustaining plant equipment through production engineering, fuel procurement, environmental affairs and generation dispatch.



Plan to build Spurlock Unit #4 announced

In September 2004, EKPC announced plans to build a fourth generating unit at Spurlock Station in Maysville by 2008 (pending PSC approval).

Spurlock Unit #4 will be identical to the E.A. Gilbert Generating Unit, which went online March 2005.

Unit#4 Facts

- Building the unit will create up to 700 construction jobs, at an average annual wage of $60,000 for each job.
- The unit will create a market for up to 1.2 million tons of coal annually for the lowest cost suppliers.
- The project will generate about $1 million in payroll taxes for Maysville.

EKPC was formed in 1941.

Plan to build baseload Clark County plant announced

In November 2004, EKPC announced plans to build a clean-coal unit in Clark County by 2009, creating hundreds of construction jobs and boosting the region's economy.

Smith Unit #1 will cost more than $500 million, and as with Spurlock Station's Unit #4 and the Gilbert Unit, will feature a circulating fluidized bed boiler, which is known for extremely low emissions.

Smith Unit #1 Facts

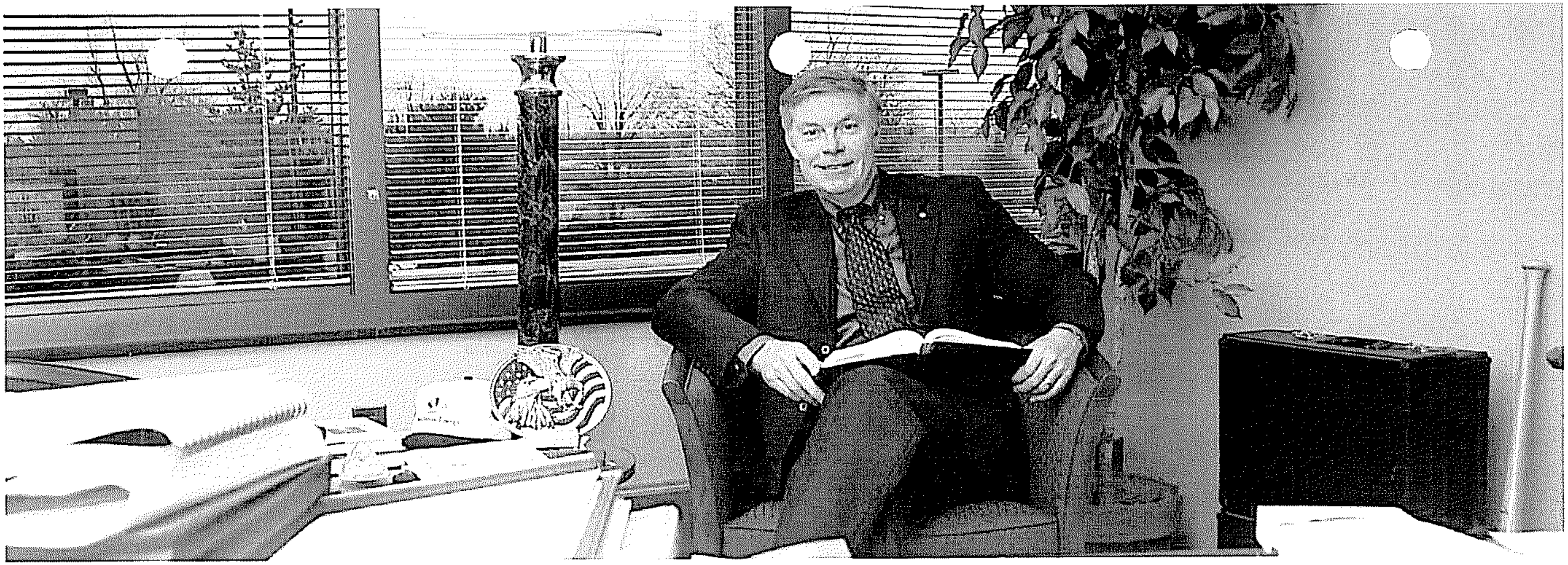
- Constructing the unit will create up to 700 construction jobs at an average of $60,000 a year per job.
- The project will generate $11 million in state property taxes in its first 20 years of operation, and $1 million in revenue for Clark County from payroll taxes during construction.
- Unit #1 will produce 98 percent less sulfur dioxide and 5 times less nitrogen oxide than a conventional pulverized coal-generating unit.

Five combustion turbines to be added at Smith

In December 2004, EKPC's Board approved plans to add five combustion turbine peaking units at Smith Station in Trapp by the year 2008. The units operate during times of peak electric demand on the hottest and coldest days of the year.

If approved by the Public Service Commission, the five new units are expected to be completed between April 2007 and April 2008. There are currently seven peaking units located at Smith Station.

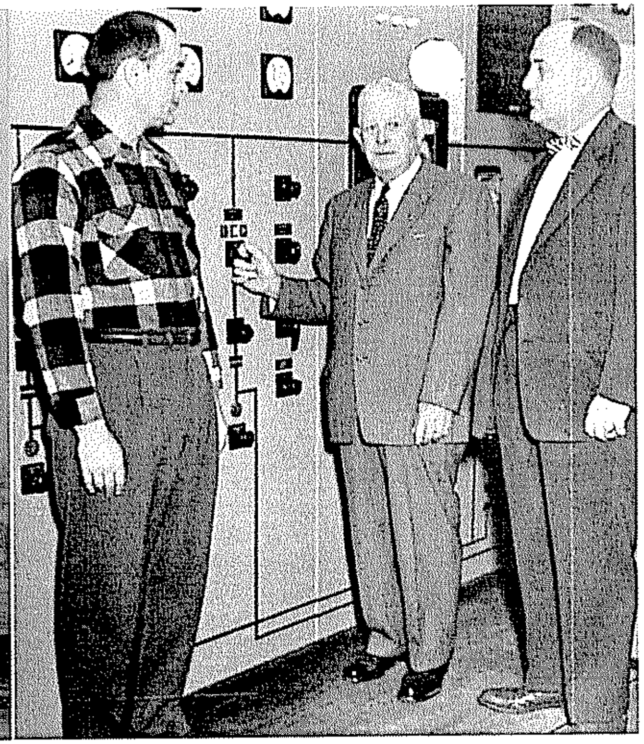
EKPC produced its first power at William C. Dale Power Station on Dec. 1, 1954.



DALE HENLEY

Legal

Provides corporate-wide legal guidance and counsel to ensure maximum protection of the Cooperative's legal rights and further ensures that operations are within the limits prescribed by law.



Forced outage creates net deficit

EKPC reported a $27.3 million net deficit for the year ended Dec. 31, 2004. One major event primarily triggered the deficit. On July 1, Spurlock Unit # 1 was forced offline when a control system failure caused an overheated condition in the generator stator windings, which damaged the insulation and required the stator to be rewound. Spurlock Unit # 1 was offline until Oct. 27. The net cost of this outage was over $38 million ($18 million represents actual maintenance costs, while $20 million represents the net replacement cost of fuel not recoverable under the Kentucky Fuel Adjustment Clause provision). Since Spurlock # 1 was on a forced outage, EKPC decided to reschedule approximately $16 million in future years' maintenance to 2004. This rescheduling will have positive impacts on future years' maintenance expense.

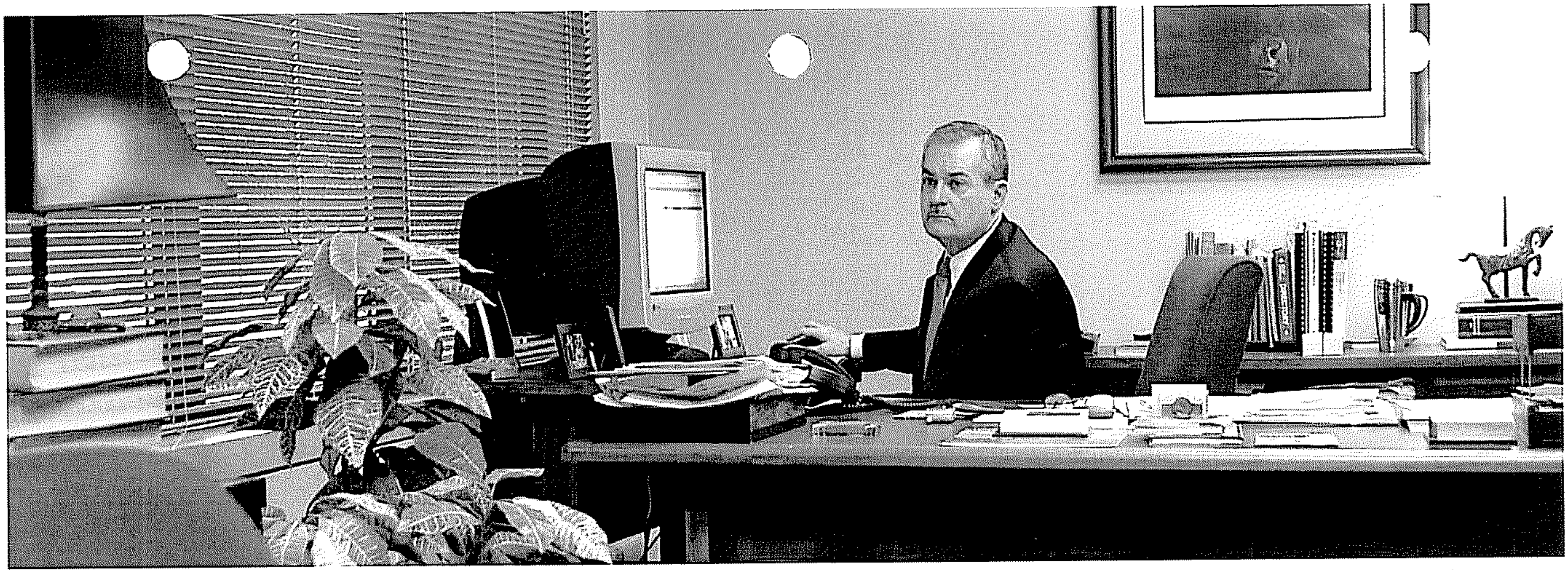
Dale station celebrates 50th anniversary

The William C. Dale Station, the first of EKPC's generating plants, celebrated its 50th year of commercial operation on Dec. 1, 2004.

At the time of its completion in 1954, the plant consumed 350 tons of coal per day and became the nation's largest power plant financed through the Rural Electrification Administration.

Unit generation figures

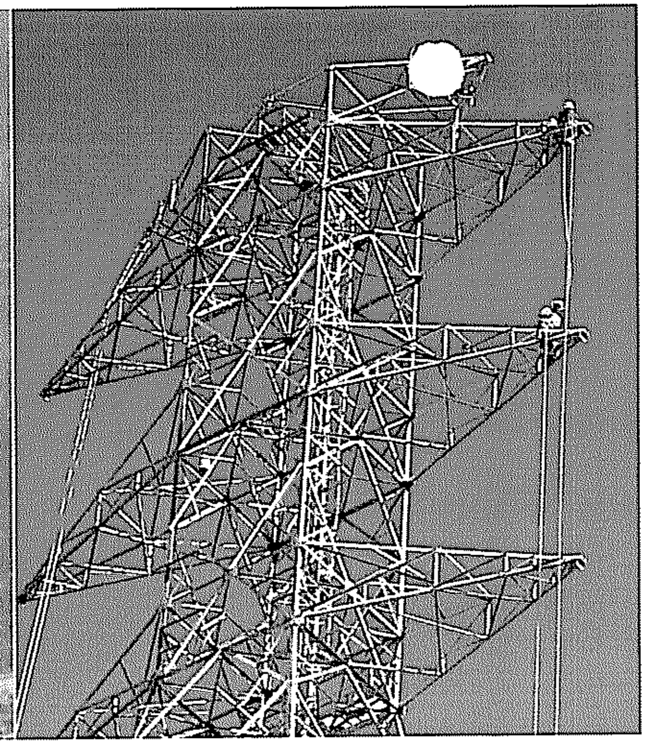
In 2004, EKPC posted generation of over 9 million net megawatthours. Dale Station generated 1.2 million net MWh. Cooper Station generated 2.3 million net MWh (an all-time record for the power plant), while Spurlock Station produced 5.4 million net MWh and Smith Station generated 153,010 net MWh. EKPC's three landfill gas plants combined for a total generation of 57,425 net MWh in 2004.



BARRY MAYFIELD

Governmental Affairs

Oversees governmental relations at both the national and state levels, which includes monitoring all pertinent legislation and ensuring that cooperative principles are protected and enhanced.



Power Delivery

Delivering power reliably is fundamental to the operation of EKPC. Major transmission projects completed in 2004 brought improvements to system reliability and substantial new transmission plans began in 2004. As a result of growth in power demand from EKPC member systems, announcements adding Warren RECC as a member and the plans to add new baseload and peaking capacity, a substantial amount of new transmission will be added to the system.

Major projects completed in northern Kentucky

Construction crews were busy across much of the service territory, particularly in northern Kentucky, where several key projects were completed to improve system reliability and increase stability for generation from Spurlock Station.

Key projects included the Spurlock Station to Flemingsburg to Goddard lines, as well as a major project to build new transmission across the Ohio River. The Flemingsburg project provided a second feed to the city of Flemingsburg, improving transmission system reliability for the area.

Our member cooperatives serve about one million Kentuckians.

The Ohio Siting Board in March 2004 granted a Certificate of Environmental Compatibility and Public Need to EKPC for construction of a 345 kV transmission line in Ohio. The 3.9-mile line connected Spurlock Station to the Stewart-Zimmer line just north of Aberdeen, Ohio.

System transmission construction continues at rapid pace

During 2004, construction crews built 9 miles of new transmission lines, which continued a trend of robust transmission system expansion over the past few years. Throughout the year, crews also completed 34 miles of line re-conductoring.

For the entire year, crews built 5 substations, 3 capacitor banks, 1 transmission station, rebuilt 1 substation, and made 2 modifications to transmission stations.

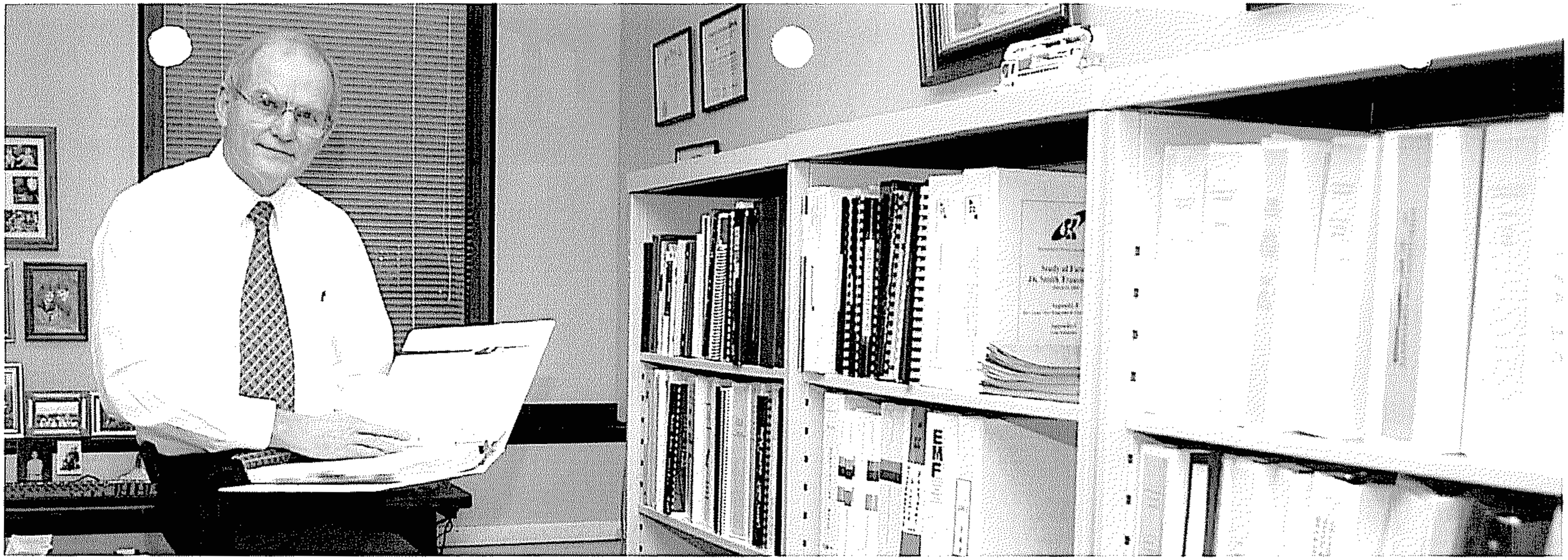
Plans begin for Warren RECC transmission projects

In preparation for Warren RECC joining as a member, a series of activities related to future transmission construction projects began in order to connect the Warren and EKPC systems together.

In the fall of 2004, a press conference was held in Bowling Green describing the scope of the work, which will include construction of new lines and upgrades of existing lines across 90 miles of the Warren service territory. Engineering studies began to determine the preferred routes for the new transmission lines.

EKPC filed an application with the Federal Energy Regulatory Commission seeking an order for interconnections with the Tennessee Valley Authority. These interconnections will minimize costs for Warren RECC customers, increase grid reliability and avoid the unnecessary duplication of facilities.

Connecting the two systems will provide long-term benefits to homes and businesses in the Warren RECC service area, including competitive electric rates and property taxes that will provide ongoing annual tax revenues to county governments and schools in the affected counties.



PAUL ATCHISON

Power Delivery

Responsible for the transmission system from the generating plant substation through the distribution substation. This includes transmission planning, dispatch, engineering, construction, operations and maintenance.

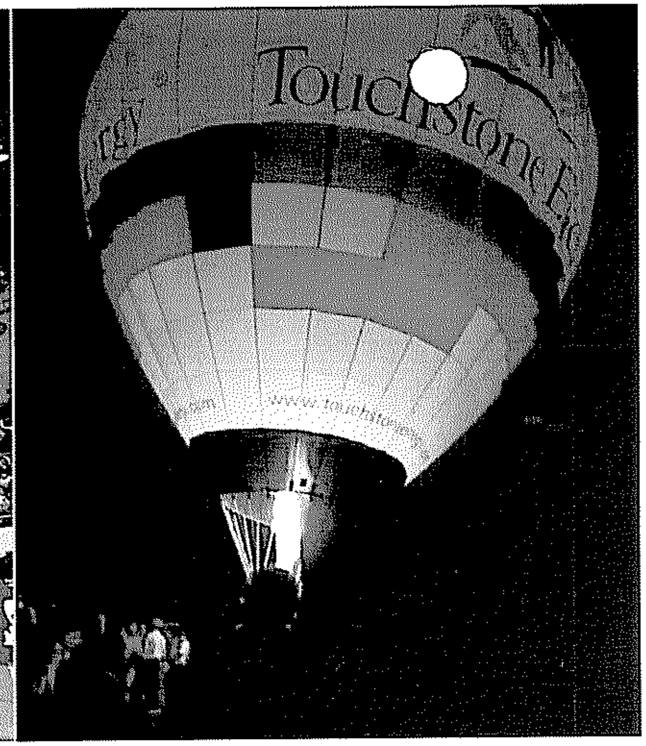
For EKPC and its members, Warren's membership will reduce volatility in costs, increase capacity reserves and create better economies of scale.

Group forms to share power supply planning information

In 2004, EKPC joined forces with other G&T organizations to form the G&T Resource Planning Association. The Association will provide a forum for sharing information and expertise relating to power supply planning issues such as generation technology, fuels and environmental, operational modeling, interactions with the wholesale power markets and transmission planning.

Outages affect system reliability in 2004

Due to an increase in wildlife-related outages, loss of substation equipment and localized storm-related outages, EKPC's average load out of service was 28 minutes in 2004, 7 minutes above the 21-minute target.



Member Services

From environmental education programs to the annual Touchstone Energy All "A" Classic, 2004 was a year of significant progress in providing programs to support EKPC's member systems. The programs are crucial because EKPC exists to serve its member systems.

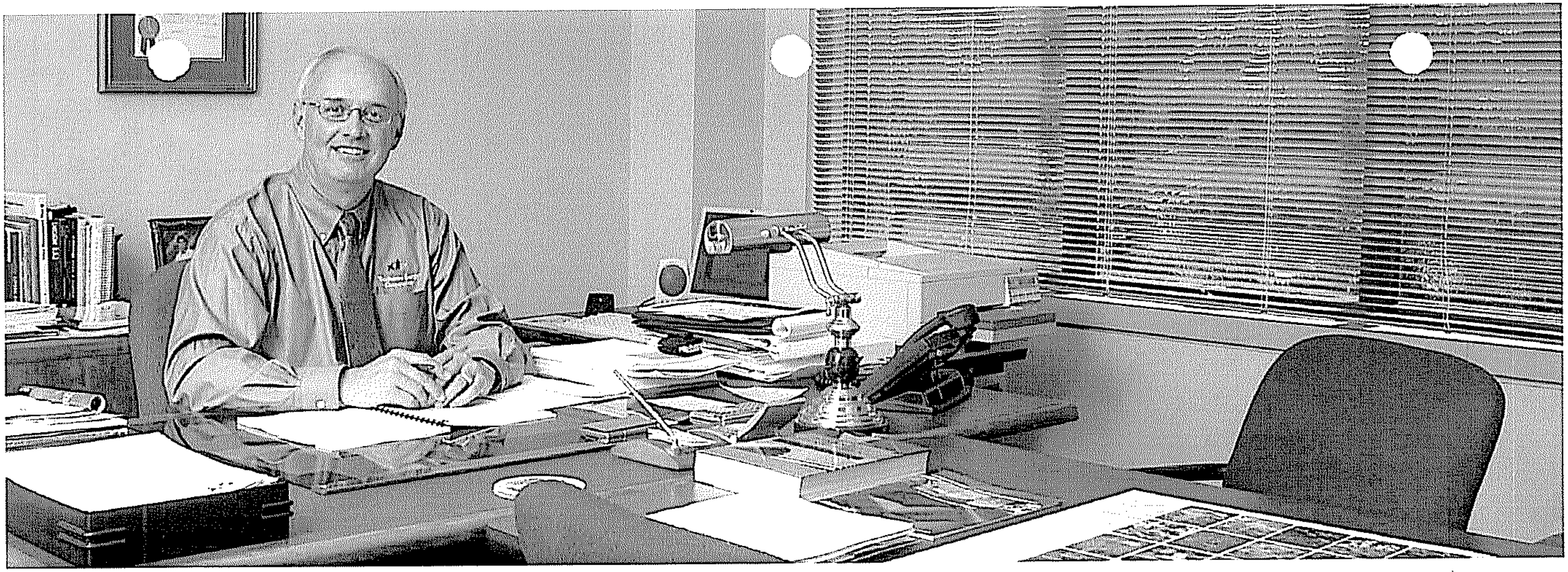
Touchstone Energy Builds Electric Co-op Brand

EKPC and its member systems, along with hundreds of other electric cooperatives across the nation, have embraced the Touchstone Energy brand. Touchstone Energy is a national alliance of about 617 local, consumer-owned cooperatives in 45 states that are committed to providing superior service at affordable rates to more than 16 million customers.

Events sponsored during 2004 included the Touchstone Energy Balloon at the Kentucky Derby Festival, the Lexington Legends baseball team, the Louisville Riverbats baseball team and the Touchstone Energy All "A" Classic.

More than 500 motorcyclists from as far away as California made their way to Kentucky in September 2004 for the annual Touchstone Energy Motorcycle Charity Poker Run, raising nearly $5,000 for the WHAS Crusade for Children.

In 2004, EKPC's biologists spoke to more than 200 schools, performed 795 programs and talked to nearly 21,000 students.



GARY CRAWFORD

Member Services

Responsible for providing value added support to the member systems in the areas of marketing, communications, market research, environmental communications, Envision Energy Services, renewable energy and economic development.

In 2004, Touchstone Energy's All "A" Classic, which showcases student competitions in basketball, the arts, music, academics, cheerleading and ROTC team drills, added men's baseball and women's fast pitch softball to its perennial calendar of events. Through the classic, $50,000 in scholarship funds were dispersed to deserving high school seniors across the Commonwealth of Kentucky.

Renewable energy program doubles

EKPC's renewable energy plants – facilities that produce electric power from methane collected at landfills – continued to make a positive impact in 2004.

The plants (located at the Bavarian Landfill in Boone County, the Laurel Ridge Landfill in Laurel County and the Green Valley Landfill in Greenup County) produce clean, renewable energy. Participating member systems market the output of the facilities through a renewable energy program called EnviroWatts.

By December 2004, the number of member system residential customers using EnviroWatts doubled over the previous year. Several additional landfill-gas-to-electric plants are under consideration.

Co-op Connections Card unveiled

In December 2004, 12 EKPC member systems introduced the Co-op Connections Card to their customers. The card, which entitles the bearer to discounts at any business anywhere in the U.S. that honors the card, is given to co-op members and employees at no cost.

Economic development impacts job growth in 2004

EKPC worked closely with the member systems in 2004 to assist in developing new and existing industry expansions to Kentucky. During this period, 26 new and expanded industries created more than 1,260 jobs. These businesses will use about 15.7 megawatts of power and are investing more than $151 million into the Kentucky economy for buildings, equipment, land and other assets.

At Spurlock Station, coal is shipped and off-loaded by barges plying the Ohio River.

PartnersPlus a success in its first year

EKPC member systems invested more than $4 million in 2004 to develop PartnersPlus, a program designed to assist the member systems in their efforts to better serve customers through a variety of energy savings programs. Using the Touchstone Energy Living brand, the programs are all about the comfort and savings the local electric cooperative can bring to customers.

Envision Energy Services

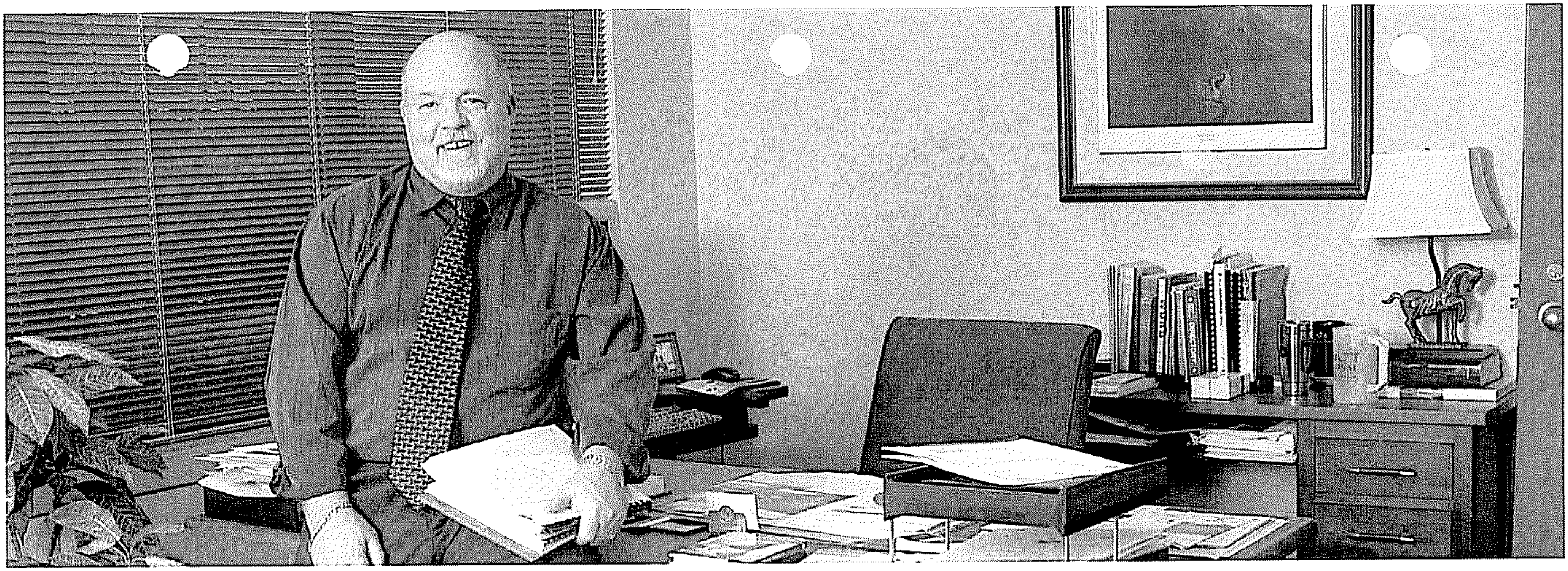
EKPC and member system partners are providing preventive maintenance, power quality and energy cost management to commercial and industrial accounts through Envision Energy Services.

Envision Energy is helping to position EKPC and its member partners for increased industry competition by providing energy solutions to commercial and industrial customers.

Environmental education programs continue to grow

In 2004, EKPC's biologists spoke to more than 200 schools, performed 795 programs and talked to nearly 21,000 students. Since the program's inception in April 1999, EKPC's Environmental Education programs have reached more than 150,000 Kentuckians.

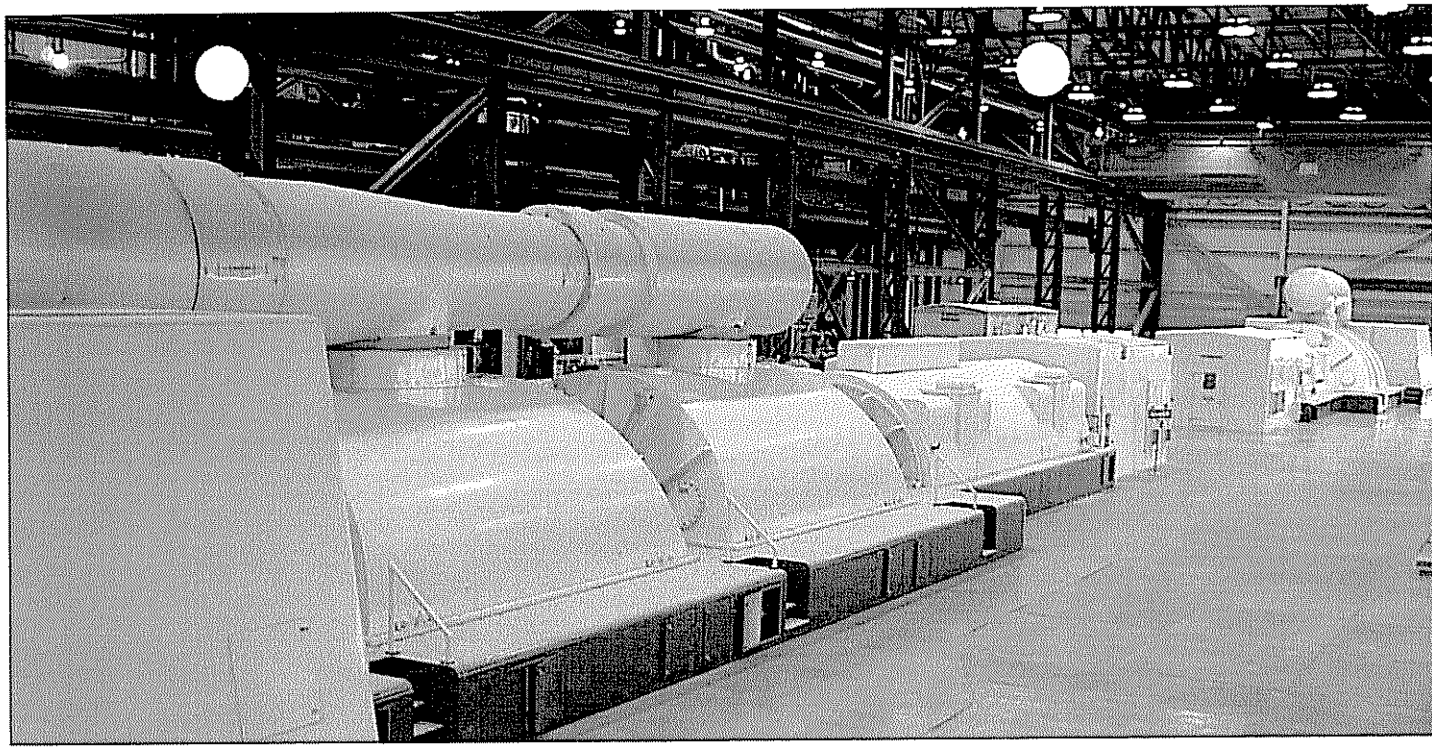
In December 2004, 12 EKPC member systems introduced the Co-op Connections Card to their customers.

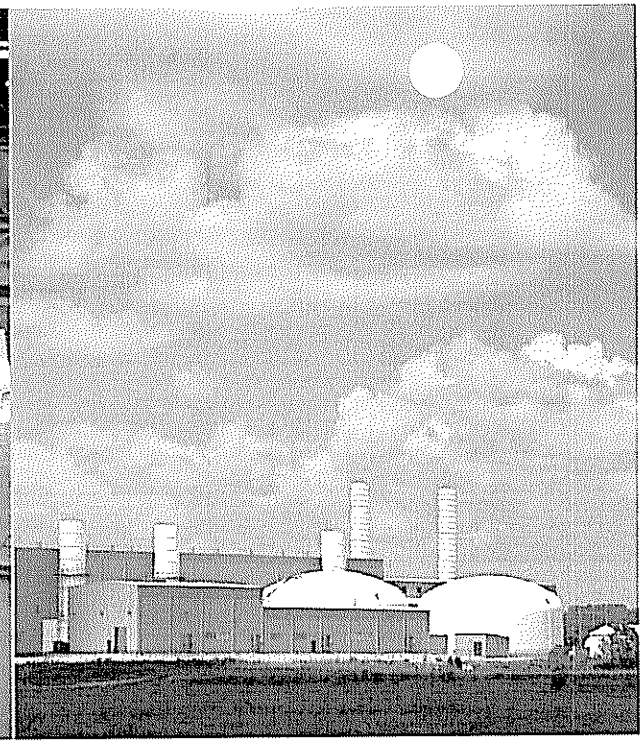


DAVE EAMES

Finance and Planning

Responsible for accounting, budgeting, treasury management, risk management, business insurance, materials management, strategic planning, resource planning, pricing and research and development.





Other Key Events

There were other important developments that shaped 2004. For example, there were important cases before the Kentucky Public Service Commission (PSC) and other key events that occurred during the year.

Application filed to apply environmental surcharge

EKPC has spent more than $200 million to meet federal environmental requirements in recent years. Because EKPC is no longer able to absorb these costs, in the fall of 2004, EKPC applied to the Kentucky PSC for permission to recover costs associated with these mandated expenses through an environmental surcharge. The surcharge will begin impacting EKPC members and their customers in 2005.

In September 2004, EKPC announced plans to build a fourth generating unit at Spurlock Station in Maysville by 2008.

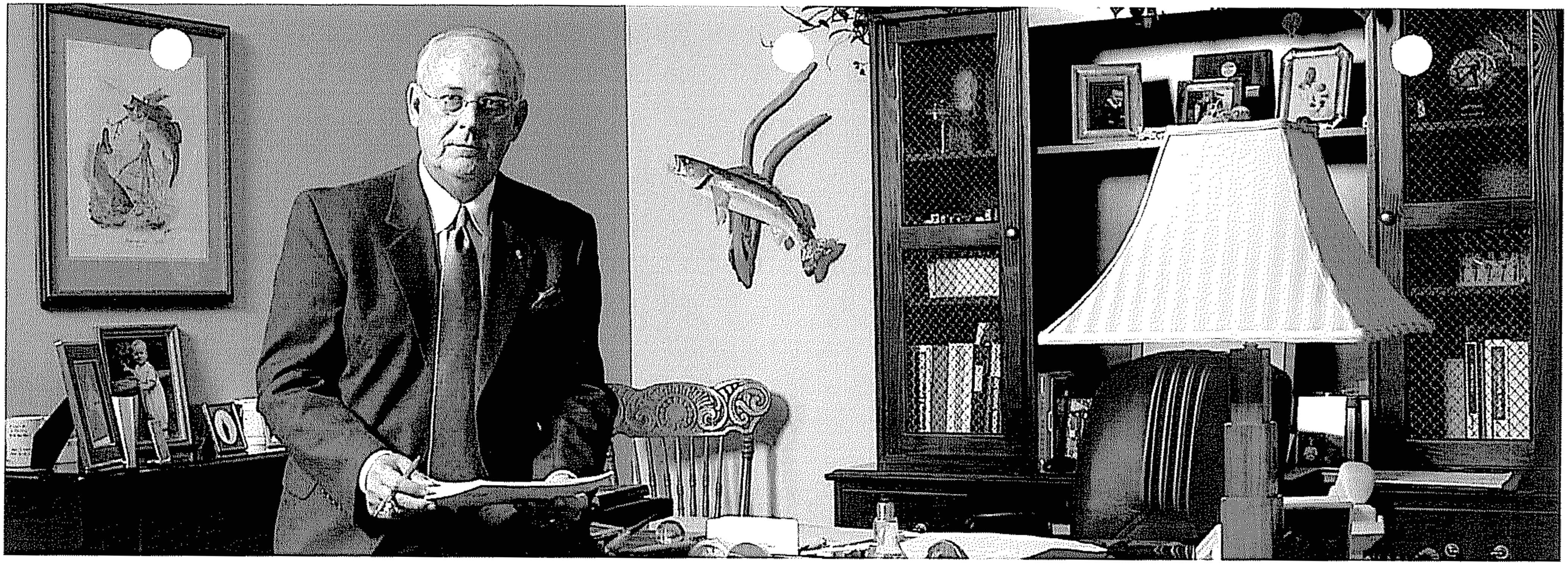
Power marketing alliance continues to grow

ACES Power Marketing is one of the first cooperatively owned power trading and services organizations in the U.S. In 2004, ACES completed its sixth year of operation. EKPC was one of the founding G&T members of ACES.

New manager and superintendent announced for Smith Unit # 1.

EKPC announced in November the appointment of the two top staff members for the Smith # 1 clean-coal power unit in Clark County.

Craig Johnson will serve as plant manager and project leader, while Larry Morris will be the facility's operations superintendent. Together, they will bring the unit online and work with local citizens and community leaders to answer questions and address concerns about the construction of Smith # 1.

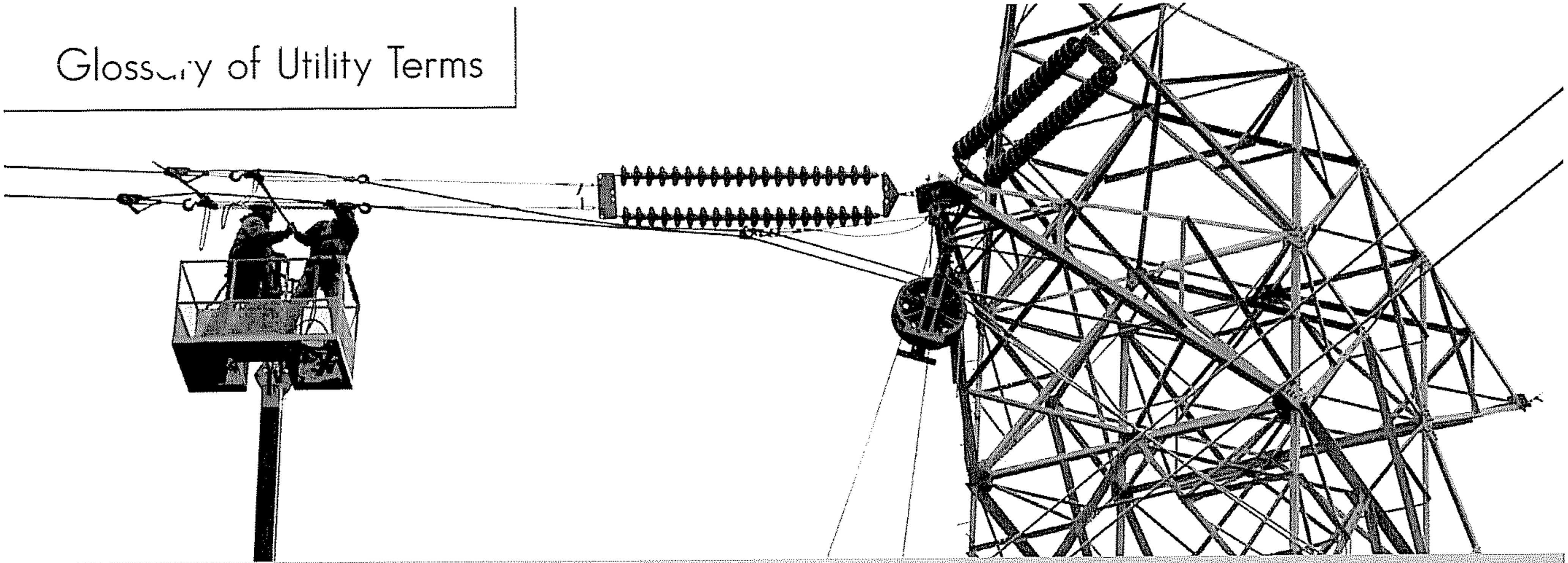


DOUG OLIVER

Human Resources and Support Services

Responsible for human resources, administrative services, records management, travel and meetings, headquarters facilities, information technology and telecommunications.

Glossary of Utility Terms



ACES Power Marketing (APM). A services and power marketing alliance of generation and transmission cooperatives.

Availability. The total percentage of time generating units are available for service, whether being operated or not. It is used to measure the reliability of utility generating facilities.

Baseload Generation. Units normally operated to serve loads on an around-the-clock basis.

Brand. An advertising term that describes an organization's image with the public.

British Thermal Unit (Btu). A measure of heat content in fuels.

Bulk Power. Large amounts of electricity that are transmitted over high-voltage lines.

Capacity. The limit at which a generating unit or station can produce electricity for extended periods.

Clean Air Act. The federal law that places strict limits on emissions such as sulfur dioxide by utilities.

Combustion Turbine. A turbine powered by natural gas or fuel oil that usually generates electricity at times when system demand is highest.

Distribution Substations. Point of delivery of electricity from the G&T to the distribution cooperative, where the voltage of electricity is reduced prior to distribution to customers.

Electricity. Energy that can easily be converted into light, heat and power; the motion of electrons through a conductor.

Environmental Protection Agency (EPA). U.S. government agency that oversees environmental regulations such as federal rules on emissions of nitrogen oxide by utilities.

Spurlock Station is the largest of EKPC's plants.

Federal Energy Regulatory Commission (FERC). A government agency which regulates the transmission of natural gas, oil by pipeline and wholesale sales of electricity in interstate commerce.

Generation and Transmission Cooperative. G&Ts are not-for-profit organizations that generate and transmit electric energy to distribution systems. The distribution systems, which sell the energy to retail customers, own the G&T.

Independent System Operator (ISO). An independent organization that controls the bulk transmission system and schedules the use of the system for many utilities instead of each company doing its own scheduling.

Kilowatt (kW). 1,000 watts, which are the standard measure of electrical power.

Kilowatt-hour (kWh). One thousand watts for one hour. The basic unit measuring electric power consumption.

Load. The amount of electric power required to meet customer demand in a given period of time.

Megawatt (MW). 1,000 kilowatts.

Member Systems. Individual cooperatives that own the G&T. The systems buy wholesale energy from the G&T, and then sell energy and services to retail customers.

National Rural Utilities Cooperative Finance Corporation (NRUCFC). A cooperative that provides financing and a full range of financial services to its more than 1,000 member systems and affiliates.

Off-system Sales. Sales of surplus energy by the G&T to entities other than its member systems.

Peaking Units. Generating units that assist in serving electrical loads that occur during the periods of greatest customer demand.

Regional Transmission Organization (RTO). Coordinates bulk power transactions for a regional group of transmission system owners, instead of each system dispatching such transactions individually.

Reliability. A measure of how much a utility provides dependable power while minimizing outages and blinks.

Rural Utilities Service (RUS). A program that improves the quality of life in rural America through a variety of loan and grant programs in electric energy, telecommunications and water and waste water disposal.

Selective Catalytic Reduction (SCR). Equipment that removes nitrogen oxide from combustion gases before discharge into the atmosphere.

Service Territory. An area in which a utility is required or has the legal right to supply electric service to retail consumers.

Southeastern Electric Power Administration - (SEPA) Quasi government entity that markets hydro electric power from US Army Corps of Engineers-owned dams in the southeastern United States.

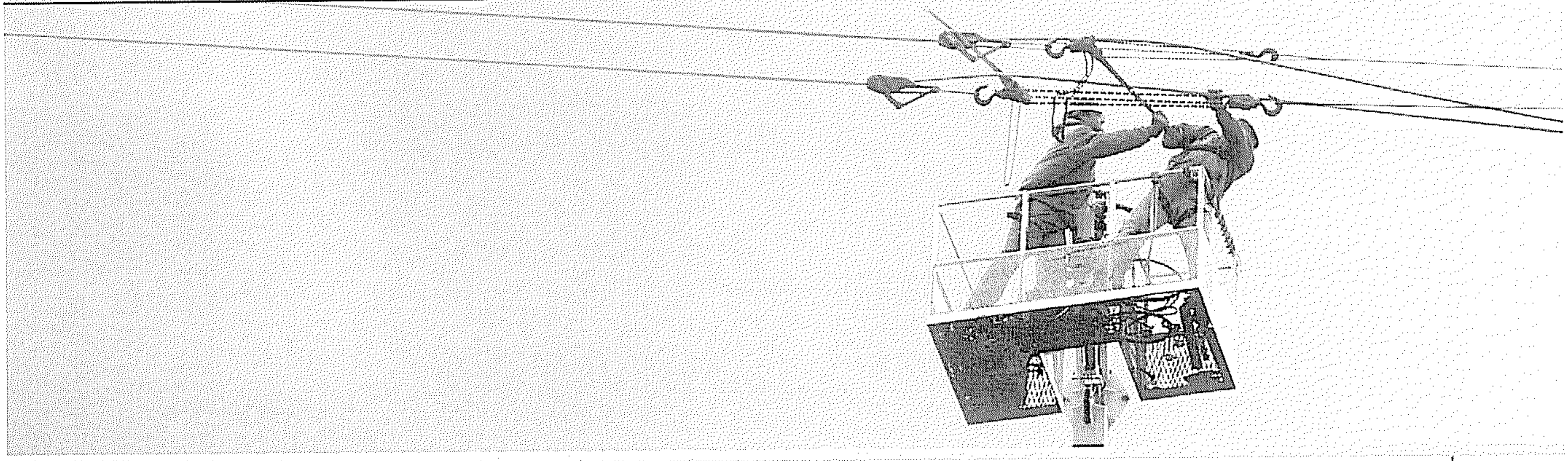
Supervisory Control and Data Acquisition - (SCADA). A computer system that monitors and provides remote control of substation devices and equipment. The technology can improve system reliability.

Substation. Equipment that switches, changes or regulates electric voltage.

Tariff. A published collection of rate schedules, and terms and conditions for use of service.

Touchstone Energy. The marketing brand that electric cooperatives across the nation have adopted. Almost 600 cooperatives have joined the alliance.

Financial Highlights



OPERATING REVENUE, EXPENSES AND MARGINS

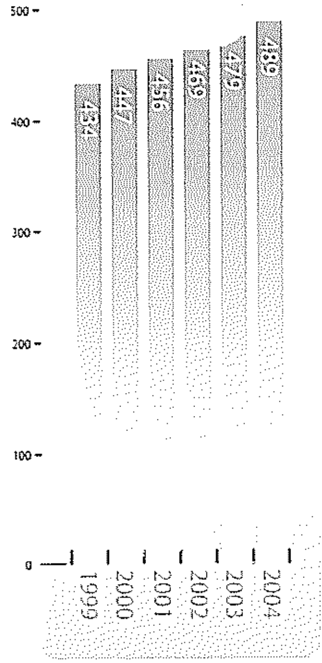
Revenue from sales to East Kentucky's member distribution cooperatives was $501.2 million during 2004, an increase of 13.6 percent compared to 2003. Revenue per kilowatt-hour was 42.45 mills, compared to 38.54 mills in 2003. Revenue from off-system sales was $1.6 million in 2004, compared with $3.2 million in 2003.

EKPC has one of the lowest emission rates of nitrogen-oxide of any utility in Kentucky.

CONTENTS

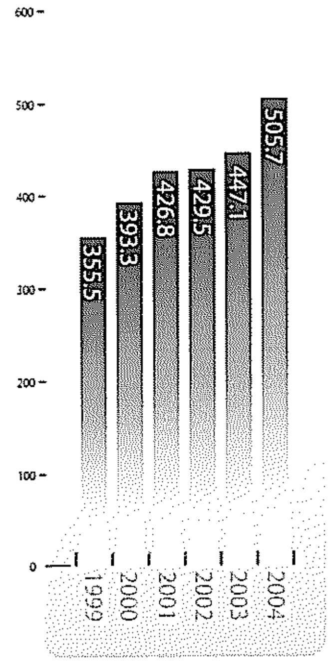
Member Consumer Meters

Year-End in Thousands



Operating Revenue

in $Millions



MEMBER SYSTEM SALES

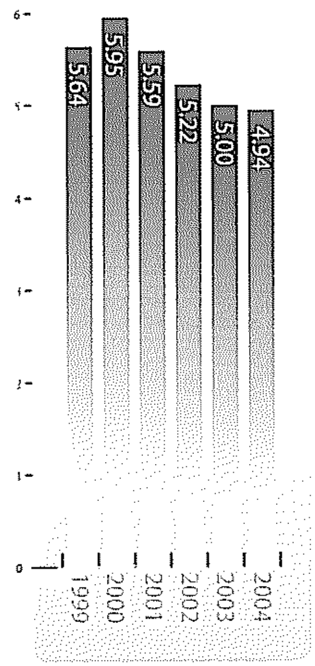
Sales to the member systems were 11.8 million megawatt-hours in 2004, an increase of 3.2 percent over 2003. The coincident system peak for the 2004 summer period was 2,041 MW on July 13, 2004. The 2004-2005 winter season system peak was 2,711 on January 18, 2005. The annual load factor based on coincident system peak was 51% in 2004.

INTERCHANGE POWER TRANSACTIONS

Off-system sales to interconnected utilities were 53.5 thousand megawatt-hours in 2004, compared with 71.2 thousand MWh in 2003. Power purchases were 3.2 million MWh in 2004.

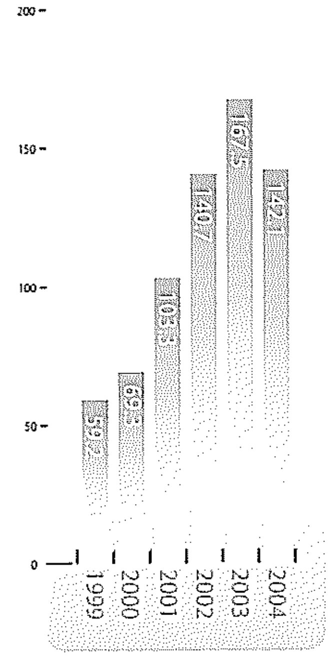
Average Interest Rate on Long-Term Debt Year-End

Average %



Members' Equities

Year-End in $Millions



GENERATION OF POWER

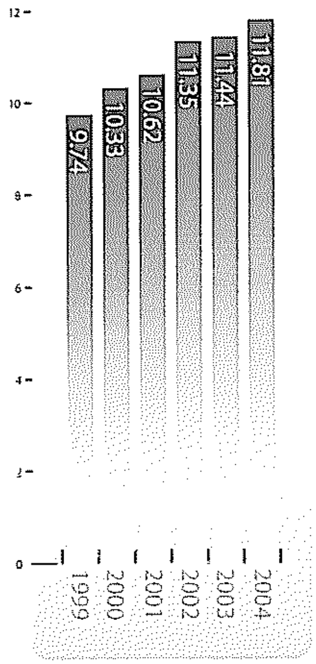
East Kentucky has coal fired generating facilities at Dale Station in Clark County, Cooper Power Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units are supplemented during peak times by combustion turbines at the Smith Generating Facility in Clark County. East Kentucky's generating facilities produced 9.05 million MWH in 2004, compared with 9.06 in 2003.

East Kentucky's power stations burned 3.70 million tons of coal in 2004, compared with 3.69 tons in 2003. The cost of coal burned during 2004, including handling, was $1.72 per million Btu, or $41.79 per ton. The cost of coal purchased during 2004 was $1.78 per million Btu or $43.24 per ton.

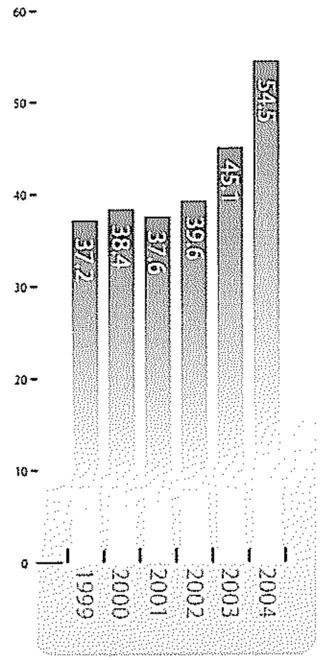
The combustion turbines at the Smith Generating Facility consumed 600 thousand gallons of oil with a cost of $0.77 per gallon or $5.55 per million Btu. The combustion turbines also consumed 2,163,296 MCF of natural gas with a cost of $6.90 per MCF.

At Dale and Cooper Stations, coal is delivered by truck.

Energy Sales to Members
MWh in Millions



Interest Cost
in $Millions



Dale Units 3 and 4 consumed 7,758.3 emission allowances, Cooper Station Units 1 and 2 consumed 30,529.1 emission allowances, Spurlock Station Units 1 and 2 consumed 31,921.9 emission allowances and J.K. Smith Units 1, 2, 3, 4, and 5 consumed 2.1 emission allowances during 2004.

INTEREST COSTS

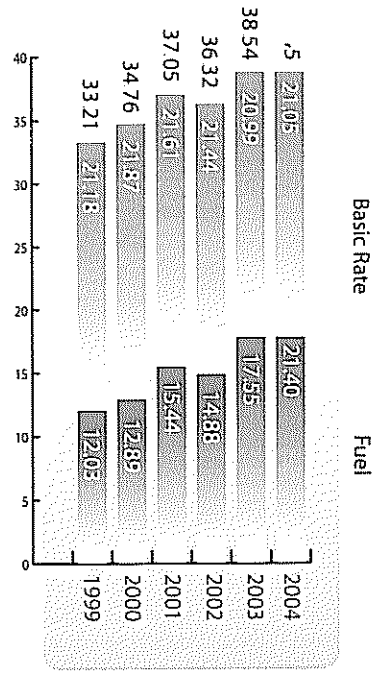
Gross interest expense was $54.5 million. The prime rate increased from 4.00 percent to 5.25 percent during 2004. During the year, Federal Financing Bank (FFB) interest rates for long-term advances ranged from 4.43 to 5.41 percent.

Of the total $1,267.9 million debt outstanding, current interest rates range from a low of 2 percent to a high of 10.66 percent for 2004. The average annual rate on all debt decreased from 5.00 percent in 2003 to 4.94 percent in 2004.

Warren RECC will join EKPC in 2008.

Power Cost to Members

Mills/kWh



Virtually all of East Kentucky's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $127.6 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 1.28 percent for 2004.

OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs, marketing & member support and other corporate functions.

BOARD MEMBERS


Licking Valley RECC

Mike Adams


Jackson Energy

Fred Brown


Cumberland Valley Electric

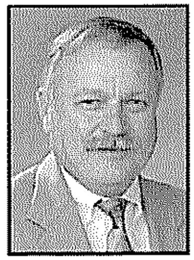
Elbert Hampton


Salt River Electric

Jimmy Longmire

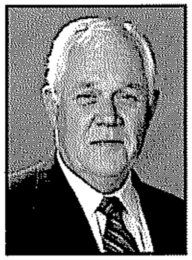

South Kentucky Rural Electric

Rick Stephens

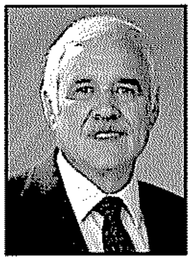

Shelby Energy Chairman

Wayne Stratton

SYSTEM MANAGERS


Clark Energy

Overt Carroll


Big Sandy RECC

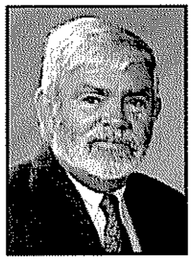
Bobby Sexton


Inter-County Energy

Jim Jacobus


Nolin RECC

Mickey Miller


Fleming-Mason Energy

Tony Overbey

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS


Inter-County Energy

Danny Divine


Clark Energy

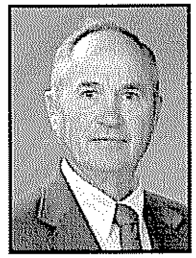
William Shearer


Farmers RECC

Neil Pendygraft


Owen Electric
Secretary-Treasurer

Sam Penn


Nolin RECC

A.L. Rosenberger

SYSTEM MANAGERS


Blue Grass Energy

Dan Brewer


Licking Valley RECC

Bill Duncan


Grayson RECC

Carol Fraley


Cumberland Valley Electric

Ted Hampton


Taylor County RECC

Barry Myers

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS


Grayson RECC

Donnie Crum


Taylor County RECC

P.D. Depp


Blue Grass Energy

E.A. Gilbert


Big Sandy RECC

Wade May


Fleming-Mason Energy
Vice-Chairman

Lonnie Vice

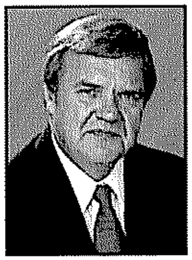
SYSTEM MANAGERS


South Kentucky
Rural Electric

Allen Anderson


Shelby Energy

Dudley Bottom


Farmers RECC

Jackie Browning


Salt River Electric

Larry Hicks


Owen Electric

Bob Marshall


Jackson Energy

Don Schaefer

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS

Nolin RECC

A.L. Rosenberger

Shelby Energy
Chairman

Wayne Stratton

SYSTEM MANAGERS

Salt River Electric

Larry Hicks

Inter-County Energy

Jim Jacobus

REPORT OF MANAGEMENT

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Roy M. Palk　　David G. Eames

Roy M. Palk
President and CEO

David G. Eames
Vice President, Finance and Planning

REPORT OF INDEPENDENT AUDITORS

To the Audit Committee
East Kentucky Power Cooperative, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of East Kentucky Power Cooperative, Inc. and Subsidiary (the Cooperative) as of December 31, 2004 and 2003, and the related consolidated statements of revenue and expenses, changes in members' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of East Kentucky Power Cooperative, Inc. and Subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2005 on our consideration of East Kentucky Power Cooperative, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Lexington, Kentucky
February 18, 2005

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003
(Dollars in Thousands)

ASSETS	2004	2003
Electric plant, at original cost		
In-service	$ 1,544,046	$ 1,494,125
Construction in progress	481,268	316,086
	2,025,314	1,810,211
Less accumulated depreciation	726,858	694,529
Electric plant, net	1,298,456	1,115,682
Long-term accounts receivable	9,801	10,558
Investment securities		
Available for sale	39,703	37,948
Held to maturity	22,548	15,423
Current assets		
Cash and cash equivalents	60,110	42,781
Accounts receivable	56,507	49,344
Fuel	36,512	22,010
Materials and supplies	27,372	26,802
Emission allowances	199	739
Other	1,506	1,605
Total current assets	182,206	143,281
Deferred charges	919	1,004
Other	4,928	4,636
Total assets	$ 1,558,561	$ 1,328,532

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003
(Dollars in Thousands)

LIABILITIES AND MEMBERS' EQUITIES		
Members' equities	$ 142,050	$ 167,535
Long-term debt, excluding current portion	1,223,164	952,987
Current liabilities		
Current portion of long-term debt	44,743	94,426
Notes payable	-	6,000
Accounts payable	75,391	49,211
Accrued expenses	16,121	5,094
Total current liabilities	136,255	154,731
Accrued postretirement benefit cost	44,632	43,030
Other	12,460	10,249
Total liabilities and members' equities	$ 1,558,561	$ 1,328,532

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES

Years Ended December 31, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Operating revenue	$ 505,681	$ 447,124
Operating expenses		
Production		
Fuel	173,506	137,103
Other	43,191	32,174
Purchased power	134,795	102,028
Maintenance	50,827	37,852
Depreciation	38,994	31,166
Other	56,424	44,565
	497,737	384,888
Operating margins	7,944	62,236
Interest charges, net		
Interest expense	54,490	45,069
Interest income on debt service, construction and related funds	(307)	(833)
	54,183	44,236
Net operating (deficit) margin	(46,239)	18,000
Nonoperating margins		
Interest income	2,217	2,115
Allowance for interest on borrowed funds used during construction	16,080	8,951
Miscellaneous	420	188
	18,717	11,254
Capital credits and patronage capital allocations	255	144
Net (deficit) margin	$ (27,267)	$ 29,398

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES

Years Ended December 31, 2004 and 2003
(Dollars in Thousands)

	Memberships	Patronage Capital	Donated Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equities
Balances, December 31, 2002	$ 2	$ 136,262	$ 3,035	$ 1,403	$ 140,702
Comprehensive income					
Net margin	-	29,398	-	-	29,398
Unrealized losses on investments available for sale	-	-	-	(2,565)	(2,565)
Total comprehensive income					26,833
Balances, December 31, 2003	2	165,660	3,035	(1,162)	167,535
Comprehensive income					
Net deficit	-	(27,267)	-	-	(27,267)
Unrealized gains on investments available for sale	-	-	-	1,782	1,782
Total comprehensive loss					(25,485)
Balances, December 31, 2004	$ 2	$ 138,393	$ 3,035	$ 620	$ 142,050

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Cash flows from operating activities		
Net (deficit) margin	$ (27,267)	$ 29,398
Adjustments to reconcile net (deficit) margin to net cash from operating activities		
Depreciation	38,994	31,166
Amortization of loan costs	85	84
Changes in:		
Trading securities	-	5,572
Accounts receivable	(7,163)	(3,589)
Fuel	(28,669)	(9,802)
Materials and supplies	(570)	(629)
Emission allowances	(10,138)	3,306
Accounts payable, trade	71,854	46,979
Accrued expenses	11,027	366
Accrued postretirement benefit cost	1,602	1,750
Other	(10,626)	(22,342)
Net cash from operating activities	39,129	82,259
Cash flows from investing activities		
Additions to electric plant	(235,933)	(273,244)
Maturities and calls of securities available for sale	36,150	601
Purchases of securities available for sale	(36,123)	(16,524)
Purchases of securities held to maturity	(7,145)	(7,145)
Payments received on long-term accounts receivable	757	813
Net cash from investing activities	(242,294)	(295,499)

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003
(Dollars in Thousands)

Cash flows from financing activities		
Proceeds from long-term debt	281,092	285,593
Principal payments on long-term debt	(60,598)	(33,477)
Advances on notes payable	176,509	317,644
Payment on notes payable	(176,509)	(313,739)
Net cash from financing activities	220,494	256,021
Net change in cash and cash equivalents	17,329	42,781
Cash and cash equivalents at beginning of year	42,781	-
Cash and cash equivalents at end of year	$ 60,110	$ 42,781

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

EAST KENTUCKY POWER COOPERATIVE, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003
(Dollars in Thousands)

	2004	2003
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 42,717	$ 44,916
Non-cash operating transaction		
Fuel included in accounts payable	$ 14,167	$ 7,552
Emission allowances included in accounts payable	10,678	-
Non-cash investing transaction		
Additions to electric plant included in accounts payable	$ 20,829	$ 21,923
Unrealized gains (losses) on securities available for sale	1,782	(2,565)
Non-cash financing transaction		
Application of notes payable to other liabilities	$ 6,000	$ -

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Cooperative is engaged in generating and transmitting electrical power primarily to its sixteen member cooperatives throughout central and eastern Kentucky. The financial statements are prepared in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (KPSC) and the United States Department of Agriculture, Rural Utilities Service (RUS), which conform with accounting principles generally accepted in the United States of America as applied to regulated enterprises.

Principles of Consolidation: The consolidated financial statements include the accounts of East Kentucky Power Cooperative, Inc. and its subsidiary, Charleston Bottoms Rural Electric Cooperative Corporation (CBRECC). All significant intercompany accounts and transactions have been eliminated.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Electric Plant: Electric plant is stated at original cost, which is the cost when first dedicated to public service, including applicable labor and overhead cost and an allowance for interest on borrowed funds used during construction.

The cost of maintenance and repairs, including renewals 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.

Provision for depreciation has been made on the basis of estimated useful lives at straight-line composite rates generally as follows:

Production plant	3.30%
Transmission plant	2.75% - 8.00%
General plant	2.00% - 20.00%

(Continued)

Long-Term Assets: Electric plant and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value. No impairment has been recognized on long-term assets for the years ended December 31, 2004 or 2003.

Allowance for Interest on Borrowed Funds Used During Construction: In accordance with practices permitted by the prescribed system of accounts, the Cooperative provides an allowance for interest on borrowed funds used during construction. The allowance represents the calculated net interest cost of funds borrowed for construction of major projects which take longer than one year and cost in excess of $100,000.

Investment Securities: Investment securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available for sale when they might be sold before maturity. Investment securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. Trading securities are carried at fair value, with changes in unrealized holding gains and losses included in income.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are based on the amortized cost of the security sold. Investment securities are written down to fair value when a decline in fair value is not temporary.

Revenue and Fuel Costs: Revenue is recorded monthly based on meter readings made at month-end.

The state regulatory authority has adopted a uniform fuel adjustment clause for all electric utilities within its jurisdiction. Under this clause, fuel cost above or below a stated amount per kWh is charged or credited to the member cooperatives for all energy sales.

In September 2004, the Cooperative applied to the KPSC for the recovery of certain costs incurred in compliance with the Federal Clean Air Act. This environmental surcharge will be effective for service rendered on or after July 1, 2005, and will billed on a percentage of revenue basis.

The Cooperative's sales are primarily to its member cooperatives and amounted to approximately $501,169,000 and $441,053,000 for 2004 and 2003, respectively. Accounts receivable at December 31, 2004 and 2003 were primarily from billings to member cooperatives. At December 31, 2004 and 2003, individual account balances that exceeded 10 percent of total accounts receivable are as follows:

	2004	2003
Owen Electric Cooperative	$ 8,224,000	$ 7,091,000
South Kentucky RECC	5,928,000	5,064,000

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents: For purposes of the consolidated financial statements, the Cooperative considers temporary investments having a maturity of three months or less when purchased to be cash equivalents.

At December 31, 2004 and 2003, respectively, the Cooperative had $301,915 and $2,818,724 of cash on deposit at one bank, which is in excess of federally insured limits.

Fuel and Materials and Supplies: Inventories of fuels and materials and supplies are stated at the lower of average cost or market.

Emission Allowances: Title IV of the Clean Air Act Amendments of 1990 provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants. Allowances are stated at cost. Issuances of allowances are stated using a monthly weighted-average method of cost determination. Gains and losses are recorded upon the disposition of allowances.

Members' Equities: Memberships represent contributions to the Cooperative made by members. Should the Cooperative cease business, these amounts, if available, will be returned to the members. In addition, any available capital credits will also be allocated to members on a contribution-to-gross margins basis.

A provision in the Cooperative's bylaws prohibits the return of capital contributed by patrons unless, after any proposed retirement, the total capital of the Cooperative equals or exceeds 40 percent of total assets. In addition, provisions of certain loan agreements prohibit the retirement of capital until stipulated requirements as to liquid assets (cash and U.S. Government obligations) are met. Accordingly, at December 31, 2004, no patronage capital was available for refunds or retirement.

Comprehensive Income: Comprehensive income includes both net margin (deficit) and other comprehensive income. Other comprehensive income represents the change in unrealized gains and losses on securities available for sale.

Income Taxes: The Cooperative is exempt under section 501(c)(12) of the Internal Revenue Code from federal income tax for any year in which at least 85 percent of its gross income is derived from members but is responsible for income taxes on certain unrelated business income.

(Continued)

NOTE 2 - ELECTRIC PLANT

Electric plant in-service consisted of the following:

	2004	2003
	(in thousands)	
Production plant	$ 1,080,525	$ 1,051,186
Transmission plant	374,394	357,515
General plant	67,518	47,110
Completed construction, not classified	21,609	38,314
Electric plant in service	$ 1,544,046	$ 1,494,125

Depreciation expense was $38,994,000 and $31,166,000 for 2004 and 2003, respectively.

During 2003, as a result of a depreciation study, the Cooperative extended the useful life of both the Cooper and Spurlock Power Stations. This change in the estimated useful lives of these plants reduced 2003 depreciation expense by approximately $12,650,000.

NOTE 3 - LONG-TERM ACCOUNTS RECEIVABLE

Long-term receivables include modifications to Spurlock Power Station in order to provide steam to a paper mill that recycles container board. The paper mill is reimbursing the Cooperative for the cost of the modifications through a monthly facilities charge over the 20-year life of the contract. Long-term receivables also include interest-bearing notes from joint ventures owned by the Cooperative and four of the Cooperative's member systems for the buyout of a propane company. The joint ventures of the member systems will make five years of interest-only (prime rate minus one-half of one percent, adjust annually) payments, with principal and interest payments beginning in 2005. The notes will be payable in full in 2015.

(Continued)

NOTE 4 - INVESTMENT SECURITIES

Amortized cost and estimated fair value of investment securities available for sale at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2004				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 24	$ -	$ -	$ 24
U.S. Treasury bill	35,611	-	-	35,611
Zero Coupon Bond	2,387	601	-	2,988
Other	1,061	19	-	1,080
	$ 39,083	$ 620	$ -	$ 39,703
2003				
National Rural Utilities Cooperative Finance Corporation Promissory Note	$ 48	$ -	$ -	$ 48
U.S. Treasury bill	34,128	4	(1,881)	32,251
Zero Coupon Bond	3,874	723	-	4,597
Other	1,060	-	(8)	1,052
	$ 39,110	$ 727	$ (1,889)	$ 37,948

Proceeds from maturities and calls of securities were $36,150,000 and $601,000 in 2004 and 2003, respectively. There were no realized gains or losses on those calls.

(Continued)

NOTE 4 – INVESTMENT SECURITIES (Continued)

Amortized cost and estimated fair value of investment securities held to maturity at December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2004				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,656	$ -	$ (1,461)	$ 6,195
6.5875% subordinated term certificate	485	104	-	589
2.72% - 5.440% equity term certificate	14,290	505	-	14,795
0% subordinated term certificate	117	-	(32)	85
	$ 22,548	$ 609	$ (1,493)	$ 21,664
2003				
National Rural Utilities Cooperative Finance Corporation				
3-5% capital term certificates	$ 7,655	$ -	$ (2,056)	$ 5,599
6.5875% subordinated term certificate	500	92	-	592
2.72% equity term certificate	7,145	70	-	7,215
0% subordinated term certificate	123	-	(36)	87
	$ 15,423	$ 162	$ (2,092)	$ 13,493

(Continued)

NOTE 4 - INVESTMENT SECURITIES (Continued)

Investment securities held to maturity with unrealized losses at December 31, 2004 not recognized in net margins are as follows:

	Unrealized Loss Less than 12 months		Unrealized Loss 12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
3-5% capital term certificates	$ -	$ -	$ 6,195	$ (1,461)
0% subordinated term certificate	-	-	85	(32)
	$ -	$ -	$ 6,280	$ (1,493)

(Continued)

NOTE 4 - INVESTMENT SECURITIES (Continued)

The maturity dates on the above securities range from 2019 to 2080 and have no available trading market. However, it is management's intent to hold these securities until maturity, at which time management expects to recover full value.

The amortized cost and fair value of securities at December 31, 2004, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale		
Due in one year or less	$ 35,635	$ 35,634
Due after one year through five years	2,387	2,989
Due after ten years	1,061	1,080
	$ 39,083	$ 39,703
Held to maturity		
Due after one year through five years	$ 7,145	$ 7,121
Due after ten years	15,403	14,543
	$ 22,548	$ 21,664

NOTE 5 - NOTES PAYABLE

The Cooperative has a line of credit with National Rural Utilities Cooperative Finance Corporation (CFC) for $50,000,000 which matures in March 2005. Interest rates may not exceed the prime rate (as defined) plus 1 percent (4.05% at December 31, 2004). The Cooperative had $0 outstanding on this line of credit at December 31, 2004 and 2003.

The Cooperative had an unsecured promissory note from one of its members in the amount of $6,000,000 at December 31, 2003. The interest rate was fixed at 3.10%, and principal was due on or before September 30, 2004. The note was transferred to the member's power bill prepayment.

(Continued)

NOTE 6 – LONG-TERM DEBT

Long-term debt outstanding at December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
First mortgage notes:		
4.241% - 10.657%, payable quarterly to Federal Financing Bank (FFB) in varying amounts through 2038	$932,641	$754,204
2%, 5%, and 5.125% payable quarterly to RUS in varying amounts through 2024	59,727	64,635
3.8%, payable quarterly to CFC in varying amounts through 2014	23,049	-
4.1% payable quarterly to CFC in varying amounts through 2024	-	24,274
Fixed rate loan, 7.7%, payable semiannually in varying amounts to National Cooperative Services Corporation through 2012	10,600	11,600
Promissory notes:		
4.20% variable rate note payable to CFC in 2006	50,000	50,000
3.40% fixed rate note payable to CFC in 2006	7,145	7,145
4.20% variable rate note payable to CFC in 2023	50,000	-
6.80% fixed rate note payable to CFC in 2023	7,145	-

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

	2004	2003
Pollution control bonds:		
Series 1984B, variable rate bonds, due October 15, 2014, 2.20% at December 31, 2004 and 1.45% at December 31, 2003	$94,450	$99,750
Series 1984J, variable rate bonds, due October 15, 2014, 1.75% at December 31, 2004 and 1.00% at December 31, 2003	23,750	26,105
Solid waste disposal revenue bonds, Series 1993B, variable rate bonds, due August 15, 2023, interest rate 1.50% at December 31, 2004 and 1.10% at December 31, 2003	9,400	9,700
	1,267,907	1,047,413
Less current portion of long-term debt	44,743	94,426
	$1,223,164	$952,987

In July 2000, RUS approved a loan application in the amount of $85,600,000 to finance the construction of transmission facilities. In August 2001, RUS approved a loan application for the construction of the fourth and fifth combustion turbines and associated transmission facilities in the amount of $92,300,000. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2004, $6,316,000 of these amounts remained to be advanced.

In September 2002, RUS approved a loan application in the amount of $223,500,000 for the design, purchase, and installation of NOx reduction equipment and electrostatic precipitators, including plant modifications and related expenditures on Spurlock Power Station Units No. 1 and 2. Advances on these loans are subject to certain conditions outlined by RUS, and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2004, $21,700,000 of these amounts remained to be advanced.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

In September 2003, RUS approved a loan application in the amount of $433,863,000 for the construction of the Gilbert Unit at the Spurlock Power Station, including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. At December 31, 2004, $283,863,000 of these amounts remained to be advanced.

Since the above loan application was not cleared for advances and construction had begun, the Cooperative sought alternative financing in the form of bridge financing from the National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of $100,000,000, of which $50,000,000 remains to be advanced.

In September 2003, RUS approved a loan application in the amount of $27,645,000 for the construction of five landfill gas to energy generating units including engineering services, preliminary structural design, and related transmission facilities. Advances on these loans are subject to certain conditions outlined by RUS and the non-governmental portions of such loans are subject to authorization from the KPSC. As of December 31, 2004, this loan has not been cleared by RUS for advance of loan funds.

The interest rate on the Series 1984B Pollution Control Bonds is subject to change weekly and the interest rate on the Series 1984J Pollution Control Bonds and the Series 1993B Solid Waste Disposal Revenue Bonds are subject to change semiannually. The interest rate adjustment period on any series of the above-mentioned variable rate bonds may be converted to a weekly, semiannual, annual or three-year basis or to a fixed-rate basis, at the option of the Cooperative.

Long-term pollution control and solid waste disposal revenue bonds require that debt service reserve funds be on deposit with a trustee throughout the term of the bonds. Debt service reserve requirements are as follows: Series 1984B - $12,717,000; Series1984J - $5,368,500; and Series 1993B - $1,062,000. In addition, mandatory sinking fund payments are required for each series as follows: Series 1984B – payments range from $5,850,000 in 2005 to $13,150,000 in 2013; Series 1984J – payments range from $2,605,000 in 2005 to $4,325,000 in 2010; and Series 1993B – payments range from $300,000 in 2005 to $700,000 in 2023. Debt service reserve and construction funds are held by trustees and are invested primarily in U.S. Government securities and CFC promissory notes. These funds are included in investment securities available for sale and have a fair value of approximately $19,300,000 at December 31, 2004.

Estimated maturities of long-term debt for the five years subsequent to December 31, 2004 are as follows: 2005 - $44,743,000; 2006 - $163,928,000; 2007 - $52,951,000; 2008 - $55,533,000; 2009 - $58,418,000; and thereafter - $892,334,000.

(Continued)

NOTE 6 - LONG-TERM DEBT (Continued)

Under the terms of the loan agreements with RUS, CFC and institutional investors, the Cooperative is required to maintain certain levels of interest coverage and debt service coverage, both of which have been met at December 31, 2004.

Substantially all assets are pledged as collateral for first mortgage notes payable to the United States of America (RUS and FFB) and CFC.

NOTE 7 - RETIREMENT BENEFITS

Pension Plan: Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association's Retirement and Security Program, a multi-employer defined benefit plan. The Cooperative's required contributions were approximately $6,201,000 and $5,583,000 for 2004 and 2003, respectively. The Cooperative expects to contribute approximately $6,936,000 to the plan in 2005.

Retirement Savings Plan: The Cooperative has a Retirement Savings Plan for all employees who are eligible to participate in the Cooperative's benefit programs. The plan allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The Cooperative makes matching contributions to the account of each participant up to 2 percent of the participant's compensation. The Cooperative contributed approximately $719,000 and $669,000 to the plan in 2004 and 2003, respectively. Employees vest immediately in their contributions and the contributions of the Cooperative. The Cooperative expects to contribute approximately $754,000 to the plan in 2005.

Supplemental Death Benefit Plan: The Cooperative provides a Supplemental Death Benefit Plan to all employees eligible to participate in the pension plan. The supplemental death benefit is payable to a deceased employee's beneficiary if the lump sum value of a 100% survivor benefit under the pension plan exceeds the pension plan benefits plus the Cooperative's group life insurance proceeds. Management believes that any liability related to this plan will not have a material effect on the consolidated financial statements.

Postretirement Medical Benefits: The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 50 percent of the projected cost of coverage. For purposes of the liability estimates, the substantive plan is assumed to be the same as the extant written plan. The plan is not funded. 58

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

The following table sets forth the plan's status reconciled with the amount shown in the Cooperative's balance sheets at December 31, 2004 and 2003 (dollars in thousands):

	2004	2003
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Employer contribution	548	539
Plan participants' contribution	546	539
Benefits paid	(1,094)	(1,078)
Actual return on plan assets	-	-
Fair value of plan assets at end of year	-	-
Change in benefit obligation:		
Benefit obligation at beginning of year	34,799	28,601
Service cost-benefits attributed to service during the period	1,039	1,006
Interest cost on accumulated postretirement benefit obligation	1,798	1,888
Benefits paid	(1,094)	(1,078)
Plan participants' contribution	546	539
Actuarial (gain) loss	(2,830)	3,843
Benefit obligation at end of year	34,258	34,799
Funded status	$ (34,258)	$ (34,799)
Unrecognized actuarial gain	(10,374)	(8,231)
Accrued benefit cost	$ (44,632)	$ (43,030)

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

Components of net periodic postretirement benefit cost (dollars in thousands):		
Service cost-benefits attributed to service during the period	$ 1,039	$ 1,006
Interest cost on accumulated postretirement benefit obligation	1,798	1,888
Amortization of unrecognized actuarial gain	(687)	(605)
Net periodic benefit cost	$ 2,150	$ 2,289

(Continued)

NOTE 7 - RETIREMENT BENEFITS (Continued)

The discount rate used in determining the accumulated postretirement benefit obligation for 2004 and 2003 was 5.75% and 6%, respectively. The Cooperative expects to contribute approximately $677,000 to the plan in 2005.

The following expected benefit payments from the plan, which reflect anticipated future service, are:

2005	$ 677,000
2006	723,000
2007	828,000
2008	973,000
2009	1,081,000
2010 - 2014	7,515,000
Total	$11,797,000

For measurement purposes, a 12.0 percent annual rate of increase in the per capita cost of covered health care benefits was used for the year ended December 31, 2004. The rate is assumed to decline to 5 percent after seven years.

The health care cost trend rate assumption has a significant effect on the amounts reported.

	2004	2003
Effect on total of service cost and interest cost components (dollars in thousands)		
1-percentage-point increase	$ 621	$ 613
1-percentage-point decrease	(479)	(469)
Effect on postretirement benefit obligation (dollars in thousands)		
1-percentage-point increase	$ 6,716	$ 6,781
1-percentage-point decrease	(5,258)	(5,283)

The Cooperative offers prescription drug benefits to its postretirement health care plan, and has implemented FASB Staff Position (FSP) 106-1 as of December 31, 2004. At the adoption date, the accumulated postretirement benefit obligation is estimated to decrease $1,900,000 and the aggregated service and interest costs are estimated to decrease $180,000 due to the prescription drug subsidy.

(Continued)

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES

The Cooperative has entered into long-term power purchase agreements having minimum payment obligations for the five years subsequent to December 31, 2004 as follows (dollars in thousands):

2005	$ 7,180
2006	4,553
2007	4,553
2008	5,314
2009	7,595

The Cooperative is committed to purchase coal for its generating plants under long-term contracts having minimum purchase obligations as follows (dollars in thousands):

2005	$ 125,817
2006	118,164
2007	80,904
2008	48,837
2009	15,658

The minimum cost of the coal purchases, based on the latest contractual prices, is subject to escalation clauses that are generally based on government-published indices and market price re-openers.

In 1999, the Cooperative agreed to lease a portion of land at Smith to an independent power producer (IPP) who proposed to build a 540-megawatt integrated gasification combined cycle plant. The Cooperative executed a 20-year power purchase agreement (PPA) with the independent power producer to purchase 100 percent of the power plant output subject to review and approval of the KPSC. During 2001, the IPP informed the Cooperative that it could not meet the financial closing deadline of June 30, 2001, nor could it commit to any future date for financial closure. The Cooperative notified the IPP in September 2002 that it intended to give a notice of termination of the PPA on January 31, 2003, but subsequently agreed to withhold such notice of termination due to the pendency of the IPP's case before the Kentucky State Board for Electric Generation and Transmission Siting ("the Siting Board"). The KPSC initiated a review of its prior approval of the PPA on January 30, 2003. The Siting Board approved the IPP's construction, on the condition that the IPP complied with local planning and zoning requirements. In October 2004, the Cooperative terminated the PPA, thereby ending plans to build the coal gasification plant at Smith. The termination resulted from the IPP's failure to obtain financing and achieve commercial operation in accordance with the PPA. As a result of its own review, the KPSC withdrew its prior approval of the PPA. 62

NOTE 8 - COMMITMENTS, EXPENDITURES AND CONTINGENCIES (Continued)

There are pending civil claims in litigation against the Cooperative. Under the Cooperative's general liability insurance program, it is responsible for a deductible amount up to $1,000,000 for each occurrence. Neither the probable outcome nor ultimate liability resulting from any claims and litigation can be readily determined at this time. Accruals have been made when appropriate and management believes that any liability for such matters will, in any case, not have a material effect on the consolidated financial statements.

On January 28, 2004, the federal Environmental Protection Agency (EPA) sued the Cooperative alleging that physical or operating changes to three coal-fired generators resulted in simultaneous violations of the Prevention of Significant Deterioration provision of the Clean Air Act; the New Source Performance Standards of the Clean Air Act; and the State Implementation Plan for Kentucky, as approved by EPA.

The lawsuit seeks injunctive relief, and civil penalties of up to $25,000 a day before January 31, 1997, and $27,500 a day since then. The Cooperative denies the alleged violations, and maintains that it has complied with both federal and state requirements. This is the first significant violation cited by the government in the history of the organization. The Cooperative believes that when all the evidence is presented, the facts will bear out that the Cooperative complied with the requirements, and acted in good faith. The U.S. District Court in Lexington, Kentucky has jurisdiction of the case, and has established a procedural timetable for the litigation leading to a scheduled trial date of December 20, 2005.

In September 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at Spurlock Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $473 million.

In November 2004, the Board approved the construction of a 278-megawatt circulating fluidized bed baseload unit at the J.K. Smith Station. The cost of construction of the generating unit, including related interconnection facilities, will approximate $534 million.

In December 2004, the Board approved the construction of five gas-fired combustion turbines to be located at the Cooperative's J.K. Smith Power Station. The combustion turbines are expected to cost approximately $255 million. These combustion turbines are scheduled to become operational in 2007 and 2008.

The construction projects mentioned above are subject to KPSC approval.

(Continued)

NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Investment Securities: The fair values of investment securities are estimated based on quoted market prices for the same or similar investments.

Long-Term Accounts Receivable: The fair values of long-term accounts receivable are estimated based on quoted interest rates for similar maturities.

Notes Payable: The carrying amount approximates fair value because of the variable rate and payable on demand terms of the financial instrument.

Long-Term Debt: The fair value of the Cooperative's long-term debt that is practicable to estimate, is estimated based on the quoted market prices for the same or similar issues or on the current rates available to the Cooperative for debt of the same remaining maturities, including the appropriate redemption premium, if any.

The estimated fair values of the Cooperative's financial instruments are as follows (in thousands):

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 60,110	$ 60,110	$ 42,781	$ 42,781
Investment securities				
Available for sale	39,703	39,703	37,948	37,948
Held to maturity	22,548	21,664	15,423	13,493
Long-term accounts receivable	9,801	9,200	10,558	10,411
Financial liabilities				
Notes payable	$ -	$ -	$ 6,000	$ 6,000
Long-term debt	1,267,907	1,280,676	1,047,413	1,068,485

EAST
KENTUCKY
POWER
COOPERATIVE

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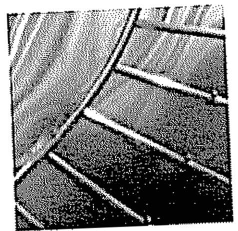
A Touchstone Energy Cooperative

East Kentucky Power Cooperative, Inc.

2003 Annual Report

2003 ANNUAL REPORT



A CLOSER LOOK

EAST KENTUCKY POWER COOPERATIVE

A Touchstone Energy Cooperative

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EAST KENTUCKY POWER COOPERATIVE

East Kentucky Power Cooperative (EKPC) is a not-for-profit generation and transmission (G&T) electric utility with headquarters in Winchester, Ky. EKPC provides wholesale energy, transmission and support services to 16 distribution cooperatives. Together, EKPC and the member cooperatives are known as Kentucky's Touchstone Energy Cooperatives.

The member distribution systems supply energy to meters serving nearly 479,000 Kentucky homes, farms, businesses and industries across 89 counties. The member systems are locally owned, operated and governed by the people who use their energy and services.

Financial Highlights

Five-Year Statistical Summary

	2003	2002	2001	2000	1999
Net Margins - $1,000	**$29,398**	$37,428	$30,418	$8,742	$7,083
TIER	**1.66**	1.95	1.81	1.23	1.19
DSC	**1.35**	1.73	1.76	1.45	1.34
Fuel Expense - $1,000	**$137,103**	$146,506	$132,044	$114,139	$114,879
Construction Expenditures -$1,000					
Generation	**$221,949**	$155,713	$137,155	$56,334	$8,550
Transmission	**$27,101**	$25,149	$18,691	$16,720	$17,434
General	**$12,762**	$9,649	$1,833	$3,205	$3,556
Investment In Facilities - $1,000					
Original Cost	**$1,810,211**	$1,558,890	$1,367,586	$1,210,372	$1,132,220
Long-Term Debt - $1,000	**$952,987**	$762,079	$688,839	$631,084	$630,477
Total Assets - $1,000	**$1,328,532**	$1,026,947	$912,811	$829,247	$796,961
Number of Employees - Full-Time	**599**	600	616	645	647
Cost of Coal Purchased					
$/ton	**$34.13**	$32.35	$32.93	$27.94	$28.01
$/MBtu	**$1.39**	$1.33	$1.36	$1.14	$1.13
Amount of Coal Purchased - tons	**3,615,196**	3,815,851	4,052,988	3,541,601	3,820,545
Generation - MWh	**9,061,760**	9,873,289	9,211,819	9,162,952	9,388,160
System Peak Demand - MW					
Winter Season	**2,589**	2,568	2,217	2,322	2,169
Summer Season	**1,996**	2,120	1,980	1,941	1,754
Sales to Other Utilities - MWh	**71,224**	513,874	899,286	770,747	840,778
Member Load Growth - %					
Energy	**0.7**	6.9	2.8	6.1	7.6
Demand	**(0.6)**	6.2	3.6	5.6	6.9
Load Factor - %	**51**	58	52	52	53
Miles of Line	**2,629**	2,607	2,579	2,560	2,551
Installed Capacity - kVA	**8,824,466**	8,722,747	8,637,947	8,583,147	8,473,947
Distribution Substations	**299**	292	284	276	265

EAST KENTUCKY POWER COOPERATIVE

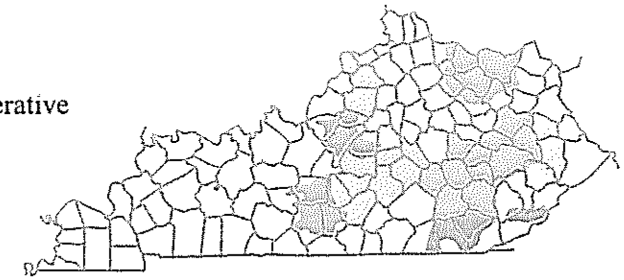
Financial Highlights (Dollars in Thousands)

	2003	2002	% Increase (Decrease)
Operating Revenue	**$447,124**	$429,489	4.1
Operating Expenses	**$384,888**	$358,907	7.2
Net Margins	**$29,398**	$37,428	(21.5)
Fuel Expenses for Generation	**$137,103**	$146,506	(6.4)
Purchased Power Cost	**$102,028**	$62,371	63.6
Interest Cost	**$45,069**	$39,577	13.9
Members' Equities	**$167,535**	$140,702	19.1
Construction Expenditures	**$261,812**	$190,511	37.4
Assets	**$1,328,532**	$1,026,947	29.4
Sales to Member Cooperatives (MWh)	**11,442,556**	11,352,094	0.8
System Peak Demand (MW)			
Winter Season	**2,589** *	2,568	0.8
Summer Season	**1,996**	2,120	(5.8)
Number of Member System Consumers	**478,944**	468,891	2.1

* set January 31, 2004

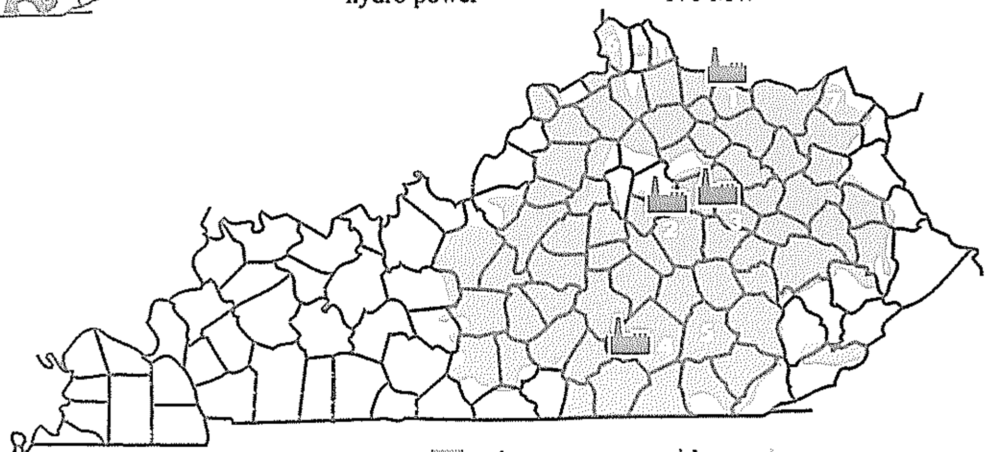
The 16 distribution cooperatives, which are called the member systems, own EKPC. The 16 co-ops include:

- Big Sandy RECC
- Blue Grass Energy Cooperative
- Clark Energy Cooperative
- Cumberland Valley Electric
- Farmers RECC
- Fleming-Mason Energy Cooperative
- Grayson RECC
- Inter-County Energy
- Jackson Energy Cooperative
- Licking Valley RECC
- Nolin RECC
- Owen Electric Cooperative
- Salt River Electric Cooperative
- Shelby Energy Cooperative
- South Kentucky Rural Electric
- Taylor County RECC



EAST KENTUCKY POWER GENERATION

1	Spurlock	850 net MW
2	Dale	196 net MW
3	Smith Combustion Turbine Units	Summer 478 net MW Winter 646 net MW
4	Cooper	341 net MW
Landfill Gas Plants		
5	Laurel Ridge	3.2 net MW
6	Bavarian	3.2 net MW
7	Green Valley	2.4 net MW
Southeastern Power Adm. (SEPA), hydro power		170 MW



shows system wide service area

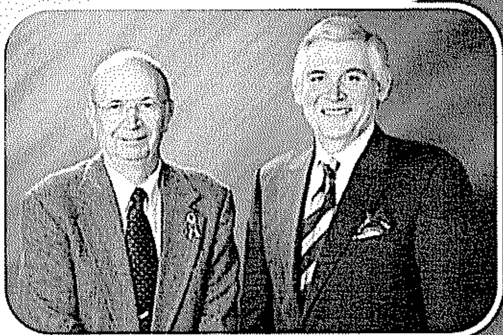
A Letter from the Chairman and CEO

Touchstone Energy℠

Often times, the details make all the difference.

If you take a closer look at the advances EKPC made in 2003, you'll find that these details included everything from the construction of renewable energy plants to helping remedy damage caused by a destructive ice storm. It was a year in which the details - components, ideas, people - made all the difference for our organization.

In 2003, the ideas and efforts of our employees and member systems helped encourage both external and internal growth.



from left:
Delno Tolliver, *Chairman of the Board*
Roy Palk, *President and CEO*

EAST KENTUCKY
POWER COOPERATIVE

A closer look at 2003 achievements:

- EKPC continued its trend of improved system reliability.

- Work on Spurlock Station's new E.A. Gilbert Generating Unit continued toward an April 2005 completion.

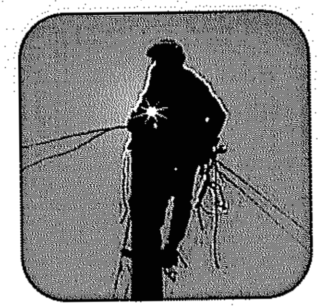
- EKPC opened Kentucky's first renewable energy plants.

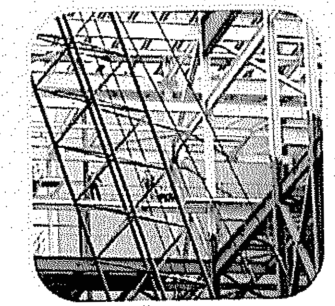
- EKPC implemented a plan to optimize the skills and talents of our employees.

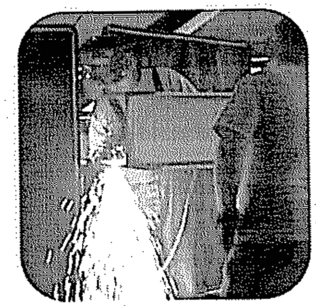
Hard work. Dedication. Commitment.

Our employees and members took these three values to heart in 2003, and in the process put into motion a series of projects and plans that will undoubtedly create positive, rewarding possibilities for EKPC and the future of its member systems.

As you read through the following material, take a closer look at EKPC - you'll find that our organization is moving toward a brighter, more prosperous future.







Delno Tolliver
Delno Tolliver,
Chairman of the Board

Roy M. Palk
Roy Palk,
President and CEO

Year in Review

A CLOSER LOOK

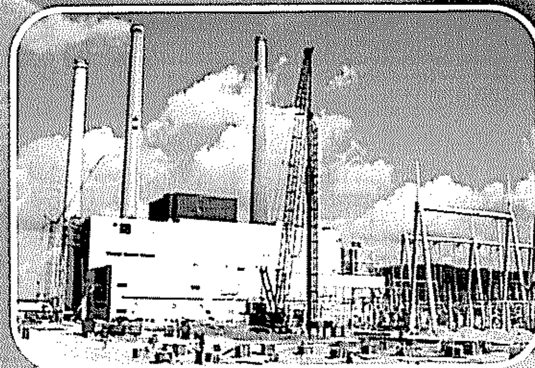
Work On Gilbert Unit Progresses

By the end of 2003, nearly 75% of the construction on the Gilbert Unit at Spurlock Station in Maysville, Ky. had been completed.

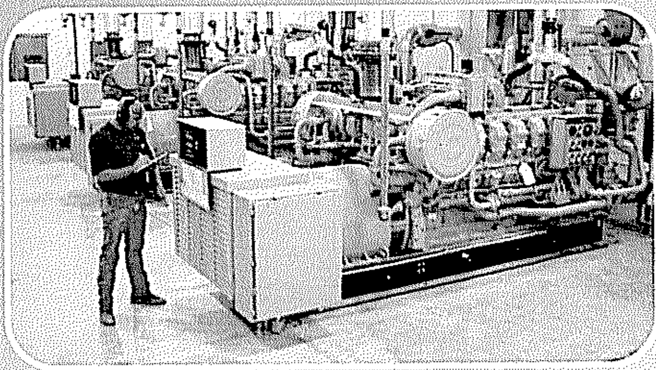
Named in honor of long-time EKPC Board Member E.A. "Ned" Gilbert, the $400 million unit will produce 268 megawatts of power when it goes commercial in the spring of 2005. That's enough electricity to power the homes in 30 cities the size of Maysville.

Nearly 700 people are involved in the construction of the unit. Based on a $20 million annual payroll, the jobs are providing a major economic boost to Mason County and the surrounding region. Approximately 35 additional employees will be hired to operate the unit.

The 345 kilovolt transmission project for the Gilbert Unit, which extends from Spurlock Station into Ohio, was approved by the Kentucky Public Service Commission, and subsequently, the Ohio Plant Siting Board in 2003.



Construction on the new Gilbert Unit



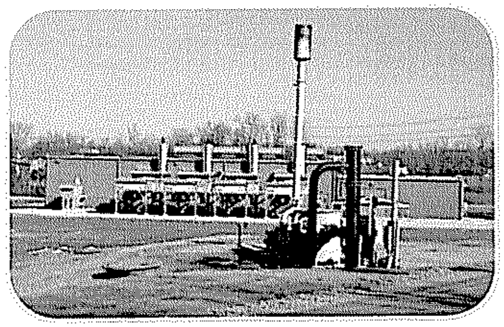
Kentucky's First Landfill Gas Plants Open

2003 was an innovative year at EKPC. The Cooperative dedicated Kentucky's first renewable energy plants, which produce electric power from methane collected from decaying municipal waste. At most landfills, the methane is either emitted into the atmosphere or burned off. The three new plants (located at the Bavarian Landfill in Boone County, the Laurel Ridge Landfill in Laurel County and the Green Valley Landfill in Greenup County) produce clean, renewable energy.

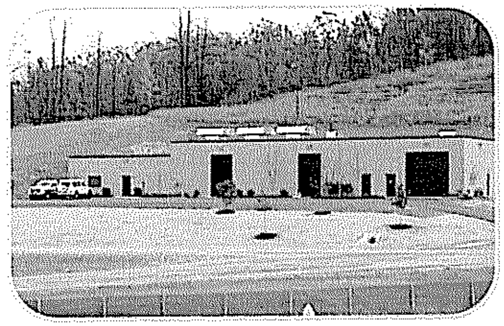
The energy from these plants is enough renewable electric power for EKPC members to supply about 7,000 Kentucky homes. Each plant cost about $4 million to build, and as a result of the plants beginning production, EKPC now ranks as one of the leaders in renewable energy production in the southeastern United States.

Participating member systems market the output of the landfill gas plants through a renewable energy program called EnviroWatts. This program provides retail customers the option of obtaining all or a portion of their monthly electric supply from renewable energy sources. At the end of 2003, 13 EKPC member co-ops had adopted the program.

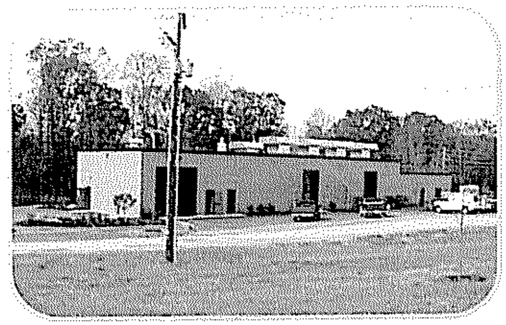
Bavarian



Green Valley



Laurel Ridge



EKPC Adds Two Combustion Turbines to J.K. Smith Station

In January 2004, the PSC granted EKPC permission to construct two additional combustion turbine units at J.K. Smith Station.

During 2003, EKPC worked to finalize an agreement on the purchase of the two CTs from Calpine, a company based in San Jose, Calif. The new CTs will assist EKPC in meeting growing demand for power on the system.

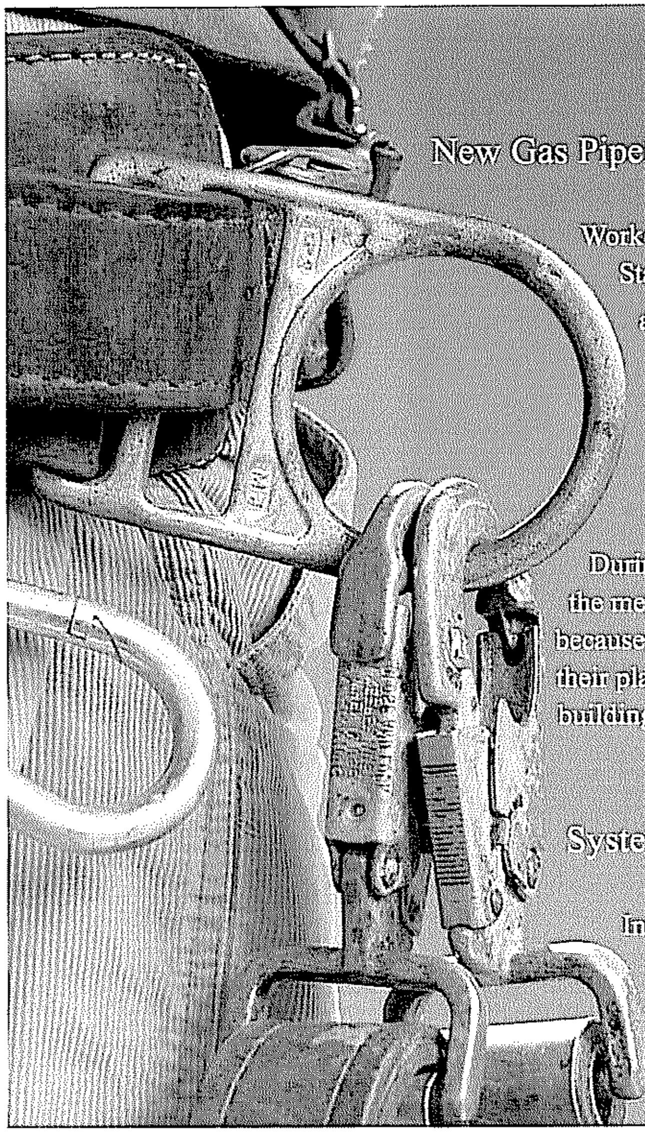
EKPC needs approximately 200 megawatts of additional capacity by winter 2004-2005. The two General Electric combustion turbine units each provide up to 80 megawatts of power in the summer and up to 100 megawatts during the winter. Smith Station currently provides 478 net megawatts of peaking capacity in the summer and 646 net megawatts during the winter.

Construction began during the spring of 2004 with the units scheduled to be in operation by December 2004.

Substation construction

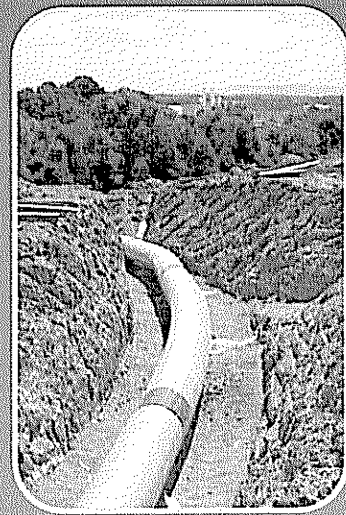
System Continues Rapid Expansion

The hectic pace of building new substations and lines on the EKPC system continued during 2003. By the end of December, Power Delivery Expansion teams completed 7 new substations, almost 31 miles of new transmission lines and taps, and nearly 50 miles of reconductors.



New Gas Pipeline Built at Smith

Workers completed construction on a new underground gas pipeline to Smith Station in 2003. The new line is almost seven miles long and gives EKPC an additional source of natural gas for the combustion turbines at Smith Station.

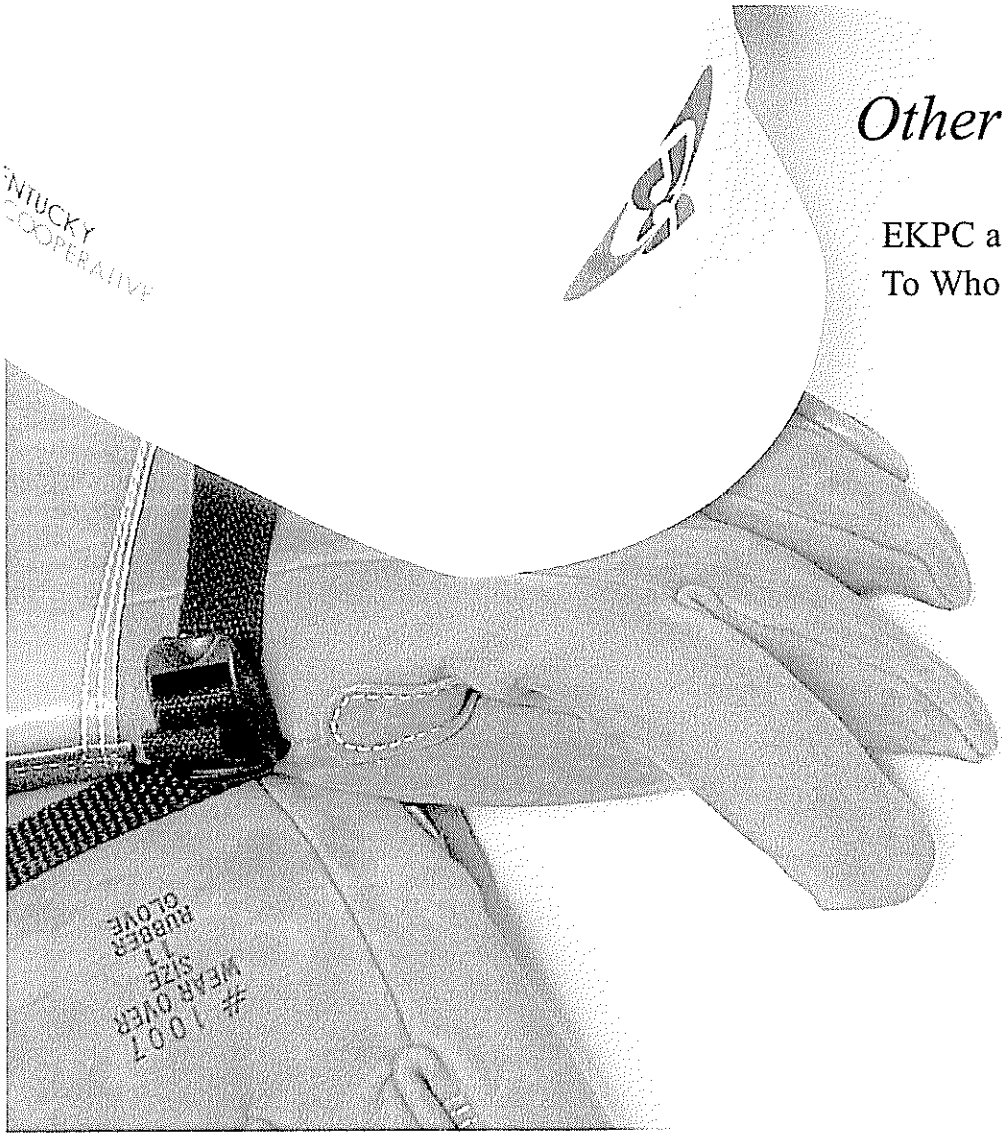


EKPC Assists Firms in Job Creation

During 2003, EKPC assisted in the addition or expansion of 29 industries served by the member systems. As a result, there will be approximately 1,480 new jobs created because of these facilities. These companies will use approximately 21 megawatts in their plants and will invest nearly $190 million into the Kentucky economy for land, buildings and equipment.

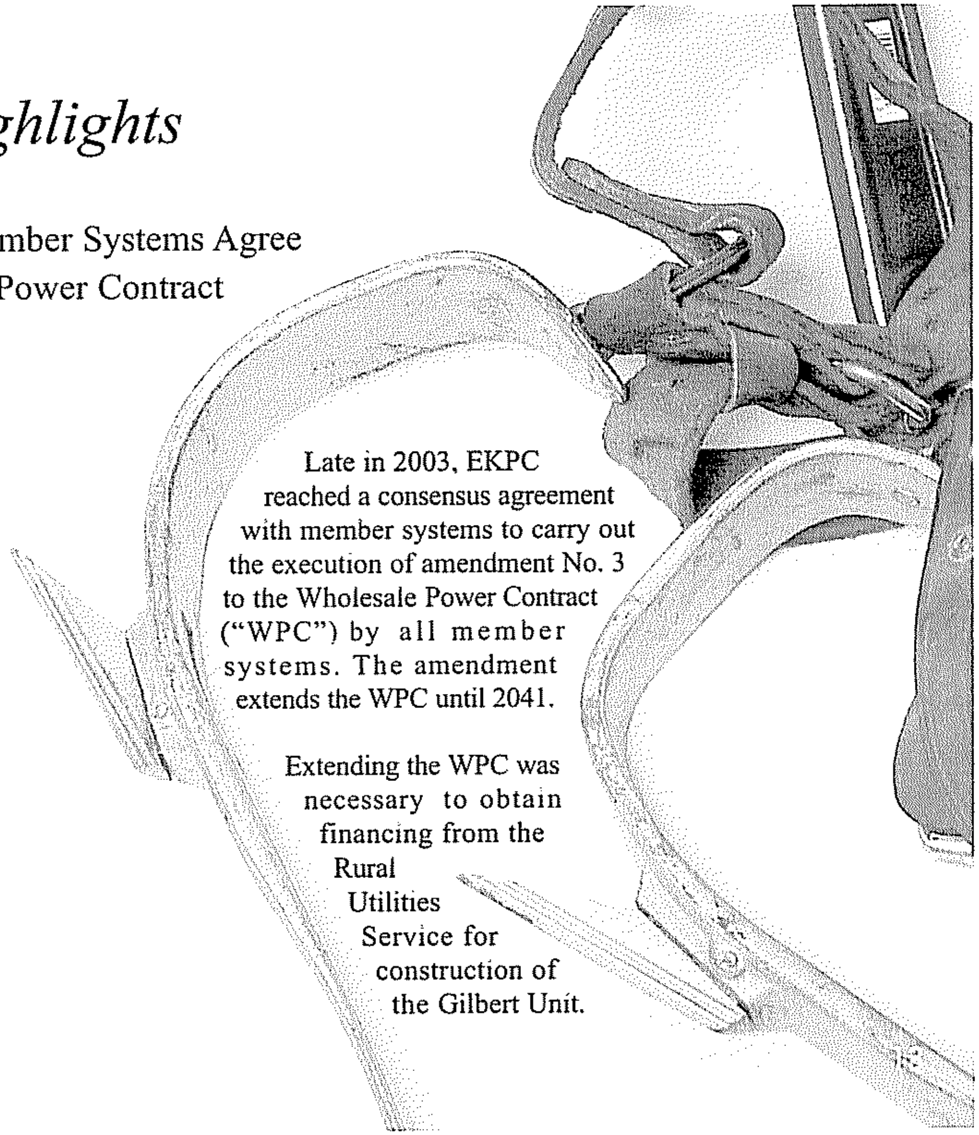
System Reliability Stays High

In 2003, system reliability was the best ever for EKPC. The average system load was out of service 16 minutes in 2003. This is 8 minutes below the target performance for the year.



Other Highlights

EKPC and Member Systems Agree To Wholesale Power Contract



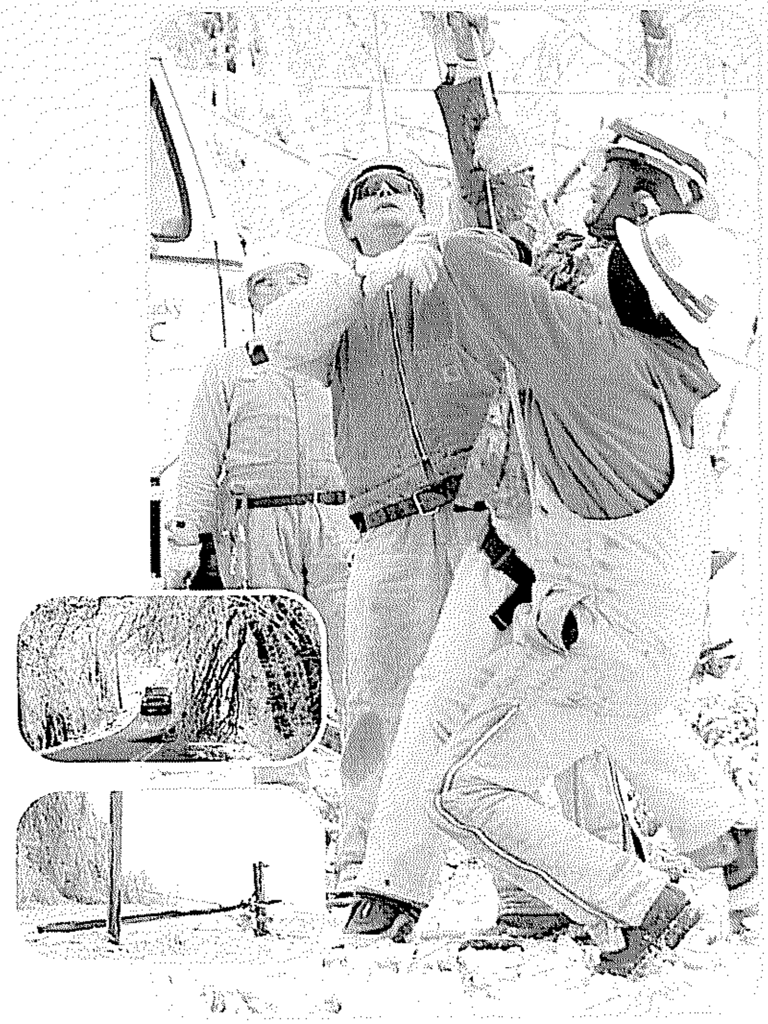
Late in 2003, EKPC reached a consensus agreement with member systems to carry out the execution of amendment No. 3 to the Wholesale Power Contract ("WPC") by all member systems. The amendment extends the WPC until 2041.

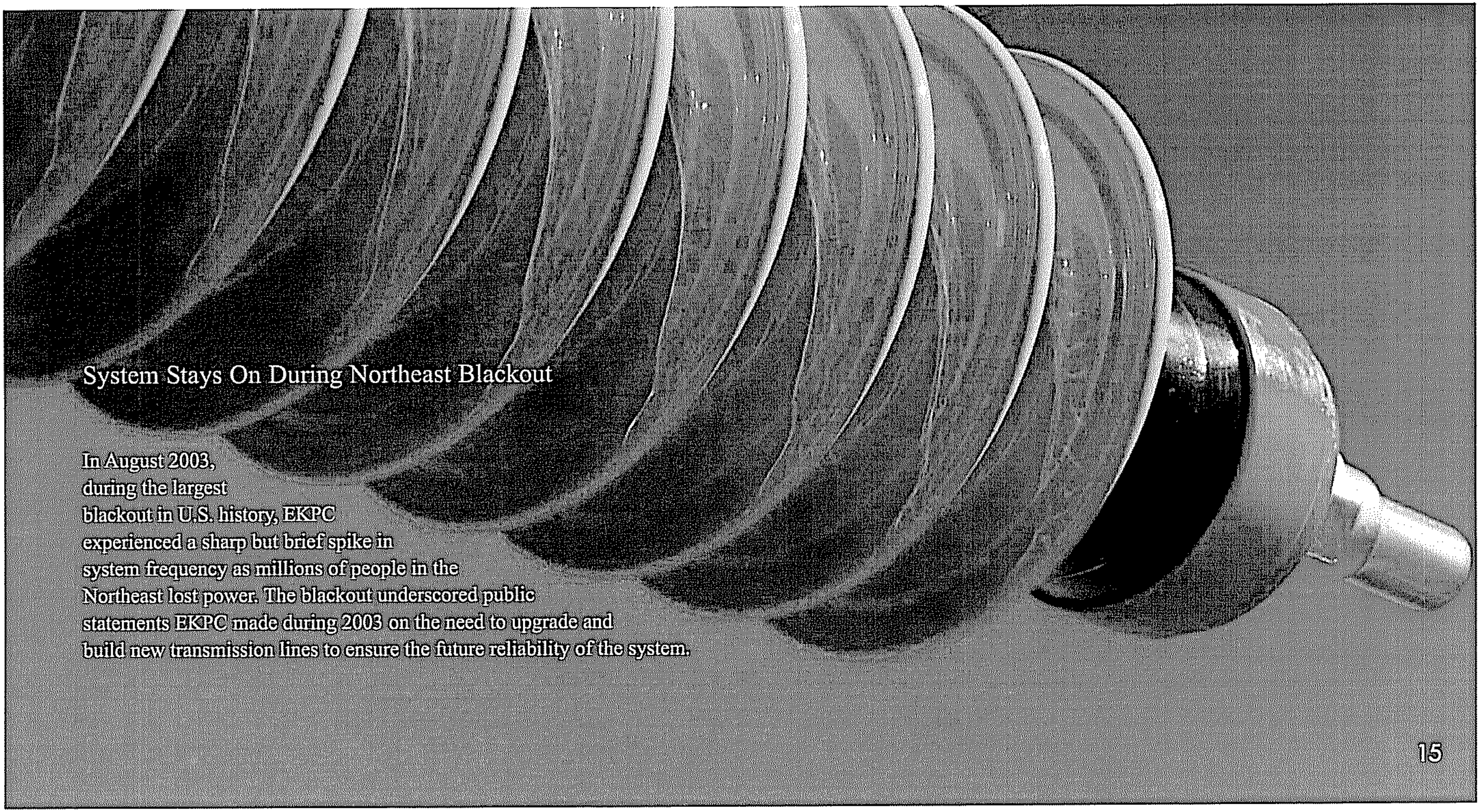
Extending the WPC was necessary to obtain financing from the Rural Utilities Service for construction of the Gilbert Unit.

2003 Ice Storm Makes An Impact

On Saturday, February 15, 2003, an ice storm took its toll on everything from trees and streets to rooftops and powerlines, leaving thousands of member distribution system customers without power. Crews from EKPC and member systems worked around the clock for days to brave the elements and make the repairs necessary to restore power.

Our ASUI (Average Service Unavailability Index) was also exceptionally good in 2003. EKPC hit 35 minutes (average system unavailability), including the storm, compared to 59 minutes in 1998 and 165 minutes in 1994 – our two previous major storm years.



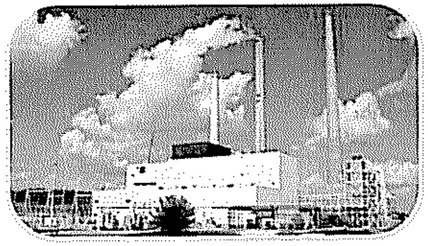


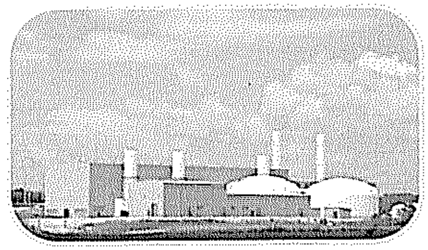
System Stays On During Northeast Blackout

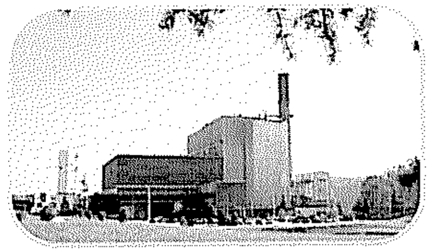
In August 2003, during the largest blackout in U.S. history, EKPC experienced a sharp but brief spike in system frequency as millions of people in the Northeast lost power. The blackout underscored public statements EKPC made during 2003 on the need to upgrade and build new transmission lines to ensure the future reliability of the system.

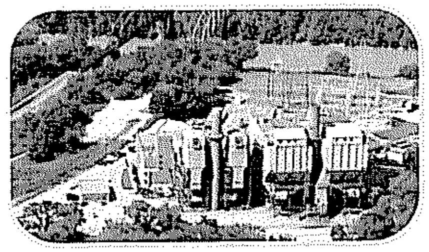
Units Generation Figures

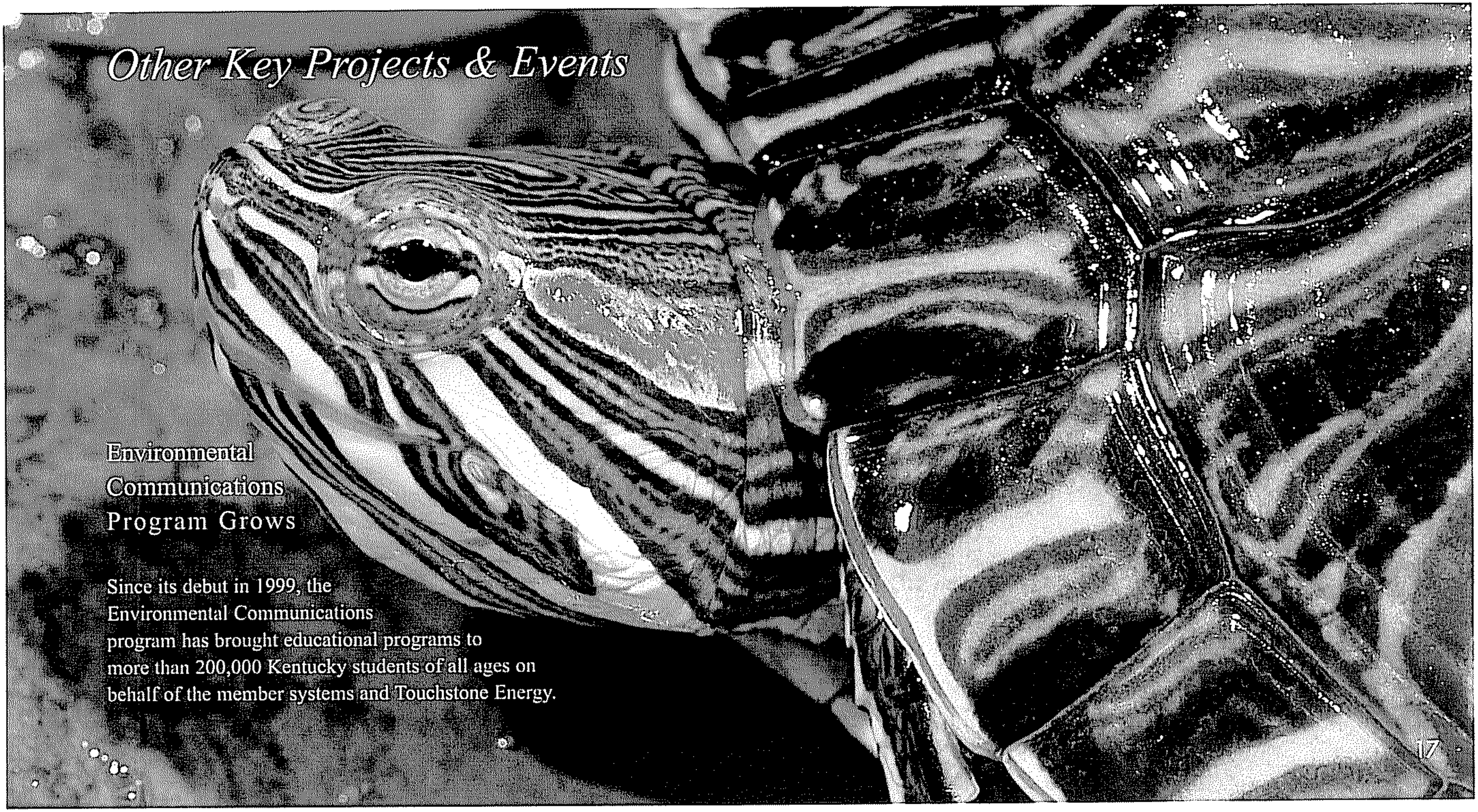
In 2003, EKPC posted generation of 9,061,760 net MWh. Dale Station generated 1,201,176 net MWh. Cooper Station generated 1,867,679 net MWh, while Spurlock Station produced 5,842,487 net MWh and Smith Station generated more than 138,563 net MWh. EKPC's three new landfill gas plants generated 11,855 MWh in 2003.


Spurlock


J.K. Smith


Cooper


Dale



Other Key Projects & Events

Environmental Communications Program Grows

Since its debut in 1999, the Environmental Communications program has brought educational programs to more than 200,000 Kentucky students of all ages on behalf of the member systems and Touchstone Energy.

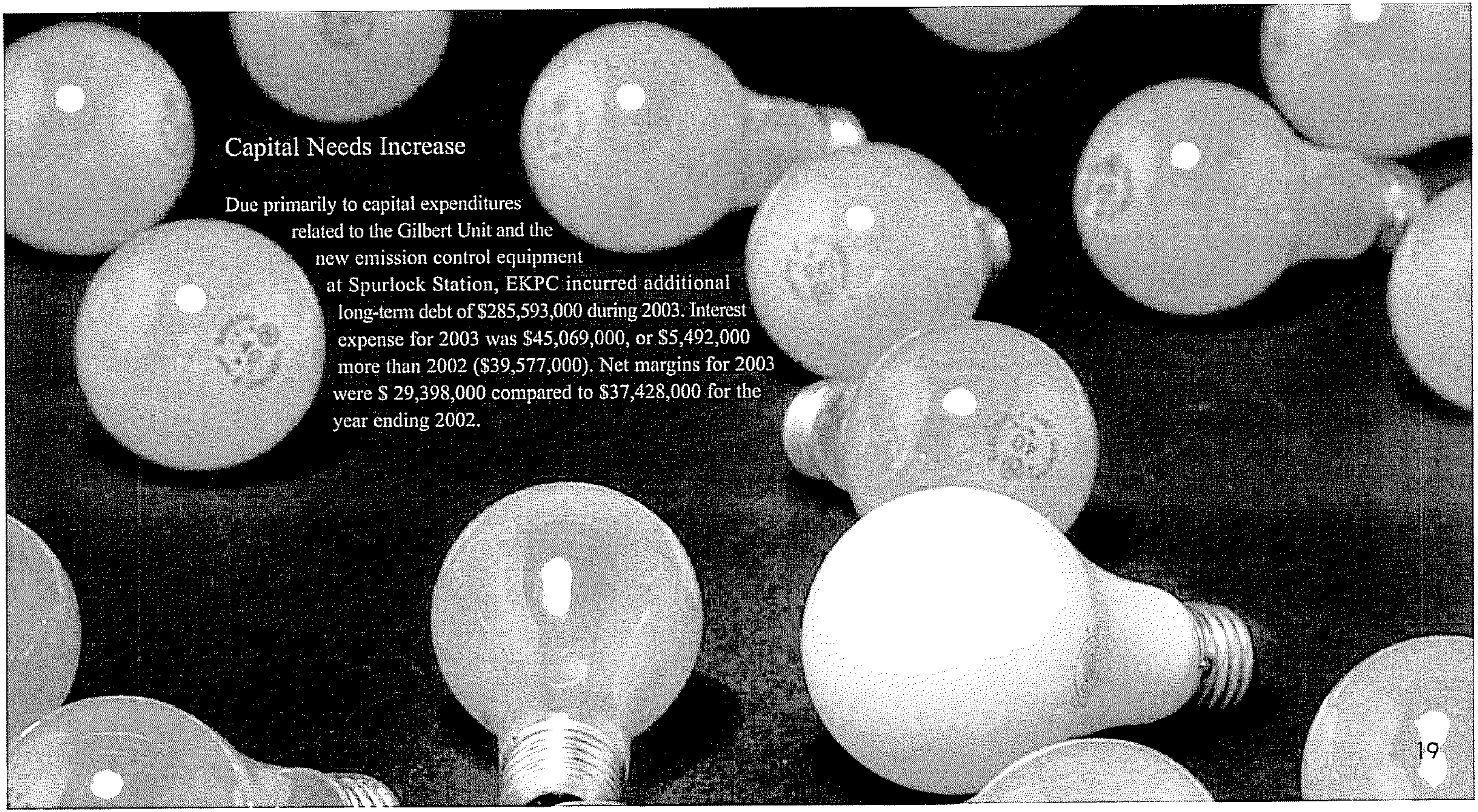
Biologists representing Kentucky's Touchstone Energy Cooperatives teach the importance of protecting native plants and animals. The presentations are so popular that reservations are made more than one year in advance.

During Earth Day 2003 at the Louisville Zoo, thousands of people packed the Celebrate the Earth program, which was sponsored by the co-ops and Touchstone Energy. Visitors learned about the need to protect Kentucky's natural treasures and received co-op posters of the Dragonflies of Kentucky.

ACES Power Marketing Adds Five New Members

In January 2003, ACES Power Marketing ("APM") announced that Hoosier Energy Rural Electric Cooperative and Southern Maryland Electric Company had joined 12 other electric cooperative power suppliers as an equal owner in APM, a services and power marketing alliance of generation and transmission cooperatives. With these additions APM has increased in size to 14 full member/owners, including EKPC.

CELEBRATE THE EARTH
EARTH DAY 2003



Capital Needs Increase

Due primarily to capital expenditures related to the Gilbert Unit and the new emission control equipment at Spurlock Station, EKPC incurred additional long-term debt of $285,593,000 during 2003. Interest expense for 2003 was $45,069,000, or $5,492,000 more than 2002 ($39,577,000). Net margins for 2003 were $ 29,398,000 compared to $37,428,000 for the year ending 2002.

Rates Task Force Formed

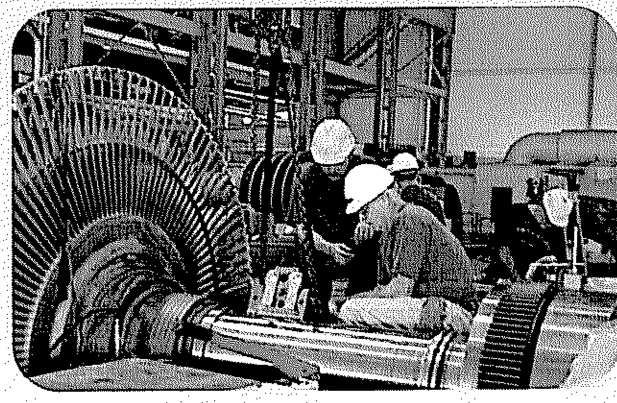
In May 2003, a task force composed of directors, member system managers and EKPC personnel was formed to conduct a comprehensive review of EKPC's wholesale rates to its member systems. The task force was established to evaluate rate options and to ensure that rates are equitable to all member systems. Recommendations are expected in 2004.

PSC Approves Touchstone Energy Home Program

The PSC approved a new program for member systems that features an energy efficient home that provides up to a 30 percent decrease in monthly electric bills. Called Touchstone Energy Home, the program provides a rebate for customers who build a new home with more efficient water heaters, better insulated windows, and extra insulation in the floors, walls and attic.

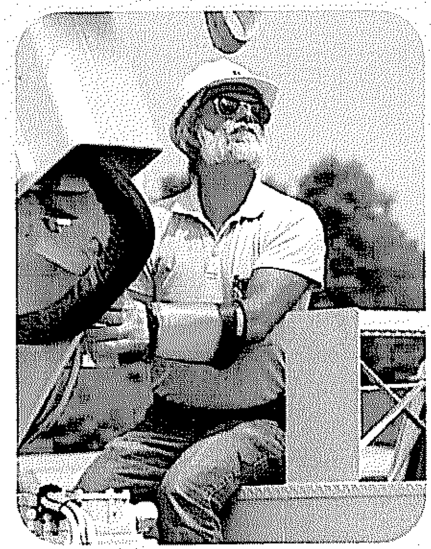
Creating Staff Optimization

During the Leadership Team meeting in August 2003, the Leadership Team decided that future staff levels would be flexible, depending upon performance goals and business needs.



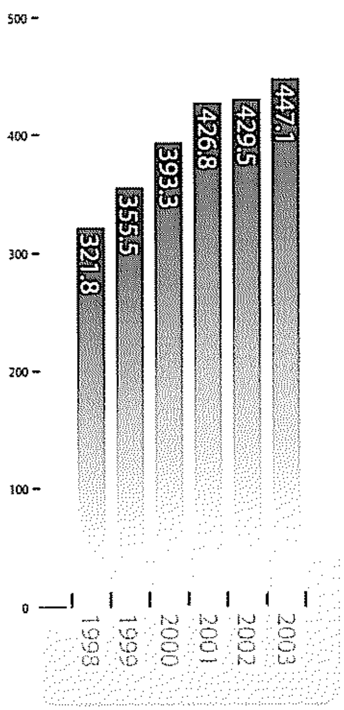
Crews Maintain Excellence In Performance

Maintenance crews established new levels of performance in regulator repair and maintenance. Crews also significantly exceeded their goals for cross arm replacements, danger tree removal and right-of-way spraying.

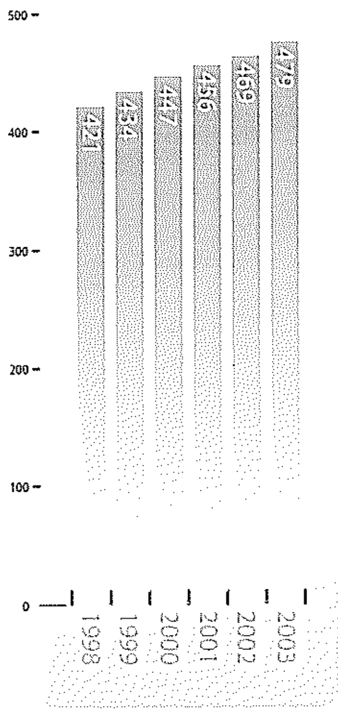


Financial Highlights

Operating
Revenue
in $Millions



Member Consumer
Meters
Year-End in Thousands



Operating Revenue, Expenses And Margins

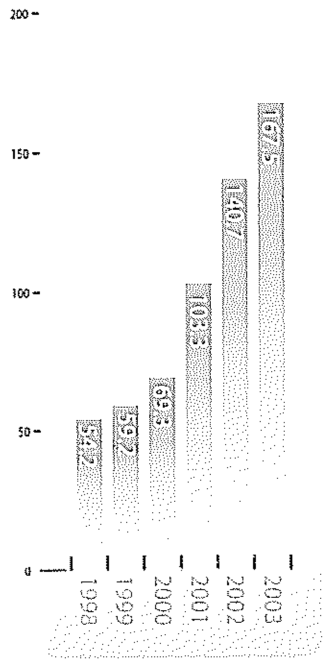
Revenue from sales to East Kentucky's member distribution cooperatives was $441.1 million during 2003, an increase of 7.0 percent compared to 2002. Revenue per kilowatt-hour was 38.54 mills, compared to 36.32 mills in 2002. Revenue from off-system sales was $3.2 million in 2003, compared with $15.0 million in 2002.

Total operating revenue increased by 4.1 percent to $447.1 million. Total operating expenses increased by 7.2 percent to $384.9 million in 2003, compared with $358.9 million in 2002. Fuel expense was $137.1 million in 2003, a decrease of 6.4 percent. Purchased power costs increased 63.6 percent to $102.0 million compared with $62.4 million in 2002.

Other production expenses decreased to $32.2 million from $34.0 million in 2002. Other operating expenses increased to $44.6 million from $40.8 million in 2002. Depreciation expense decreased to $31.2 million from

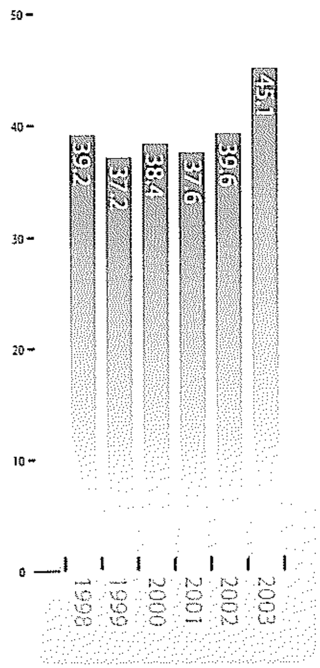
Members' Equities

Year-End in $Millions



Interest Cost

in $Millions



$45.1 million in 2002. During 2003, the Cooperative extended the useful life of both the Cooper and the Spurlock Power Stations. This change in the estimated useful lives of these plants reduced 2003 depreciation expense by approximately $12.6 million. Maintenance expense was $37.9 million compared to $30.2 million in 2002.

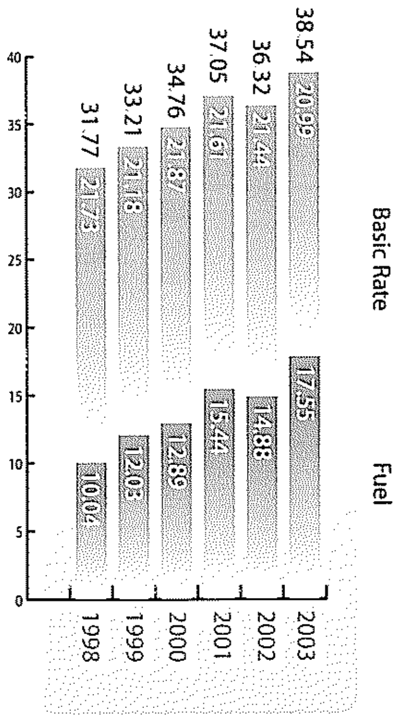
Interest expense increased to $45.1 million in 2003 from $39.6 million in 2002. East Kentucky had a margin of $29.4 million in 2003, compared with a margin of $37.4 in 2002.

Member System Sales

Sales to the member systems were 11.4 million megawatt-hours in 2003, an increase of less than 1 percent over 2002. The coincident system peak for the 2003 summer period was 1,996 MW on August 14. The 2003-2004 winter season system peak was 2,589 on January 31, 2004. The annual load factor based on coincident system peak was 51% in 2003.

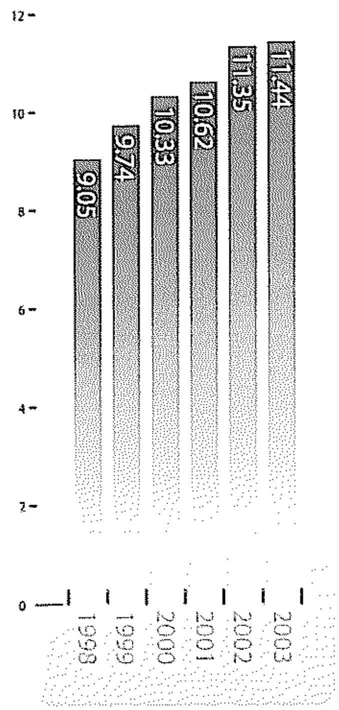
Power Cost to Members

Mills/kWh



Energy Sales to Members

MWh in Millions



Interchange Power Transactions

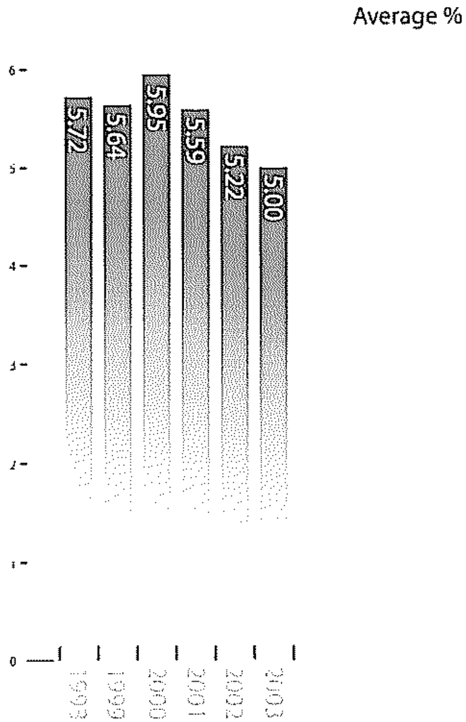
Off-system sales were 71.2 thousand megawatt-hours in 2003, compared with 513.9 thousand megawatt-hours in 2002. Power purchases were 2.8 million megawatt-hours in 2003.

Generation Of Power

East Kentucky has coal fired generating facilities at Dale Station in Clark County, Cooper Power Station in Pulaski County, and Spurlock Station in Mason County. Generation from these coal-fired units are supplemented during peak times by combustion turbines at the Smith Generating Facility in Clark County. Generation is also provided by three landfill gas generators. East Kentucky's generating facilities produced 9.06 million megawatt-hours in 2003, compared with 9.87 in 2002.

East Kentucky's power stations burned 3.69 million tons of coal in 2003, compared with 4.02 tons in 2002. The cost of coal burned during 2003, including handling, was \$1.351 per million Btu, or \$33.23 per ton. The cost of coal purchased during 2003 was \$1.39 per million Btu or \$34.13 per ton.

Average Interest Rate on Long-Term Debt Year-End



The combustion turbines at the Smith Generating Facility consumed 2.0 million gallons of oil with a cost of $0.603 per gallon or $4.348 million Btu. The combustion turbines also consumed 1,600,041 MCF of natural gas with a cost of $6.70 per MCF.

Dale Units 3 and 4 consumed 7,759.4 emission allowances, Cooper Station Units 1 and 2 consumed 20,595.5 emission allowances, Spurlock Station Units 1 and 2 consumed 40,362.4 emission allowances and J. K. Smith Units 1, 2, 3, 4, and 5 consumed 10.9 emission allowances during 2003.

Interest Costs

Gross interest expense was $45.1 million. The prime rate decreased from 4.25 percent to 4.00 percent during 2003. During the year, Federal Financing Bank (FFB) interest rates for long-term advances increased from 4.88 percent to 4.93 percent.

Of the total $1,047.4 million debt outstanding, current interest rates range from a low of 2.00 percent to a high of 10.66 percent for 2003. The average annual rate on all debt decreased from 5.220 percent in 2002 to 5.002 percent in 2003.

Virtually all of East Kentucky's outstanding FFB debt has been converted to long-term fixed rates. Because of favorable rates in the tax-exempt bond market, a total of $135.6 million of pollution control and solid waste disposal revenue floating/fixed rate bonds is being kept in the variable rate mode. This rate averaged 1.28 percent for 2003.

General Funds

Due to large expenditures for power production construction projects and the significant amount of loan advances, East Kentucky was able to maintain its general fund level throughout 2003. The general funds balance is being invested in interest-bearing securities, including some medium-term bonds maturing in future years.

Glossary
of Utility Terms

ACES Power Marketing (APM).
A services and power marketing alliance of generation and transmission cooperatives.

Availability.
The total percentage of time generating units are available for service, whether being operated or not. It is used to measure the reliability of utility generating facilities.

Baseload Generation.
Units normally operated to serve loads on an around-the-clock basis.

Brand.
An advertising term that describes an organization's image with the public.

British Thermal Unit (Btu).
A measure of heat content in fuels.

Bulk Power.
Large amounts of electricity that are transmitted over high-voltage lines.

Bundling.
Combining all costs into one rate, as opposed to separate charges for generation, transmission and energy services.

Capacity.
The limit at which a generating unit or station can produce electricity for extended periods.

Clean Air Act.
The federal law that places strict limits on emissions such as sulfur dioxide by utilities.

Combustion Turbine.
A turbine powered by natural gas or fuel oil that usually generates electricity at times when system demand is highest.

Distribution Substations.
Point of delivery of electricity from the G&T to the distribution cooperative, where the voltage of electricity is reduced prior to distribution to customers.

Electricity.
Energy that can easily be converted into light, heat and power; the motion of electrons through a conductor.

Environmental Protection Agency (EPA).
U.S. government agency that oversees environmental regulations such as federal rules on emissions of nitrogen oxide by utilities.

Federal Energy Regulatory Commission (FERC).
A government agency which regulates the transmission of natural gas, oil by pipeline and wholesale sales of electricity in interstate commerce.

Generation and Transmission Cooperative.
G&Ts are not-for-profit organizations that generate and transmit electric energy to distribution systems. The distribution systems, which sell the energy to retail customers, own the G&T.

Independent System Operator (ISO).
An independent organization that controls the bulk transmission system and schedules the use of the system for many utilities instead of each company doing its own scheduling.

Kilowatt.
1,000 watts, which are the standard measure of electrical power.

Kilowatt-hour (kWh).
One thousand watts for one hour. The basic unit measuring electric power consumption.

Load.
The amount of electric power required to meet customer demand in a given period of time.

Megawatt.
1,000 kilowatts.

Member Systems.
Individual cooperatives that own the G&T. The systems buy wholesale energy from the G&T, and then sell energy and services to retail customers.

National Rural Utilities Cooperative Finance Corporation (NRUCFC).
A cooperative that provides financing and a full range of financial services to its more than 1,000 member systems and affiliates.

Off-system Sales.
Sales of surplus energy by the G&T to entities other than its member systems.

Peaking Units.
Generating units that assist in serving electrical loads that occur during the periods of greatest customer demand.

Regional Transmission Organization (RTO).
Coordinates bulk power transactions for a regional group of transmission system owners, instead of each system dispatching such transactions individually.

Reliability.
A measure of how much a utility provides dependable power while minimizing outages and blinks.

Rural Utilities Service (RUS).
A program that improves the quality of life in rural America through a variety of loan and grant programs in electric energy, telecommunications and water and waste water disposal.

Selective Catalytic Reduction (SCR).
Equipment that removes nitrogen oxide from combustion gases before discharge into the atmosphere.

Service Territory.
An area in which a utility is required or has the legal right to supply electric service to retail consumers.

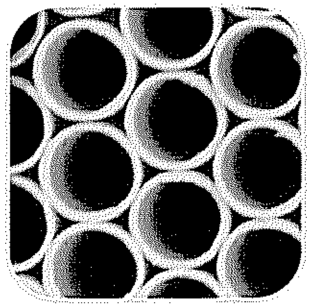
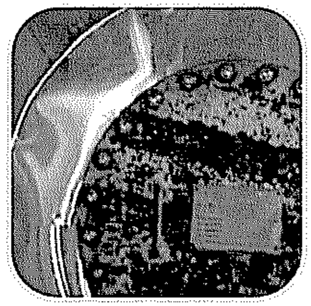
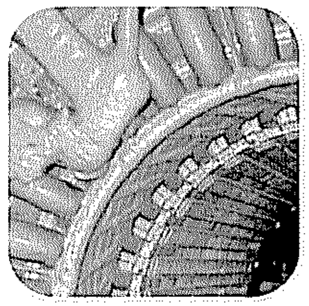
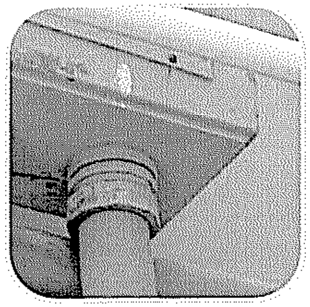
Southeastern Electric Power Administration - SEPA.
Quasi government entity that markets hydro electric power from US Army Corps of Engineers-owned dams in the southeastern United States.

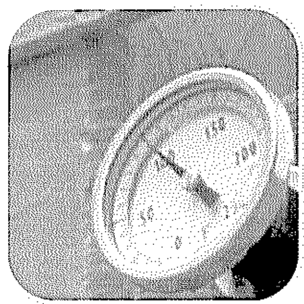
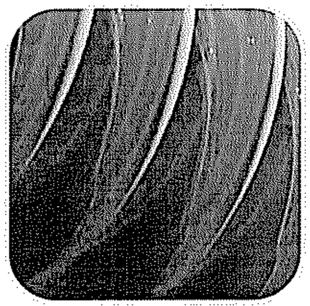
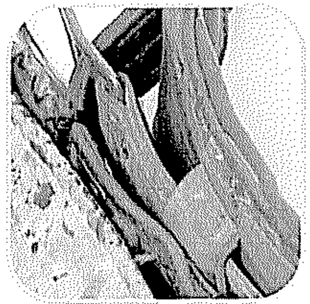
Supervisory Control and Data Acquisition - SCADA.
A computer system that monitors and provides remote control of substation devices and equipment. The technology can improve system reliability.

Substation.
Equipment that switches, changes or regulates electric voltage.

Tariff.
A published collection of rate schedules, and terms and conditions for use of service.

Touchstone Energy.
The marketing brand that electric cooperatives across the nation have adopted. More than 600 cooperatives have joined the alliance.

Paul Atchison

POWER DELIVERY

Responsible for the transmission system from the generating plant substation through the distribution substation. This includes transmission planning, dispatch, engineering, construction, operations and maintenance.

Randy Dials

POWER PRODUCTION

Responsible for operation and maintenance of the generating facilities, design engineering and construction of new generation, sustaining plant equipment through production engineering, fuel procurement, environmental affairs and generation dispatch.

Gary Crawford

MEMBER SERVICES

Responsible for providing value added support to the member systems in the areas of marketing, communications, market research, environmental communications, Envision Energy Services, and business development, including economic development and non-traditional power projects.

Dale W. Henley

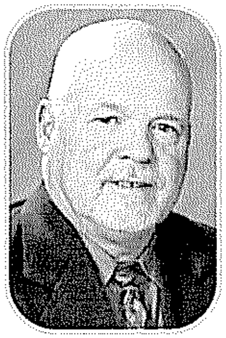
LEGAL

Provides corporate-wide legal guidance and counsel to ensure maximum protection of the Cooperative's legal rights and further ensures that operations are within the limits prescribed by law.

Barry Mayfield

GOVERNMENTAL AFFAIRS

Oversees governmental relations at both the national and state levels, which includes monitoring all pertinent legislation and ensuring that cooperative principles are protected and enhanced.



David G. Eames

FINANCE AND PLANNING

Responsible for accounting, budgeting, treasury management, risk management, business insurance, materials management, auditing, strategic planning, resource planning, pricing and research and development.

Doug Oliver

HUMAN RESOURCES AND SUPPORT SERVICES

Responsible for human resources, administrative services, records management, travel and meetings, headquarters facilities and information technology.

OPERATIONS, SERVICES & SUPPORT COMMITTEE

Studies, advises and makes recommendations on matters relating to the overall management of the Cooperative, including the annual budget, work plan, financial programs, marketing & member support and other corporate functions.

BOARD MEMBERS


Licking Valley RECC

Mike Adams


Jackson Energy

Fred Brown


Salt River Electric

Jimmy Longmire

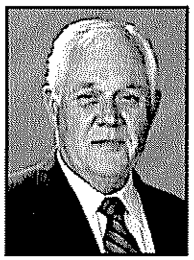

South Kentucky Rural Electric

Rick Stephens


Shelby Energy
Vice-Chairman

Wayne Stratton

SYSTEM MANAGERS


Clark Energy

Overt Carroll


Big Sandy RECC

Bobby Sexton


Inter-County Energy

Jim Jacobus


Nolin RECC

Mickey Miller


Fleming-Mason Energy

Tony Overbey

FUEL & POWER SUPPLY COMMITTEE

Makes recommendations on matters related to fuel and power supply, including fuel procurement, generation planning and other matters.

BOARD MEMBERS


Inter-County Energy

Danny Divine


Clark Energy

Jack Ginter


Farmers RECC

C.F. Martin


Owen Electric
Secretary-Treasurer

Sam Penn


Nolin RECC

A.L. Rosenberger


Fleming-Mason Energy

Lonnie Vice

SYSTEM MANAGERS


Blue Grass Energy

Dan Brewer


Licking Valley RECC

Bill Duncan


Grayson RECC

Carol Fraley


Cumberland Valley Electric

Ted Hampton


Taylor County RECC

Barry Myers

POWER DELIVERY COMMITTEE

Responsible for transmission and power delivery, including transmission planning, system reliability, telecommunications and other functions.

BOARD MEMBERS


Grayson RECC

Donnie Crum


Taylor County RECC

P.D. Depp


Blue Grass Energy

E.A. Gilbert


Big Sandy RECC

Wade May


Cumberland Valley Electric
Chairman

Delno Tolliver

SYSTEM MANAGERS


South Kentucky Rural Electric

Allen Anderson


Shelby Energy

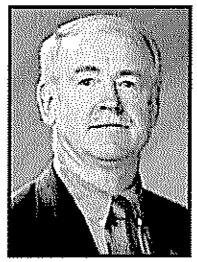
Dudley Bottom


Farmers RECC

Jackie Browning


Salt River Electric

Larry Hicks


Owen Electric

Bob Marshall


Jackson Energy

Don Schaefer

AUDIT COMMITTEE

Responsible for assisting the board in performing its oversight responsibilities by recommending the external auditor to conduct the annual financial audit, reviewing the findings of the annual financial audit, and performing other duties as outlined in the Audit Committee Charter.

BOARD MEMBERS


Nolin RECC

A.L. Rosenberger


Shelby Energy
Vice-Chairman

Wayne Stratton

SYSTEM MANAGERS


Salt River Electric

Larry Hicks


Inter-County Energy

Jim Jacobus

Report
of Management

The accompanying consolidated financial statements of East Kentucky Power Cooperative, Inc. and Subsidiary were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgements and estimates. The other financial information included in this Annual Report is consistent with the consolidated financial statements.

The Cooperative maintains a system of internal controls, including accounting controls. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. The Cooperative believes that its system of internal controls provides reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that financial records are reliable for use in preparing financial statements.

The consolidated financial statements have been audited by the Cooperative's independent certified public accountants, Crowe Chizek and Company LLC, whose opinion appears on the next page.

The Board of Directors, through its Audit Committee consisting solely of outside directors and member system managers, meets with Crowe Chizek and Company LLC and representatives of management to review their activities and to discuss accounting, auditing and financial matters and the carrying out of responsibilities and duties of each group. Crowe Chizek and Company LLC has full and free access to meet with the Audit Committee to discuss their audit results and opinions, without management representatives present, to allow for complete independence.

Roy M. Palk   David G. Eames

Roy M. Palk
President and CEO

David G. Eames
Vice President, Finance and Planning

Click here for the
Consolidated Financial Statements

Touchstone Energy®
Cooperatives

Touchstone Energy is an alliance of local, consumer-owned utilities across the country committed to providing superior service at affordable rates to all customers large and small.

There are more than 600 Touchstone Energy cooperatives in 45 states, serving more than 17 million customers every day, making Touchstone Energy the largest utility network in the nation.

In 2003, Kentucky's Touchstone Energy Cooperatives sponsored the All "A" Classic, which showcases student competitions in art, music, academics, cheerleading, ROTC drill teams, baseball, softball and basketball for the small high schools in Kentucky.

All members of the alliance are committed to serving our member-owners with:

Integrity

Accountability

Innovation

Commitment to Community

EAST
KENTUCKY
POWER
COOPERATIVE

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A Touchstone Energy Cooperative