

We are pleased to report that the KIUC results of operations through December 31, 2004 remained strong. Total revenues, expenses and net income totaled \$118.9 million, \$106.3 million, and \$12.6 million, respectively, for the twelve-month period ending December 31, 2004.

As is the case for all electric utilities, the cost of power generation is the largest expense, totaling \$55.2 million or 46.4% of revenues. Fuel costs are the largest component of power generation. Administrative and general costs are \$8.9 million or 7.5% of revenues. Operations and maintenance of electric lines cost \$3.0 million or 2.5% of total. Member services cost \$2.2 million or 1.9% of the total revenues.

Being very capital intensive, depreciation (and amortization) of the utility plant was \$17.0 million or 14.3% of total revenues. Interest on long-term debt, although a very favorable sub-5%, totals \$10.2 million or 8.6% of revenues. Although not subject to federal income taxes, state and local taxes are \$9.8 million or 8.2% of revenues. Revenues less total expenses equal margins of \$12.6 million or 10.6% of total revenue. Margins are allocated to consumer members and paid when appropriate.

During 2004, KIUC Management determined that an error was made in the allocation of the 2002 and 2003 patronage capital to members. We have corrected the mis-allocation and have taken steps to ensure complete and accurate patronage capital allocations in the future.

As a result, you may see an adjustment on your 2004 patronage capital refund statement. If you have any questions regarding your 2004 patronage capital refund or the 2002-2003 adjustment, please contact a Member Services Representative at (808) 246-4303.

Through December 31, 2004, the total financial benefit (direct and indirect) to KIUC members is significant. These direct financial benefits include the following: \$3 million refund from the prior owner, \$4.2 million in avoided rate increases (\$2.1 million per year), \$1.7 million patronage capital refund for 2002 and 2003, \$3.1 million patronage capital refund for 2004, \$1 million special one-time patronage capital refund for 2004, to be returned to members in 2005. This amounts to \$13 million in direct financial benefits through December 31, 2004.

In addition, the indirect financial benefits (ie., ownership) include patronage capital that is held by KIUC on behalf of its members to be distributed at future dates as determined by the KIUC Board of Directors. This amounts to \$13.7 million in indirect financial benefits to KIUC members as of December 31, 2004.