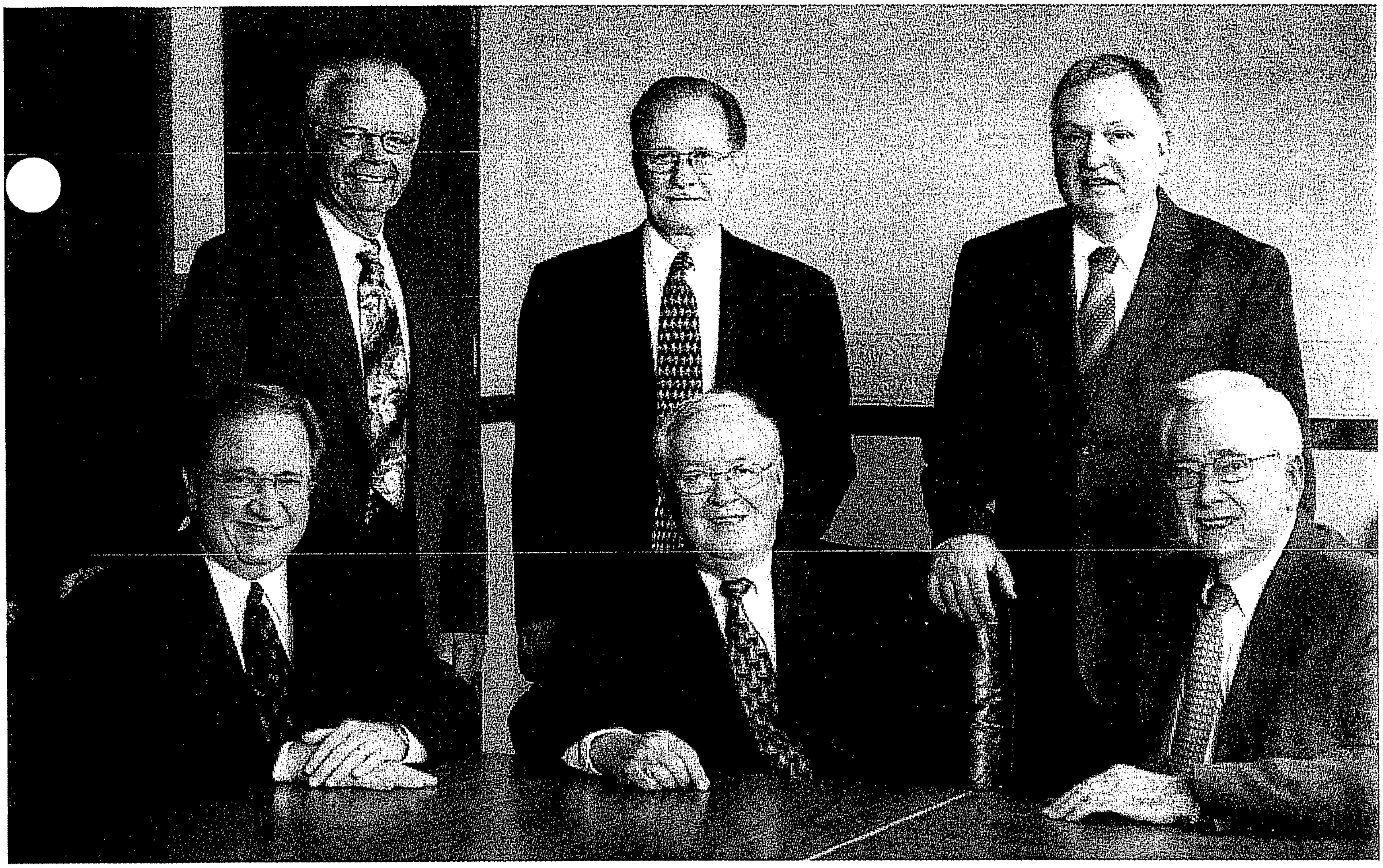


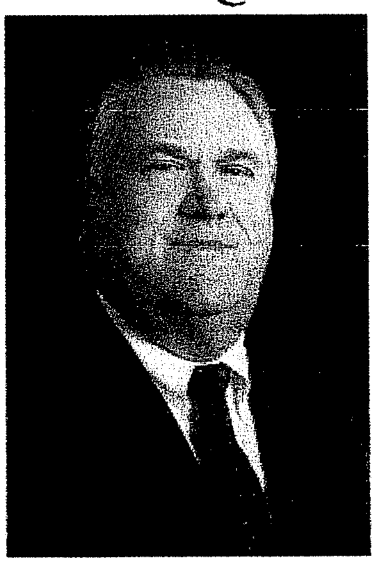
Board of Directors: *Standing (left to right): Paul Edd Butler, Lee Bearden, Larry Elder. Seated (left to right): William Denton, Chair, Dr. James Sills, Vice-Chair, John Myers, Secretary-Treasurer*

Presidents/CEOs: *(below left to right): Kelly Nuckols, Jackson Purchase Energy Corp.; Mark Bailey, Kenergy Corp.; Burns Mercer, Meade County RECC*

JPEC

Kenergy

Meade County RECC



Administrative SERVICES

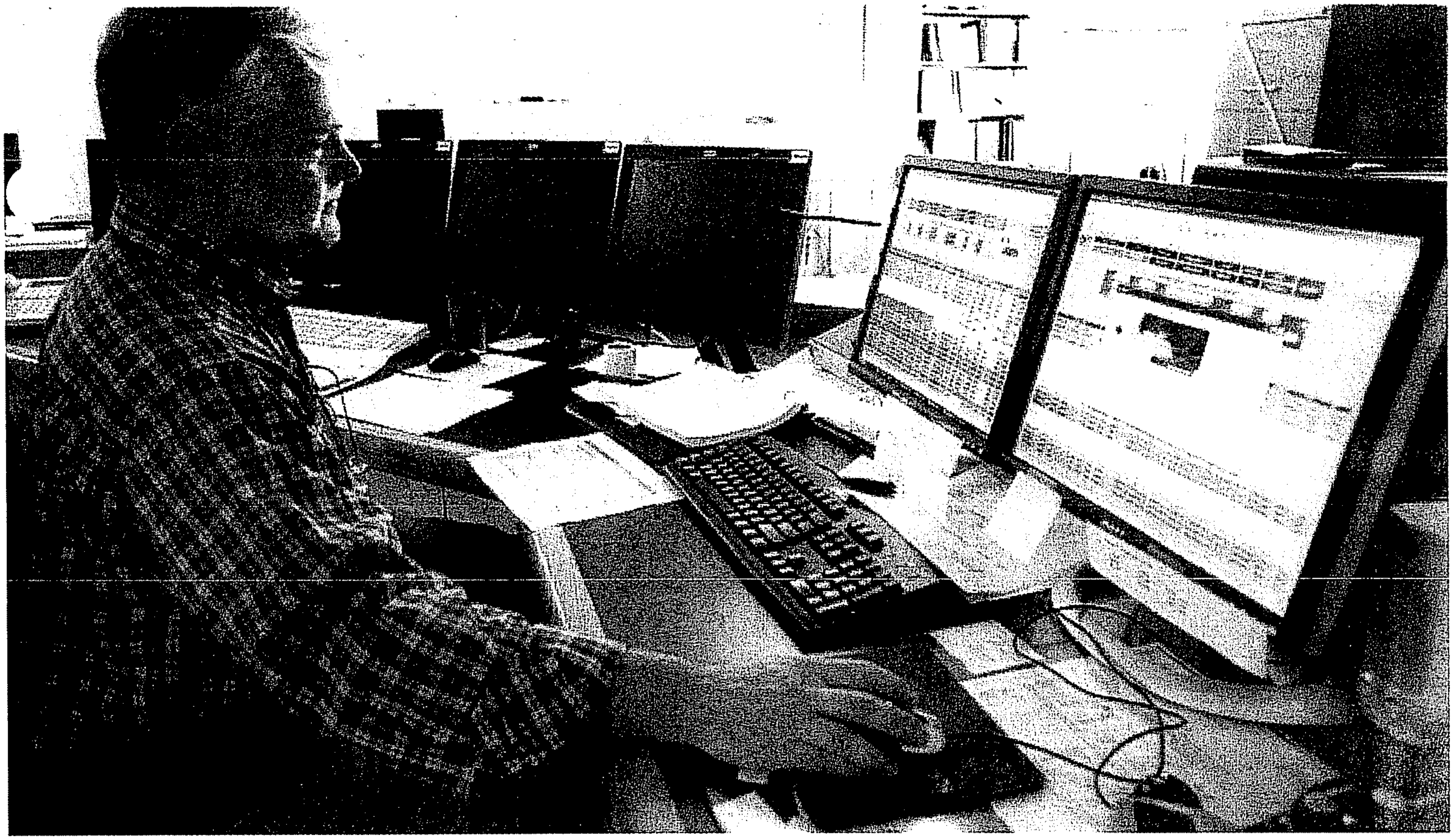
The internal Big Rivers' team was expanded in 2005 with the creation of the Administrative Services Department, which includes human resources, corporate insurance, safety, general services, and corporate files. This department was included in the finance department as human resources and corporate services upon closing of the lease transaction with the E.ON U.S. Parties. It was created as a separate department in December 2005 to highlight the importance of the team of employees as Big Rivers' most important asset, and to position the corporation for accomplishing the work to be done in the unwind of the transaction with the E.ON U.S Parties.

Human resources includes staffing, compensation and benefits, employee and labor relations, and training. Staffing activity in 2005 included filling several new positions. Retirements, resignations, and organizational changes also added to the work, and at least seven positions remained to be filled at year-end.

In the employee benefits arena, the most notable work in 2005 was in preparation for the January 1, 2006 change in prescription drug coverage for Big Rivers' Medicare-eligible retirees. In response to the Medicare Modernization Act, NRECA, the provider of the coverage through its Group Benefits Trust, chose to become a Medicare Part D provider. The human resources' staff held retiree meetings and processed enrollment forms for those who chose coverage in one of the four Part D plans offered by NRECA. Other work related to health coverage included coordination of employee health awareness meetings conducted by a local hospital as part of Big Rivers' wellness program.

In addition to its commitment to the safety of its own employee team, Big Rivers' personnel conduct safety and training programs for the member systems. Highlights of the safety initiatives in 2005 include the high-voltage demonstrations in electrical safety programs for member-consumers; implementation of on-line or e-learning safety training; and employee training sessions on such topics as confined space, hazard awareness, accident investigation, tree and pole top rescue, flagging and work zone safety, and crime prevention and personal safety awareness. Big Rivers' safety record, with two lost-time accidents in 2005 and none in 2004, reflects the safety consciousness of its employees.

Big Rivers' environmental, health, and safety compliance specialist also worked on a number of environmental-related matters for the member-systems. These included oil spill response, polychlorinated biphenyls monitoring, Spill Prevention Control and Countermeasures (SPCC) plans, and pre-construction environmental review. Discussions were also held with a neighboring statewide association on how Big Rivers and its members might complement each other's efforts to improve environmental and safety programs.



Big Rivers' headquarters building received a long overdue cleanup with the painting and carpeting of all occupied space. The general services' staff played a major role in making this remodeling project a successful one. Physical security of the facilities was also improved, with installation of a new card entry system for access to sensitive areas.

Big Rivers and its employees are concerned about the community in which they live and want to make a positive difference. This was evidenced by employee participation in two Red Cross blood drives held in 2005, and continuing support of the United Way campaign. Concern over the community at large was also favored by execution of a contract with a vendor for document shredding, thus recycling paper that would have otherwise been disposed of in a landfill. The corporate files' staff developed this project and directed its implementation. They were also instrumental in the member-systems' electronic storage of documents, another way in which Big Rivers teamed with its members to share services, improving productivity and cost effectiveness.

Nearly $150 million of equipment has been installed to bring Big Rivers' units and HMP&L's Station Two units into compliance under the Kentucky Nitrous Oxide (NO_x) State Impementation Plan Call Regulations which became effective May 31, 2004. Selective catalytic reduction units (SCRs) were placed on the two units owned by the City of Henderson (Station Two) and on Big Rivers' Wilson unit. Other technologies for reducing NOx emissions were installed on Big Rivers' other units. All NOx projects met the May 2004 compliance date.

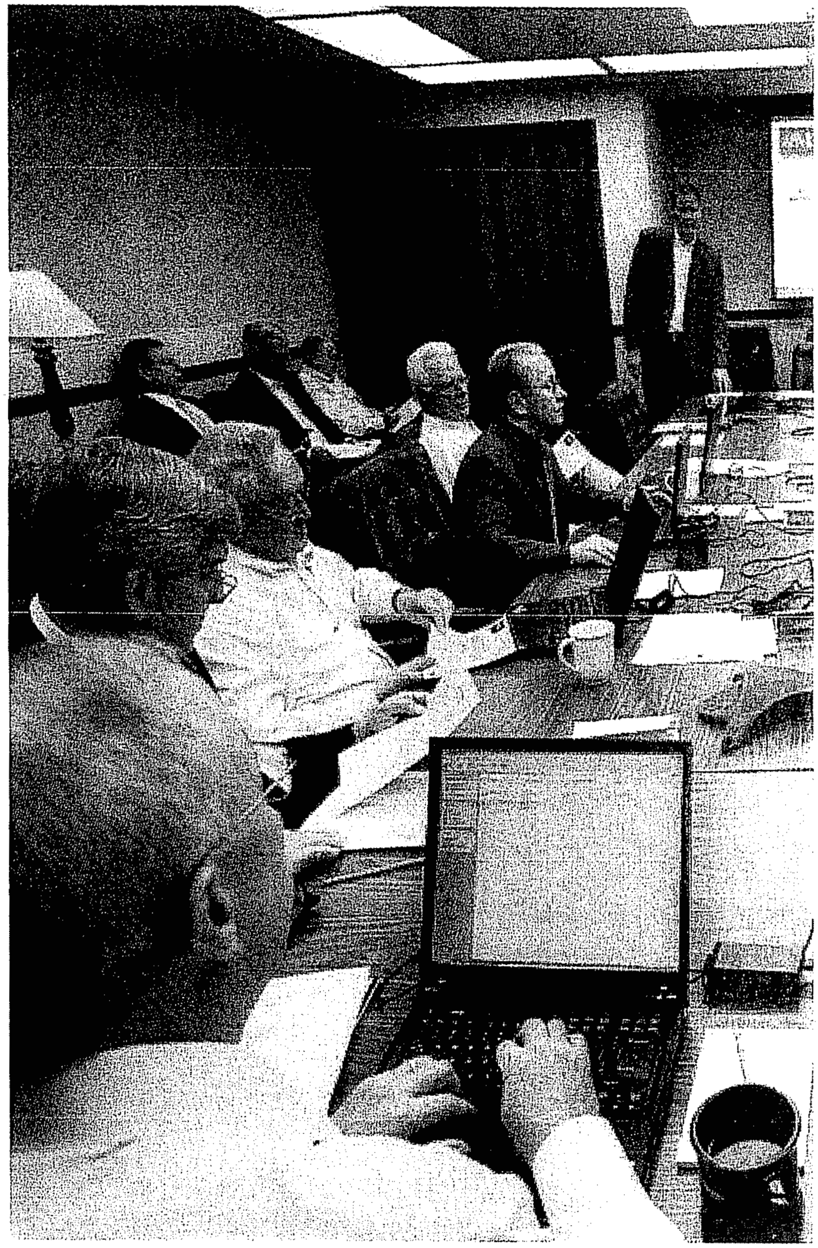
Additionally, certain affiliates of the E.ON U.S. Parties entered into contracts in 2004 to add sulfur dioxide (SO_2) scrubbers to Big Rivers' Coleman Station which will significantly reduce the SO_2 emitted by Coleman. The scrubber at Coleman was being tested and put in service at the time of this report. With the addition of the Coleman scrubber, all but one (Reid 65 MW unit) of Big Rivers' coal-fired units have scrubbers installed.

During the year, Big Rivers completed its fifth thorough review of the condition and operation of its owned and leased electric generating units. Big Rivers retained Stanley Consultants, Inc. to begin a Base Line Technical Audit in 2003 in order to "benchmark" the present state of the units considering the age of the units. This work concluded in 2004. Annual reviews of the condition of the units continue.

ENVIRONMENTAL MATTERS

On September 19, 2000, one of the E.ON U.S. Parties received a request for information pursuant to Section 114 of the Clean Air Act relating to construction projects and operational changes that have occurred at Big Rivers' Coleman Station, Reid Station and Wilson Station since 1978. The information request was part of a national investigative effort by the Environmental Protection Agency (EPA) regarding utility compliance with new source review requirements under the Clean Air Act. Although the request was directed to one of the E.ON U.S. Parties, Big Rivers cooperated with it in preparing a response. Big Rivers has had no further correspondence with the EPA since information was provided.

Big Rivers, in conjunction with NRECA and the National Rural Electric Environmental Association, has monitored several environmental regulatory issues in 2005 for potential impact on steam generating electric utilities. The EPA is expected to propose to change its recently amended SPCC rules which apply to oil storage at various types of facilities. One aspect of the current rule would require increased secondary containment for facilities, at significant cost. The EPA is expected to replace this requirement with a more flexible standard. Currently, revised SPCC plans must be implemented by August 2006. This deadline is also expected to be moved pending resolution of changes to the rule.

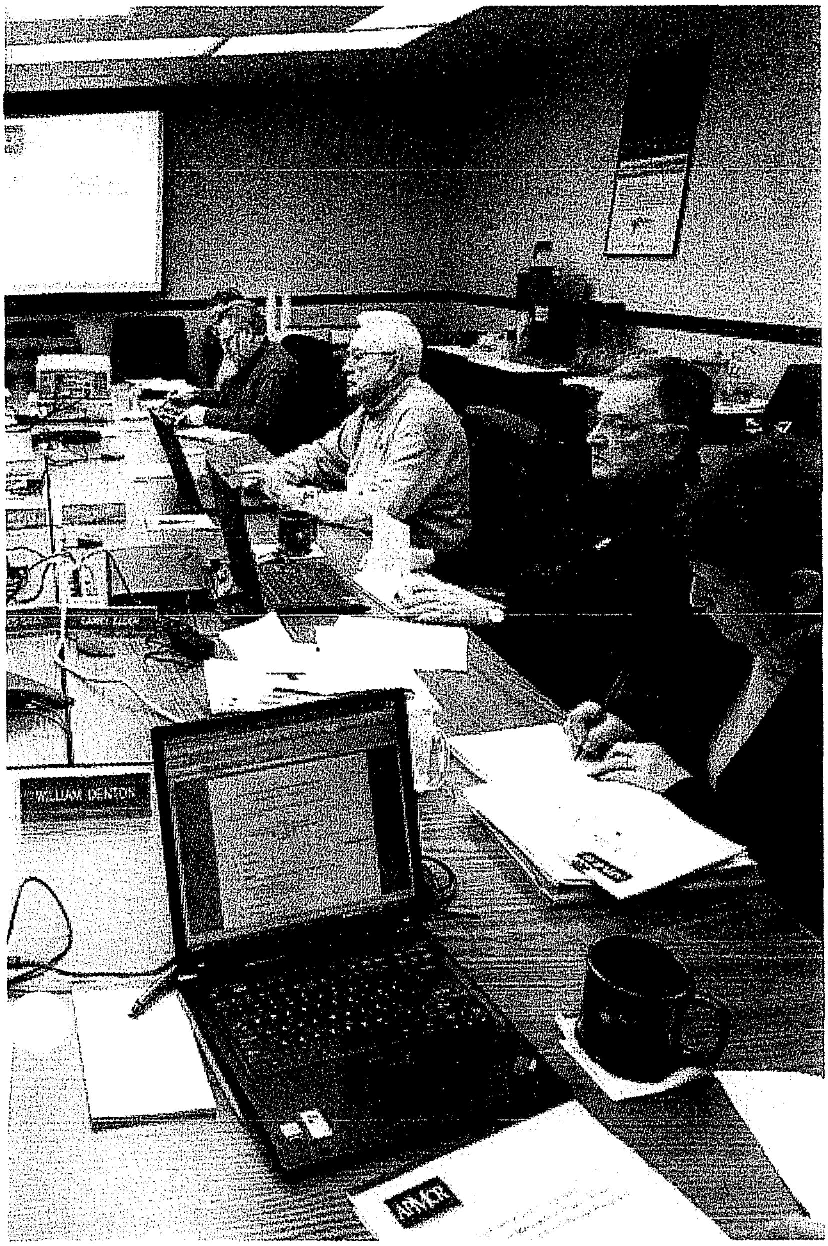


Big Rivers continues to monitor the implementation of EPA's Clean Air Mercury Rule (CAMR) and Clean Air Interstate Rule (CAIR). Both rules are expected to have significant impacts on utility emissions. At the time of this report, the EPA is reconsidering certain aspects of the March 2005 CAMR, which will impose a cap and trade system on mercury emissions similar to that used in the acid rain program. The implementation of CAIR will result in a 49 percent reduction in SO_2 emissions and a 58 percent reduction in NO_x emissions from Kentucky sources by 2015.

By reducing SO_2 and NO_x emissions, CAIR will also significantly reduce particulate matter (PM) 2.5 (small particulate) emissions to levels below current proposed standards. Fortunately, none of the Big Rivers' units are in areas that have been designated as non-attainment for PM 2.5, although some Kentucky counties were so designated.

Although the federal EPA has not determined to regulate carbon dioxide as a pollutant under the Clean Air Act, other countries and some northeastern states have begun to implement their own carbon dioxide reduction programs. Such rules could have wide-ranging impacts, including significant financial impacts on the use of fossil fuels for power generation, including the use of coal and natural gas.

Clean Water Act Section 316(b) requires evaluation of the effect of utility cooling intake and discharge systems on water bodies from which water is drawn. Phase II of the rule will require a collection and comprehensive demonstration study. The schedule for completion of the study is based on the facility's National Pollutant Discharge Elimination System permit renewal date. Concerns with the regulation are that the permitting agency



may conclude that the collected data does not support the performance goals, or the performance goals are not being met. If performance goals are not met, costly control measures may be required.

OTHER REGULATORY MATTERS

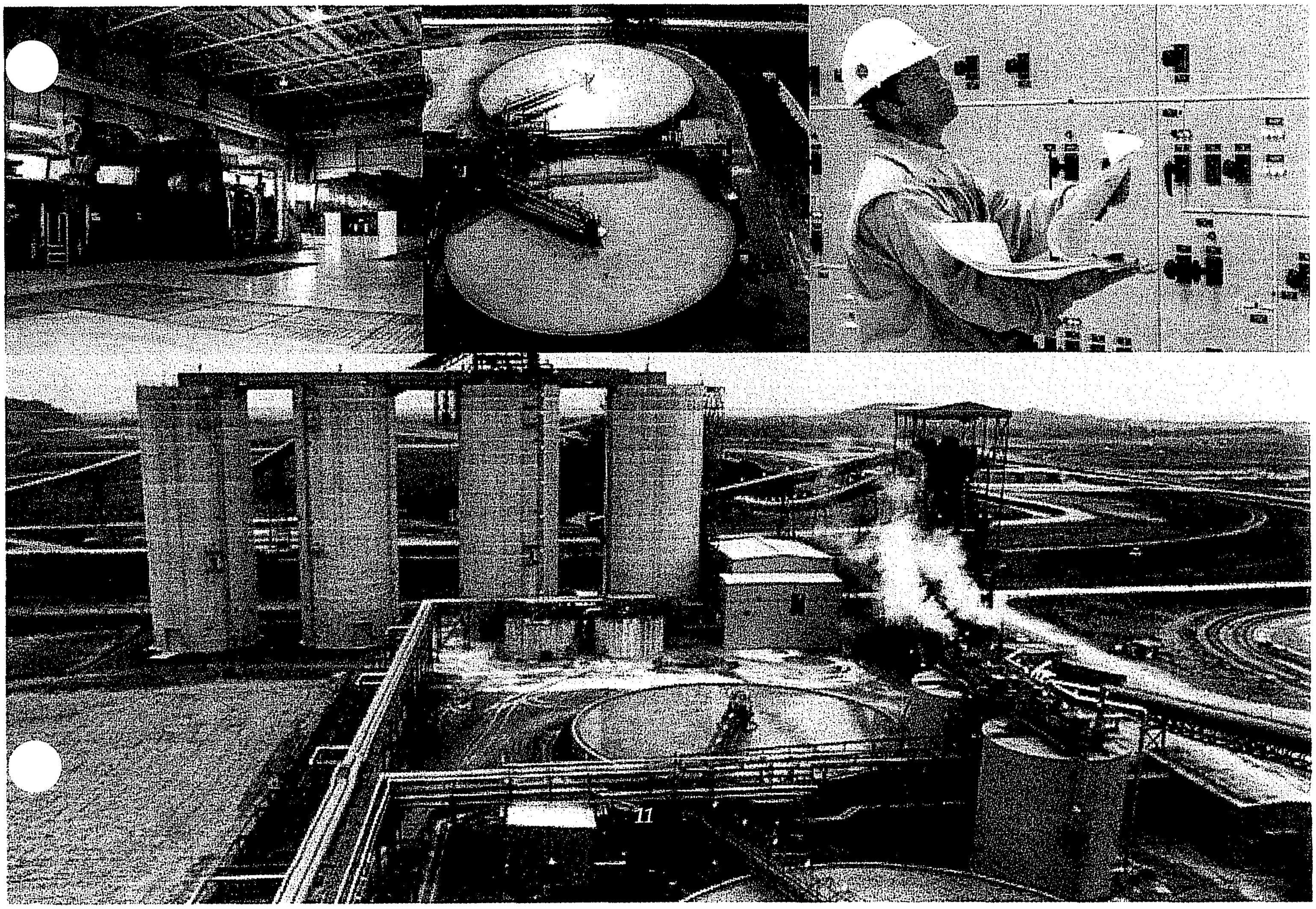
Big Rivers continues to monitor the development of the Midwest Independent System Operator (MISO). The company continues to believe it would incur additional costs from Regional Transmission Organization (RTO) membership without receiving corresponding benefits. As a cooperative, Big Rivers is concerned about incurring the additional costs of RTO/MISO membership without having the ability to provide an offsetting economic benefit to its members.

A state law that became effective in 2003 requires Kentucky utilities to operate their transmission facilities so that retail electric service to Kentucky customers and wholesale service to Kentucky electric distribution cooperatives have the highest priority during a transmission emergency. Big Rivers revised its tariffs in 2003 to comply with this law. In January of 2005, a United States District Court judge in Kentucky struck down this law, finding that it forces Kentucky utilities to discriminate against retail and wholesale electric customers in other states in violation of the Constitution of the United States. The implications of this ruling for Big Rivers are unclear, and will depend, in part, upon any changes in the ruling that may occur after appeal.

Thoroughbred Energy Company, a Peabody Coal subsidiary, filed an application with the Kentucky Electric Generation and Transmission Siting Board for approval to site its proposed 1,500 MW merchant electric generating plant in Muhlenberg County, Kentucky. Big Rivers intervened in that proceeding, and among other things, sought to protect itself from incurring transmission interconnection costs Kentucky law prohibits it from recovering through its member rates. The Siting Board held in favor of Big Rivers on that issue. Thoroughbred appealed that finding and others to the Muhlenberg Circuit Court. The appeal is currently on hold while negotiations are being held to resolve issues raised by the appeal. Big Rivers and Thoroughbred have negotiated and obtained Kentucky Public Service Commission (KPSC) approval of an interconnection agreement that resolves the interconnection cost issue.

Big Rivers obtained a certificate of public convenience and necessity from the KPSC in 2005 to construct a 161 kilovolt (kV) transmission line approximately 17.3 miles in length in Breckinridge and Meade Counties, Kentucky. Construction of this project began during 2005.

Big Rivers, HMP&L and certain affiliates of the E.ON U.S. Parties reached agreement in 2005 on a number of business issues surrounding the construction and operation of the SCR at HMP&L Station Two. The documents containing those agreements have been approved by the KPSC, and are awaiting approval by Big Rivers' creditors. In another matter, Big Rivers filed its periodic integrated resource plan with the KPSC in November of 2005. The KPSC is holding its review of that plan in abeyance temporarily while Big Rivers reviews whether the pendency of the proposed unwind transaction justifies it seeking other changes in this proceeding.



financial SERVICES

Solid teamwork has led to solid financial results as Big Rivers enjoyed its best year since implementing its plan of reorganization in July of 1998. Bottom line net margins were $26.3 million, exceeding 2004's $22 million margins by nearly 20 percent. This continues the trend of very solid yearly financial results since 1998.

In 2005, the increase in margins comes from three net factors. First, margins from sales of excess power available from the PPA with one of the E.ON U.S. Parties increased $6.9 million from 2004. Second, the interest expense on the pollution control bonds increased $1.7 million due to higher average interest rates of 2.46 percent in 2005 compared to 2004 interest rate of 1.28 percent. Third, the Rural Utilities Service (RUS) Asset Residual Value Payment note had increased interest of $1 million compared to 2004 due to payments of required arbitrage amounts and compounded interest.

Selected Historical Financial Information

	2005	2004	2003	2002
Margins	26,343	22,025	18,349	10,055
Equity	(251,913)	(278,256)	(300,281)	(319,013)
Capital Expenditures*	12,904	12,203	21,397	21,700
Cash & Investment Balance	67,264	54,891	15,802	20,061
New RUS Note Voluntary Prepayment Status	55,357	53,518	80,101	60,479
TIER	1.37	1.32	1.27	1.14
DSC	1.79	1.76	1.46	1.19
Cost of Debt	5.57%	5.35%	5.34%	5.38%
Cost of Capital	7.58%	7.38%	7.36%	7.37%

**Big Rivers' share only.*

The average price for sale of 2 million MWh of excess power in 2005 was $35.58 MWh compared to $32 MWh in 2004 for 1.9 million MWh. Member sales to rural loads grew 100,000 MWh over 2004 representing a 4.8 percent increase. The price per MWh for 2005 was $33.84. Large industrial sales remained at nearly the same levels and the price was $30.71 per MWh. Member load growth for 2005 was 3.3 percent versus 2.5 percent in 2004. All net MWh prices to the members included the 3.3 percent revenue discount during 2005 that was initiated in 2000 as a result of the April 2000 sale-leaseback benefits to Big Rivers.

Total net negative equity was reduced from $278.3 million in 2004 to $251.9 million as a result of 2005 record margins. Since implementing its plan of reorganization in 1998, Big Rivers has improved its equity position by $103.4 million. Net utility plant decreased

OWNED ELECTRIC GENERATION

Facilities	Type of Fuel	Net Capacity (MW)	Commercial Operation Date
Kenneth C. Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	150	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal/N. Gas	65	1966
Combustion Turbine	Oil/N. Gas	65	1976
D. B. Wilson Unit No. 1	Coal	420	1986
TOTAL		1,459	

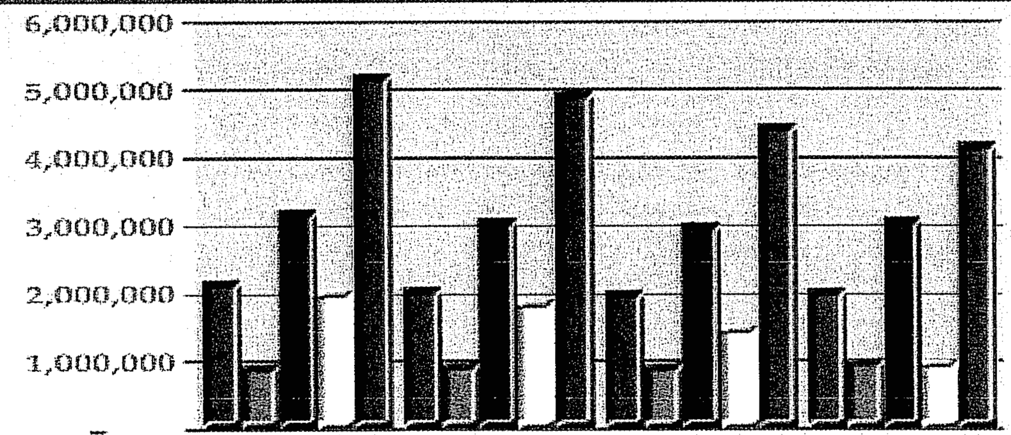
Big Rivers owns its 1,459 megawatts of electric generating facilities and it has rights to the HMP&L Station Two facility. All of these facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.

$11.8 million as net plant additions were $20.1 million with depreciation and amortization amounting to $31.9 million.

Big Rivers owes the E.ON U.S. Parties a residual value payment, which is projected to be $141.4 million upon the scheduled termination of the lease on December 31, 2023.

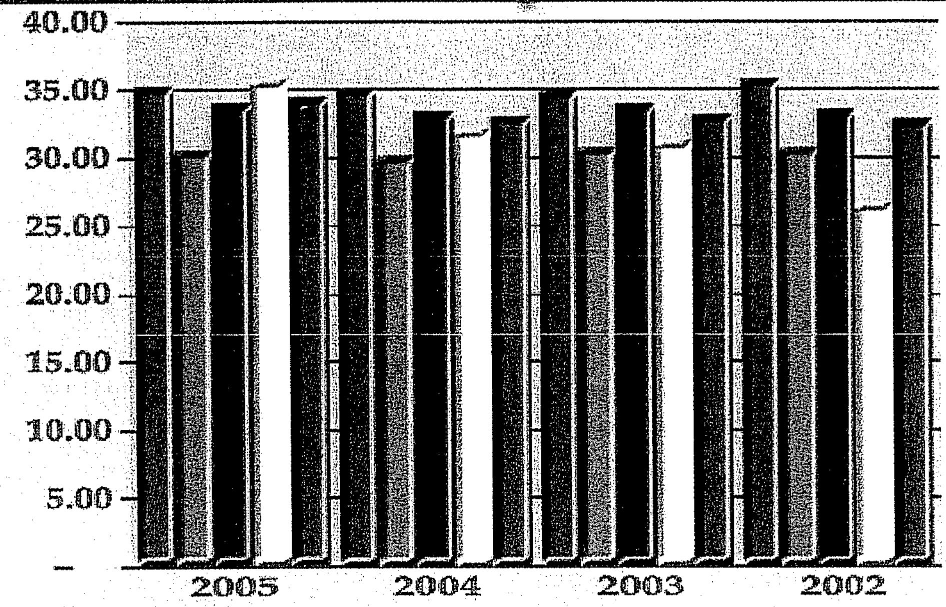
Big Rivers has a line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC) as of December 31, 2005, in the amount of $15 million. The NRUCFC line of credit has an underlying $15 million master letter of credit facility for supporting off-system sales. In

MWh Sales



	2005	2004	2003	2002
Member Rural	2,262,698	2,132,801	2,089,688	2,114,691
Member Large Industrial	971,243	997,202	962,670	1,077,322
Total Member Tariff	3,233,941	3,130,003	3,052,358	3,192,013
Other Sales	2,021,365	1,868,657	1,508,516	1,042,496
Total	5,255,306	4,998,660	4,560,874	4,234,509

Revenue - $/MWh



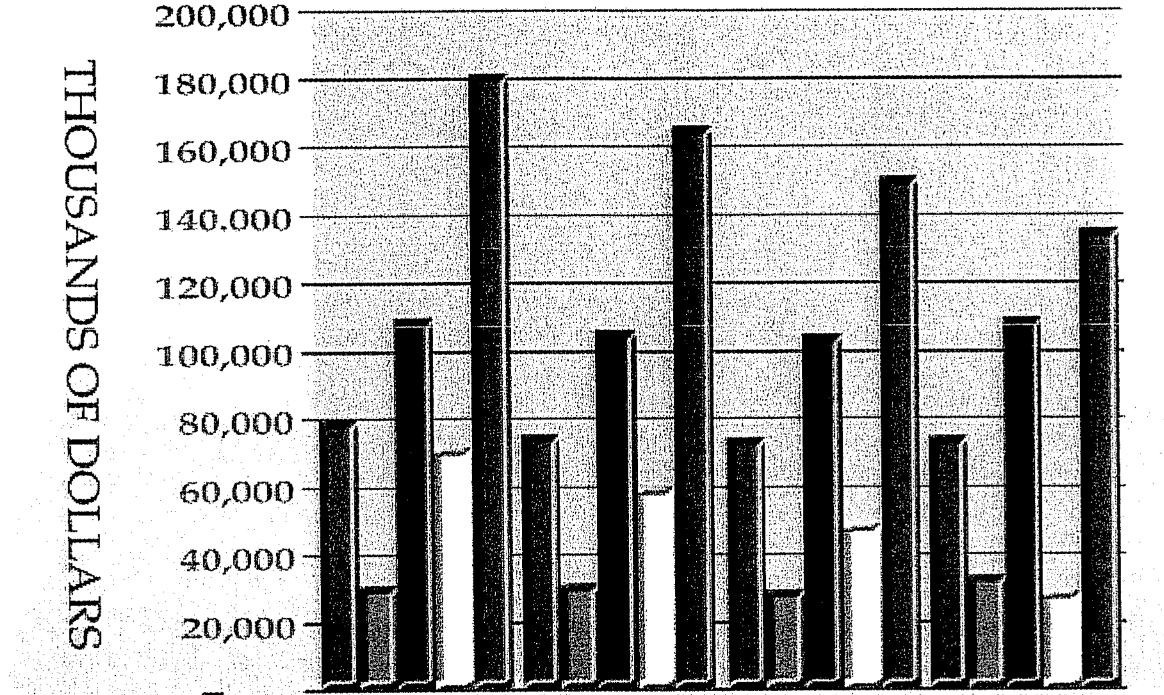
	2005	2004	2003	2002
Member Rural	35.19	35.06	34.99	35.38
Member Large Industrial	30.70	30.31	31.15	31.22
Total Member Tariff	33.84	33.55	33.78	33.97
Other Sales	35.58	32.00	32.38	26.78
Average	34.51	32.97	33.32	32.20

2005, Big Rivers' participation in the MISO energy market required a letter of credit in the amount of $3 million that was outstanding as of December 31, 2005, and a forward sale to Cargill Power Markets, L.L.C. required a letter of credit in the amount of $1 million that was also outstanding as of December 31, 2005.

Each year Big Rivers calculates its cushion status that includes voluntary prepayments to RUS, cash and investments. As of December 31, 2005, the cushion status totaled $122.6 million and consisted of $55.3 million in RUS prepayment of debt and $67.3 million in cash and investments.

Each year the board authorizes an outside auditor to conduct a series of focused audits. In 2005, these audits included accrued liabilities, inventories, prepaid expenses, other assets, power sales, purchased power, power balancing, forecasting and power utilization, credit administration and accounts receivable. There were no irregularities found in any of these focused audits.

Electric Energy Revenue



	2005	2004	2003	2002
Member Rural	79,624	74,775	73,128	74,810
Member Large Industrial	29,815	30,229	29,990	33,630
Total Member Tariff	109,439	105,004	103,118	108,440
Other Sales	71,928	59,806	48,851	27,923
Total	181,367	164,810	151,969	136,363

information systems AND TECHNOLOGY

As a member-owned organization, Big Rivers has for a long time teamed up with its member-systems to provide value added services in an effort to keep total costs to their member-consumers economical. This effort is well demonstrated in the information systems and technology efforts of the four organizations. Big Rivers supplies the computer equipment, software and information technology support for each of its member-systems' customer billing and accounting systems. Information technology support is also provided to Big Rivers' own accounting and office systems as well as other necessary functions.

In 2005, Big Rivers and its members completed the installation of a Geographic Information Systems (GIS) and Big Rivers is working with its member-systems to broaden GIS applications in areas such as work management, engineering staking, etc. In addition, the GIS information can merge with the Customer Information Systems (CIS) to achieve additional applications.

In other information technology projects, Big Rivers and its members have developed electronic presentation of utility bills and electronic payment; the integration of automatic meter reading to the CIS for real-time requests of the CIS; and installed Integrated Voice Response to the GIS and CIS systems. An effort continues to move computer-generated paper reports to electronic versions for long-term storage. Projects underway with the member-systems include the development of a "digital dashboard" for electric reliability statistics and general ledger reports.

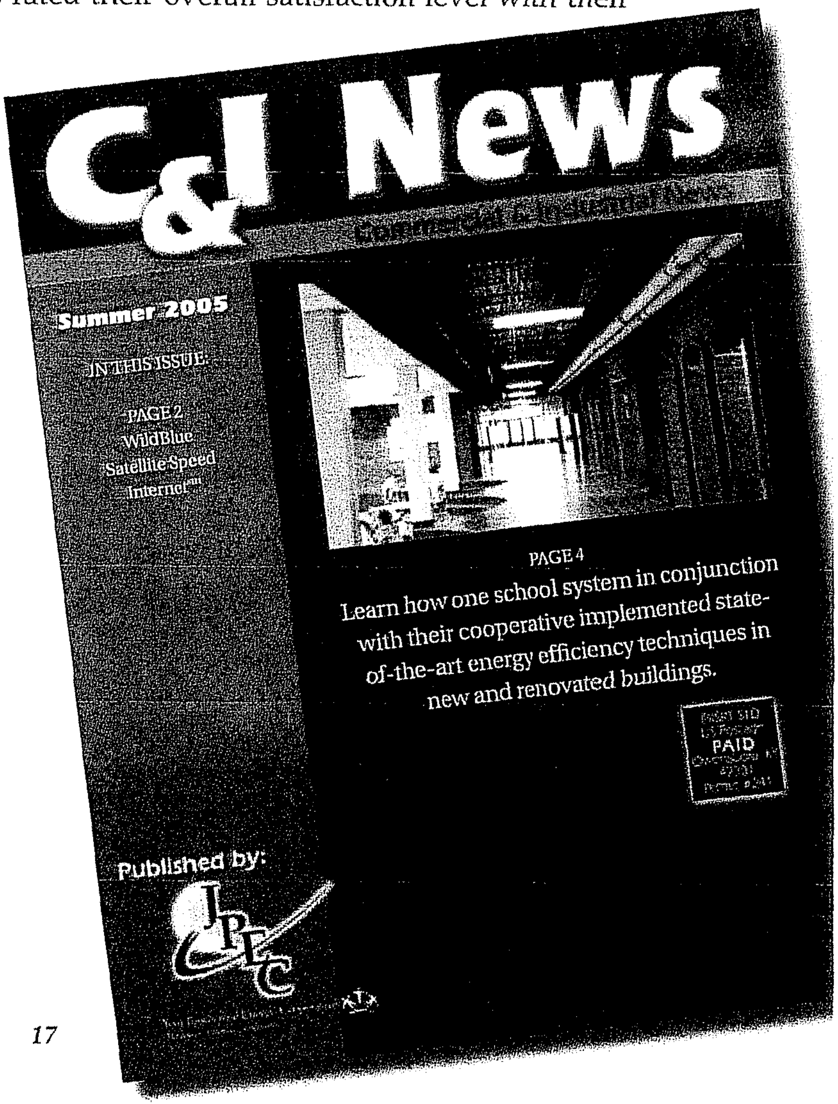
Big Rivers developed RUS Emergency Restoration Plan and Vulnerability Risk Assessment compliance reports as well as North American Reliability Council cyber security compliance. The development of those compliance reports indicated a plan be designed for building an off site location to be used in case of disaster. This off-site location would provide protection against loss of data, loss of production, and security sabotage. Construction was begun and the disaster recovery center is now nearing completion. This will enable Big Rivers and its member-systems to have the ability, off site, to continue conducting business in a timely fashion should a disaster event occur.

In 2005, Big Rivers and its member-systems also conducted a cyber security audit using an outside vendor to determine any weaknesses that might exist to allow outside access to their computer systems.

marketing

Big Rivers provides marketing support to its member-systems through a variety of diverse services and programs and as a result, success requires teamwork at many different organization levels. Big Rivers continually works with its member-systems to identify, develop and implement strategic initiatives, e.g., communication, energy efficiency, customer service, community involvement, Touchstone Energy, etc., that are designed to meet the evolving needs of the member-customers and ensure customer satisfaction continues to increase.

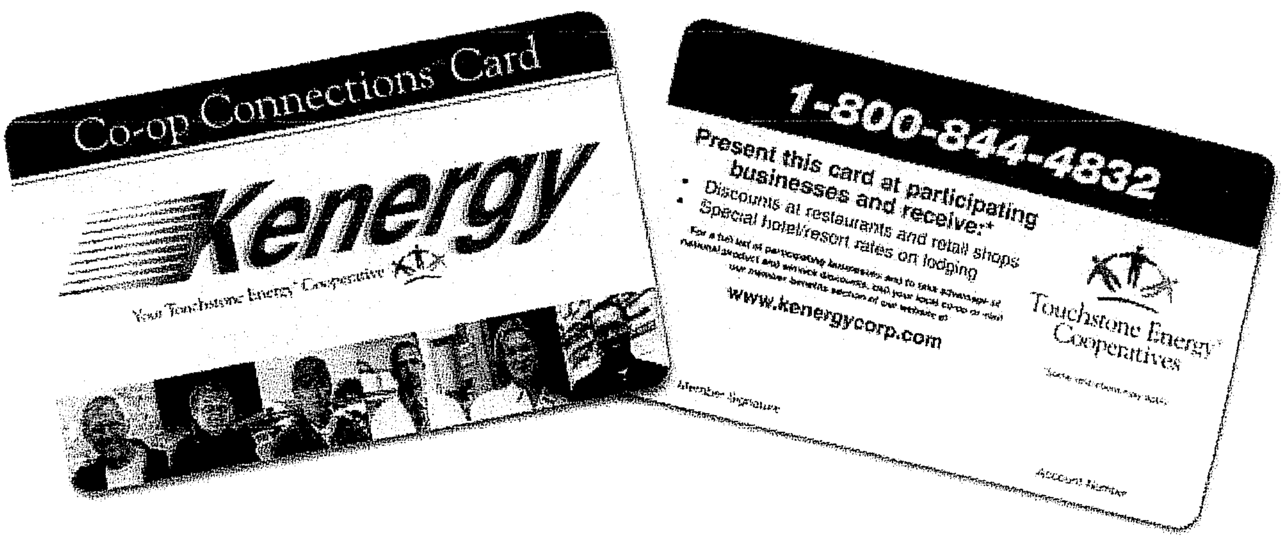
By ensuring programs and services support key performance attributes, each member-system has successfully established a progressively increasing customer satisfaction trend. The trend continued through 2005, as overall residential satisfaction scores increased for all three member-systems and as a result, the Big Rivers' system-wide weighted average increased by an impressive three percentage points. During 2005, on a system-wide average, 74 percent of respondents rated their overall satisfaction level with their respective cooperative as a "9" or "10" on a ten-point scale with "10" being the highest possible rating. Equally impressive were the 2005 Commercial & Industrial Satisfaction Survey results. The Big Rivers' system-wide average for overall performance satisfaction increased from 74 to 78, which reflects a four percentage point increase versus prior year. The Big Rivers' system-wide average of satisfaction with overall performance has increased eight percentage points since 2002. Other 2005 key performance indicators also reflected Big Rivers' system-wide average improvements including a six percentage point increase in customer service, a five percentage point increase in reliability satisfaction and a three percentage point increase is satisfaction with cost (2005 vs. 2004). In addition, 2005 commercial and industrial transaction satisfaction increased on a system-wide average by an amazing ten percentage points compared to prior year.



Communication efforts in 2005 with the member-systems continued to focus on increasing member-customer awareness of the "cooperative difference" including several key advantages associated with cooperative membership. Special emphasis was placed on the competitive rates offered by our member-systems.

In addition, to support our member-systems' economic development efforts, an information ad, "The Bluegrass is Greener Here," was developed to promote the western Kentucky region. During 2005, our commercial and industrial communication efforts centered on the C & I News, which is a 12-page publication developed, printed and distributed for the member-systems. Articles feature commercial and industrial customers that have taken advantage of energy efficiency services provided by their respective cooperative and as a result, reduced their energy costs and improved their energy efficiency.

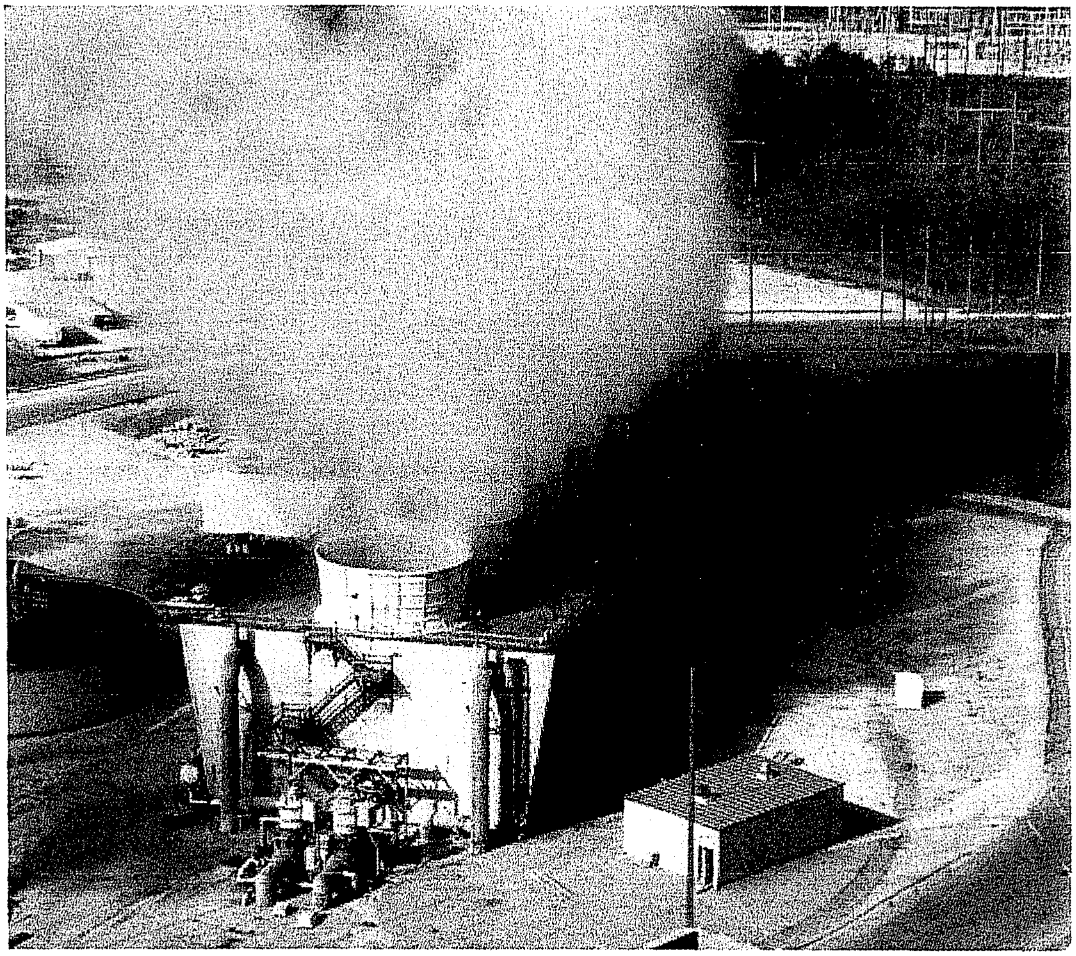
Big Rivers and its member-systems remained active members of Touchstone Energy during 2005. While Touchstone Energy provides added value to electric co-ops through a variety of resources, the brand is most recognized as a cost-efficient communication vehicle designed to increase awareness of the "cooperative difference." Big Rivers' member-systems also successfully introduced the Co-op Connections Card Program during 2005, which is an added-value program developed by Touchstone Energy. The program involves distribution of a co-op logo wallet card, which enables member-customers to receive discounts on "promotional" purchases offered by participating retailers.



As natural gas and propane prices continued to escalate during 2005, consumers became increasingly interested in energy efficiency. Big Rivers' member-systems offered an energy efficiency incentive program for the first time in 2005. The program included incentives for installation of add-on heat pumps (duel fuel), conversion from a gas to an electric water heater and participation in the Touchstone Energy Home Program, which requires all electric, energy efficient home construction. Promotion materials were developed and provided to the member-systems for targeting home builders, HVAC contractors and individual cooperative member-customers.

In anticipation of member-customer inquiries regarding energy efficiency, Big Rivers also developed a general training program for the member-systems. The program provided general information about energy use in the home and addressed first-line issues such as lighting (compact fluorescent bulbs), heating and cooling, water heaters, energy prices, sealing of the house, etc. While the training program was primarily designed to help customer service representatives make standard recommendations to call-ins, the information was also made available to any employee who interacts directly with member-customers.

Big Rivers continued to team up with its member-systems in community involvement programs during 2005 and provided support for several key programs that include Touchstone Energy Scholarships, Newspaper in Education Program, Kentucky Touchstone Energy All "A" Classic, High School Role Model Poster Program (endorsed by the Kentucky High School Athletic Association), Touchstone Energy Hot Air Balloon charity events, etc.



power SUPPLY

The Power Supply Department has the responsibility of providing the power that Big Rivers' member-systems require for meeting the needs of their more than 109,000 member-consumers. Through its PPA with one of the E.ON U.S. Parties, the member-systems' SEPA allocations and the wholesale market, Big Rivers is able to provide economical wholesale power. In 2005, the average wholesale price to the member-systems for their rural substations was $35.19 per MWh and for large industrial customers, the rate was $30.70 per MWh.

In addition to providing the power needs of its member-systems, Big Rivers also can sell power from the PPA that is not needed to meet the member load requirements. The sale of this excess power in 2005 resulted in more than $25 million in margins above the cost of purchasing the power and any other transmission related costs. The sales of the excess power have, since the implementation of the PPA in mid 1998, resulted in more than $100 million in additional margins to Big Rivers.

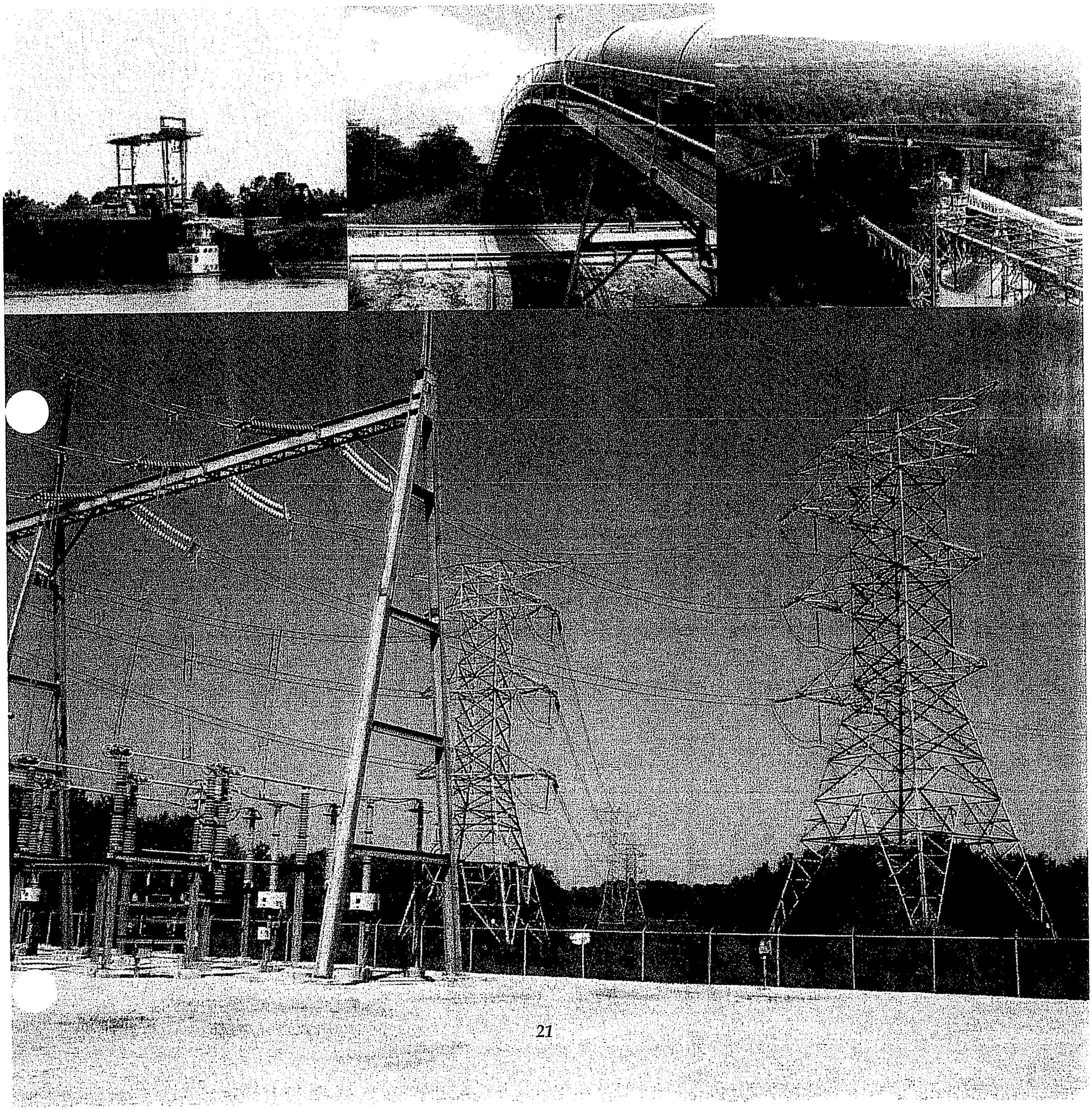
Big Rivers is a member and part owner of APM, which is headquartered in Indianapolis, Indiana, with a regional office in Cary, North Carolina. APM serves as an agent in marketing some of Big Rivers' excess power and also provides additional risk mitigation and power supply portfolio modeling services. The power marketing services are provided out of the Cary office with the other services provided from the Indianapolis offices.

MISO implemented its wholesale electricity market on April 1, 2005. While Big Rivers is not a member of MISO, it determined it would be in its best interest to participate in the new market. Through APM, Big Rivers spent considerable time and effort in the training necessary to be a registered participant and prepare for the market's debut. Big Rivers is participating in both the hourly and day ahead markets. In order to market to the southeastern portion of the country, Big Rivers maintains 100 MW of firm transmission across Tennessee Valley Authority.

In 2005, the Power Supply Department began working with personnel in the Engineering and Operations and Information Technology Departments in an effort to obtain near real time load data. Such data would allow Big Rivers to be better able to forecast member needs and market opportunities. This project should be completed in 2006 and the expected payback on the $900,000 investment is approximately one year.

A Long-Range Load Forecast and an Integrated Resource Plan were completed and submitted in 2005 to the RUS and KPSC respectively. In 2005, contracts were negotiated for firm, limited interruptible and fully interruptible power sales to Kenergy to provide a portion of power needed in 2006 to serve its two smelter loads. Power Supply also works with the member-systems in developing quotes for power on new commercial and large industrial economic development prospects.

As a part of managing the member-systems' SEPA allocation, the Power Supply Department also participates in the Southeastern Federal Power Customers group to negotiate maintenance work for two hydroelectric facilities and work on other issues relating to the dams on the Cumberland River.



system OPERATIONS

Team work is essential when working either on relatively large or small projects. System operations at Big Rivers deals with a variety of projects in building, operating and maintaining its 1,220 miles of transmission lines and communication systems that deliver power and other services to its three member-systems. In some instances, large projects can require additional manpower that is not needed full time. Projects can require special expertise that is not available on staff. Teaming with outside resources proves to be efficient and cost effective for its member-systems. Big Rivers will also team with its member-systems on certain types of system operations' projects when it is the most effective method for all.

A number of efforts were underway in 2005 that kept the Big Rivers' engineering team running full speed. These efforts include the Palma-Draffenville 69 kV line, the Hopkins County remote terminal unit replacement, and radio control switching for the Doe Valley tap, and the Rome Junction switching addition. Those engineering projects that have moved to the construction phase include the Possum Trot 69 kV line, the Madisonville 69 kV line, the Cumberland Resources 69 kV line and the Meade County second 161 kV line.

A major effort underway for many months has been the engineering and construction involved in the switching of Big Rivers' microwave system from analog to digital technology. This effort will bring many benefits to system operations and power delivery as well as added benefits involving the communication process with the member systems. This changeover in technology should be completed in the first half of 2006.

Big Rivers also successfully teamed up with other utilities in developing a new automatic reserve sharing arrangement to replace the one previously being administered through the East Central Area Reliability (ECAR) region. ECAR functions ceased on January 1, 2006 with the advent of the new ReliabilityFirst Corp., which combined ECAR and two other region reliability councils into a new larger council. Big Rivers opted to join the Southeastern Electric Reliability Council (SERC) rather than ReliabilityFirst since SERC was better aligned with Big Rivers for reliability coordination efforts.

Big Rivers continued its normal system operations' maintenance and operations efforts. These included inspecting and treating 2,090 poles and the change out of 125 rejected wood poles. Sixteen substation and communication backup battery banks were tested and maintained in 2005 with one station battery system being replaced. Testing and overhauling occurred on numerous 69 kV and 161 kV power circuit breakers. Testing and maintenance were performed on dozens of transformers, meters, protective relays, line switches, power line carriers, two-way radios and telemetry units.

The installation of the GIS was finished and is now functionally complete. This computerized information system which includes utilization of satellite mapping for each pole and piece of line equipment will further improve operations of the system as well as enhance system maintenance.

Big Rivers Electric Corporation

Financial Statements as of December 31, 2005 and 2004 and for Each of the Three Years in the Period Ended December 31, 2005, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Big Rivers Electric Corporation:

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the "Company") as of December 31, 2005 and 2004, and the related statements of operations, equities (deficit), and of cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2006, on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

Indianapolis, Indiana
March 15, 2006

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

	2005	2004
ASSETS		
UTILITY PLANT—Net	$ 928,872	$ 940,649
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	180,650	174,695
OTHER DEPOSITS AND INVESTMENTS—At cost	3,397	3,246
CURRENT ASSETS:		
Cash and cash equivalents	67,264	54,891
Accounts receivable	16,350	15,609
Materials and supplies inventory	667	555
Prepaid expenses	91	348
Total current assets	84,372	71,403
DEFERRED CHARGES AND OTHER	28,689	30,647
TOTAL	$ 1,225,980	$ 1,220,640
EQUITIES (DEFICIT) AND LIABILITIES		
CAPITALIZATION:		
Equities (deficit)	$ (251,913)	$ (278,256)
Long-term debt	1,046,846	1,079,688
Obligations related to long-term lease	170,954	164,704
Other long-term obligations	92	437
Total capitalization	965,979	966,573
CURRENT LIABILITIES:		
Current maturities of long-term obligations	810	781
Voluntary prepayment of long-term debt	10,403	-
Purchased power payable	10,732	9,204
Accounts payable	2,394	2,910
Accrued expenses	2,172	1,638
Accrued interest	7,542	8,004
Total current liabilities	34,053	22,537
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	21,755	26,090
Deferred gain on sale-leaseback	59,262	62,118
Residual value payments obligation	139,710	138,693
Other	5,221	4,629
Total deferred credits and other	225,948	231,530
COMMITMENTS AND CONTINGENCIES		
TOTAL	$ 1,225,980	$ 1,220,640

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(Dollars in thousands)

	2005	2004	2003
POWER CONTRACTS REVENUE	$ 191,280	$ 175,777	$ 162,432
LEASE REVENUE	57,675	56,753	53,040
Total operating revenue	248,955	232,530	215,472
OPERATING EXPENSES—Operations:			
Power purchased and interchanged	114,500	106,099	96,577
Transmission and other	20,309	18,674	17,383
MAINTENANCE	3,195	2,597	2,617
DEPRECIATION	30,192	29,732	28,257
Total operating expenses	168,196	157,102	144,834
ELECTRIC OPERATING MARGIN	80,759	75,428	70,638
INTEREST EXPENSE AND OTHER:			
Interest	59,639	56,923	57,645
Interest on obligations related to long-term lease	9,109	8,725	8,355
Other—net	124	158	136
Total interest expense and other	68,872	65,806	66,136
OPERATING MARGIN	11,887	9,622	4,502
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	11,670	11,278	10,894
Interest income and other	2,786	1,125	2,953
Total non-operating margin	14,456	12,403	13,847
NET MARGIN	$ 26,343	$ 22,025	$ 18,349

See notes to financial statements.

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BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(Dollars in thousands)

	Total Equities (Deficit)	Accumulated Deficit	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service
BALANCE—January 1, 2003	$ (319,013)	$ (323,458)	$764	$ 3,681
Net margin	18,349	18,349	-	-
Accumulated other comprehensive gain	383	383	-	-
BALANCE—December 31, 2003	(300,281)	(304,726)	764	3,681
Net margin	22,025	22,025	-	-
BALANCE—December 31, 2004	(278,256)	(282,701)	764	3,681
Net margin	26,343	26,343	-	-
BALANCE—December 31, 2005	$ (251,913)	$ (256,358)	$764	$ 3,681

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003
(Dollars in thousands)

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 26,343	$ 22,025	$ 18,349
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	33,386	32,625	30,872
Increase in restricted investments under long-term lease	(5,955)	(5,836)	(5,605)
Amortization of deferred gain on sale-leaseback	(2,856)	(2,823)	(2,785)
Deferred lease revenue	(4,335)	(4,267)	(3,059)
Residual value payments obligation	(5,969)	(5,077)	(1,726)
Increase in RUS ARVP Note	5,077	4,807	4,546
Increase in New RUS Promissory Note	8,205	21,849	-
Increase in obligations under long-term lease	6,250	6,107	5,850
Changes in certain assets and liabilities:			
Accounts receivable	(741)	(261)	(628)
Materials and supplies inventory	(112)	33	(14)
Prepaid expenses	257	226	(398)
Deferred charges	480	(368)	1,602
Purchased power payable	1,528	550	1,016
Accounts payable	(516)	(87)	(4,633)
Accrued expenses	72	1,459	(6,177)
Other—net	351	(104)	3,107
Net cash provided by operating activities	61,465	70,858	40,317
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures—net	(12,904)	(12,203)	(21,397)
Other deposits and investments	(151)	(277)	5,733
Net cash used in investing activities	(13,055)	(12,480)	(15,664)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(36,037)	(9,289)	(38,912)
Principal payments on short-term notes payable	-	(10,000)	(7,500)
Proceeds from short-term notes payable	-	-	17,500
Net cash used in financing activities	(36,037)	(19,289)	(28,912)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,373	39,089	(4,259)
CASH AND CASH EQUIVALENTS—Beginning of year	54,891	15,802	20,061
CASH AND CASH EQUIVALENTS—End of year	$ 67,264	$ 54,891	$ 15,802
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 46,534	$ 28,485	$ 57,103
Cash paid for taxes	$ 271	$ 270	$ 400

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information—Big Rivers Electric Corporation ("Big Rivers" or the "Company"), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"), sells surplus power under separate contracts to Kenergy Corp for a portion of the Aluminum Smelters load, and markets power to non-member utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members extend to January 1, 2023. Rates to Big Rivers' members are established by the Kentucky Public Service Commission ("KPSC") and are subject to approval by the Rural Utilities Service ("RUS"). The financial statements of Big Rivers include the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of these agencies.

In 1999, Big Rivers Leasing Corporation ("BRLC") was formed as a wholly-owned subsidiary of Big Rivers. BRLC's principal assets are the restricted investments acquired in connection with the 2000 sale-leaseback transaction discussed in Note 4.

Principles of Consolidation—The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, BRLC. All significant intercompany transactions have been eliminated.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

System of Accounts—Big Rivers' accrual basis accounting policies follow the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. The regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters.

Revenue Recognition—Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. In accordance with SFAS No. 13, *Accounting for Leases*, Big Rivers' revenue from the Lease Agreement is recognized on a straight-line basis over the term of the lease. The major components of this lease revenue include the annual lease payments and the Monthly Margin Payments (described in Note 2).

In conjunction with the Lease Agreement, Big Rivers expects to realize the following minimum lease revenue for the years ending December 31:

Year	Amount
2006	$ 52,332
2007	52,332
2008	52,332
2009	52,332
2010	52,332
Thereafter	462,199
	$ 723,859

Utility Plant and Depreciation—Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of $250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers' weighted-average debt to the accumulated expenditures for qualifying projects included in construction in progress.

In accordance with the terms of the Lease Agreement, the Company generally records capital additions for Incremental Capital Costs and Non-incremental Capital Costs expenditures funded by LG&E Energy Corporation as utility plant to which the Company maintains title. A corresponding obligation to LG&E Energy Corporation is recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation is amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2005 and 2004, the Company has recorded $6,986 and $12,641, respectively, for such additions in utility plant. The Company has recorded $5,969, $5,077, and $1,726 in 2005, 2004, and 2003, respectively, as related lease revenue in the accompanying financial statements.

In accordance with the Lease Agreement, and in addition to the capital costs funded by LG&E Energy Corporation (see Note 2) that are recorded by the Company as utility plant and lease revenue, LG&E Energy Corporation also incurs certain Non-Incremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they forego a Residual Value Payment by Big Rivers upon lease termination. Such amounts are not recorded as utility plant or lease revenue by the Company. At December 31, 2005, the cumulative Non-Incremental Capital Costs amounted to $6,618 (unaudited). LG&E Energy Corporation is also in the process of constructing a scrubber (Major Capital Improvement) on Big Rivers' Coleman plant. This scrubber is estimated to be placed into service July 2006 at a cost of $97,824 (unaudited), none of which is expected to be recorded as utility plant or lease revenue.

Depreciation of utility plant in service is recorded using the straight-line method over the estimated remaining service lives, as approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant-leased	1.60–2.47%
Transmission plant	1.76–3.24%
General plant	1.11–5.62%

For 2005, 2004, and 2003, the average composite depreciation rates were 1.86%, 1.86%, and 1.83%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

Impairment Review of Long-Lived Assets—Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. SFAS No. 144 requires the evaluation for impairment involve the comparison of an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to operations or discontinued operations.

Restricted Investments—Investments are restricted under contractual provisions related to the sale-leaseback transaction discussed in Note 4. These investments have been classified as held-to-maturity and are carried at amortized cost.

Cash and Cash Equivalents—Big Rivers considers all short-term, highly-liquid investments with original maturities of three months or less to be cash equivalents.

Income Taxes—As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to non-member operations are taxable to Big Rivers. Big Rivers and BRLC file a consolidated Federal income tax return and Big Rivers files a separate Kentucky income tax return.

Patronage Capital—As provided in the bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and non-operating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income. During 2005 and 2004, the Company was not required to make a patronage allocation to its three member distribution cooperatives in accordance with its bylaws. The Company anticipates no patronage allocation to its members in 2006 based on such calculations for tax year 2005.

Derivatives—Management has reviewed the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, and has determined that all contracts meeting the definition of a derivative also qualify for the normal purchases and sales exception under SFAS No. 133 and, therefore, are not required to be recognized at fair value in the financial statements.

New Accounting Pronouncements—In May 2005, the FASB issued SFAS No. 154, *Accounting for Changes and Error Corrections*. SFAS No. 154 eliminates the requirement in APB Opinion No. 20, *Accounting Changes*, to include the cumulative effect of a change in accounting principle in the income statement in the period of change. Changes in accounting principle should be retrospectively applied by applying the new accounting principle as of the beginning of the first period presented as if that principle had always been used unless it is not practical to do so. Management does not expect the adoption of SFAS No. 154 to have a significant impact on its financial position or results of operations.

2. LG&E LEASE AGREEMENT

On July 15, 1998 ("Effective Date"), a lease was consummated ("Lease Agreement"), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation ("WKEC"), a wholly owned subsidiary of LG&E Energy Corporation ("LEC"). Pursuant to the Lease Agreement, WKEC operates the generating facilities and maintains title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill its obligation to supply power to its members, the Company purchases substantially all of its power requirements from LG&E Energy Marketing Corporation ("LEM"), a wholly owned subsidiary of LEC, pursuant to a power purchase agreement.

Big Rivers continues to operate its transmission facilities and charges LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement are as follows:

I. WKEC leases and operates Big Rivers' generation facilities through 2023.

II. Big Rivers retains ownership of the generation facilities both during and at the end of the lease term.

III. WKEC pays Big Rivers an annual lease payment of $30,965 over the lease term, subject to certain adjustments.

IV. On the Effective Date, Big Rivers received $69,100 representing certain closing payments and the first two years of the annual lease payments. In accordance with SFAS No. 13, *Accounting for Leases*, the Company amortizes these payments to revenue on a straight-line basis over the life of the lease.

V. Big Rivers continues to provide power for its members, excluding the member loads serving the Aluminum Smelters, through its power purchase agreements with LEM and the Southeastern Power Administration, based on a pre-determined maximum capacity. When economically feasible, the Company also obtains the power necessary to supply its member loads, excluding the Aluminum Smelters, in the open market. Kenergy's retail service for the Aluminum Smelters is served by LEM and other third-party providers that may include Big Rivers. To the extent the power purchased from LEM does not reach pre-determined minimums, the Company is required to pay certain penalties. Also, to the extent additional power is available to Big Rivers under the LEM contract, Big Rivers may sell to non-members.

VI. LEM will reimburse Big Rivers an additional $92,799 for the margins expected from the Aluminum Smelters through 2011, being defined as the net cash flows that Big Rivers anticipated receiving if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the "Monthly Margin Payments").

VII. WKEC is responsible for the operating costs of the generation facilities; however, Big Rivers is partially responsible for ordinary capital expenditures ("Non-incremental Capital Costs") for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. This cumulative amount is not expected to exceed $148,000 over the entire 25½ year Lease Agreement. At the end of the lease term, Big Rivers is obligated to fund a

"Residual Value Payment" to LEC for such capital additions during the lease, currently estimated to be $125,880 (see Note 1). Adjustments to the Residual Value Payment will be made based upon actual capital expenditures. Additionally, WKEC will make required capital improvements to the facilities to comply with a new law or a change to existing law ("Incremental Capital Costs") over the lease life (the Company is partially responsible for such costs: 20% through 2010) and the Company will be required to submit another Residual Value Payment to LEC for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease, currently estimated to be $15,561. The Company will have title to these assets during the lease and upon lease termination.

VIII. Big Rivers entered into a note payable with LEM for $19,676 (the "LEM Settlement Note") to be repaid over the term of the Lease Agreement, which bears interest at 8% per annum, in consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements. The Company recorded this obligation as a component of deferred charges with the related payable recorded as long-term debt in the accompanying balance sheets. This deferred charge is being amortized on a straight-line basis over the lease term.

IX. On the Effective Date, Big Rivers paid a non-refundable marketing payment of $5,933 to LEM, which has been recorded as a component of deferred charges. This amount is being amortized on a straight-line basis over the lease term.

X. During the lease term, Big Rivers will be entitled to certain "billing credits" against amounts the Company owes LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers received a credit of $89. For the year 2011, Big Rivers will receive a credit of $2,611 and for the years 2012 through 2023, the Company will receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company is allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM does not meet certain minimum levels, and to sell excess power (power not needed to supply its jurisdictional load) in the open market (collectively referred to as "Arbitrage"). Pursuant to the New RUS Promissory Note and the RUS ARVP Note, the benefit, net of tax, as defined, derived from Arbitrage must be divided as follows: one-third, adjusted for capital expenditures, will be used to make principal payments on the New RUS Promissory Note; one-third will be used to make principal payments on the RUS ARVP Note; and the remaining value may be retained by the Company.

Management is of the opinion that the Company is in compliance with all covenants of the Lease Agreement.

3. UTILITY PLANT

The following summarizes utility plant at December 31, 2005 and 2004:

	2005	2004
Classified plant in service:		
Electric plant—leased	$1,497,039	$1,494,222
Transmission plant	202,925	192,601
General plant	14,819	11,629
Other	67	67
	1,714,850	1,698,519
Less accumulated depreciation	798,684	772,938
	916,166	925,581
Construction in progress	12,706	15,068
Utility plant—net	$ 928,872	$ 940,649

Interest capitalized for the years ended December 31, 2005, 2004, and 2003, was $160, $221, and $145, respectively.

The Company has not identified any legal obligations, as defined in SFAS No. 143, *Accounting for Asset Retirement Obligations*, which was further interpreted by FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2005 and 2004, the Company had a regulatory liability of approximately $23,619 and $20,796, respectively, related to non-legal removal costs included in accumulated depreciation.

4. SALE-LEASEBACK

On April 18, 2000, the Company completed a sale-leaseback of two of its utility plants, including the related facilities and equipment. The sale-leaseback provides Big Rivers a $1,089,000 fixed price purchase option, at the end of each lease term (25 and 27 years), which, together with future contractual interest receipts, will be fully funded.

This transaction has been recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, Big Rivers received $866,676 of proceeds and incurred $791,626 of related obligations. Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished $656,029 of these obligations with an equivalent portion of the proceeds. The Company also purchased two investments totaling $146,647 to fund the remaining $135,597 of the obligations. These amounts are reflected as restricted investments under long-term lease and obligations related to long-term lease in the accompanying balance sheets. Interest received and paid will be recorded to these accounts over the life of the lease. Currently, the Company is paying 7.57% interest on its obligations related to long-term lease and receiving 6.89% on its related investments. The Company made a $64,000 principal payment on the New RUS Promissory Note with the remaining proceeds. The $75,050 gain was deferred and will be amortized over the respective lease terms, of which the Company recognized $2,856, $2,824, and $2,785, in 2005, 2004, and 2003, respectively. Principal payments begin in 2009.

Amounts recognized in the statement of financial position related to the sale-leaseback as of December 31, 2005 and 2004 are as follows:

	2005	2004
Restricted investments under long-term lease	$ 180,650	$ 174,695
Obligations related to long-term lease	170,954	164,704
Deferred gain on sale-leaseback	59,262	62,118

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2005, 2004, and 2003 are as follows:

	2005	2004	2003
Power contracts revenue (revenue discount adjustment, see Note 6)	$ (3,680)	$ (3,680)	$ (3,680)
Interest on obligations related to long-term lease:			
Interest expense	11,965	11,548	11,140
Amortize gain on sale-leaseback	(2,856)	(2,823)	(2,785)
Net interest on obligations related to long-term lease	9,109	8,725	8,355
Interest income on restricted investments under long-term lease	11,670	11,278	10,894
Interest income and other (CoBank patronage allocation)	772	661	655

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt is as follows at December 31, 2005 and 2004:

	2005	2004
New RUS Promissory Note, stated amount, $812,235, stated interest rate of 5.75%, with an interest rate of 5.81%, maturing July 2021.	$ 808,094	$ 834,601
RUS ARVP Note, stated amount $254,730, no stated interest rate, with interest imputed at 5.81%, maturing December 2023.	90,347	85,814
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023.	17,173	17,603
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 2.46% and 1.27% in 2005 and 2004 respectively), maturing in October 2022.	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 2.46% and 1.27% in 2005 and 2004 respectively), maturing in June 2013.	58,800	58,800
Total long-term debt	1,057,714	1,080,118
Current maturities	465	430
Voluntary prepayment	10,403	-
Total long-term debt—net of current maturities and prepayment	$ 1,046,846	$ 1,079,688

The following are scheduled maturities of long-term debt at December 31:

Year	Amount
2006	$ 10,868
2007	24,056
2008	39,179
2009	39,231
2010	41,287
Thereafter	903,093
Total	$ 1,057,714

RUS Notes—On July 15, 1998, Big Rivers recorded the New RUS Promissory Note and the RUS ARVP Note at fair value using the applicable market rate of 5.81%. The RUS Notes are collateralized by substantially all assets of the Company.

Pollution Control Bonds—The County of Ohio, Kentucky, issued $83,300 of Pollution Control Periodic Auction Rate Securities, Series 2001, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a variable rate and mature in October 2022.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

The Series 1983 bonds are supported by a liquidity facility issued by Credit Suisse First Boston, and both Series are supported by municipal bond insurance and surety policies issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policies or the surety policies.

LEM Settlement Note—On the Effective Date, Big Rivers executed the Settlement Note with LEM. The Settlement Note requires Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment is approximately $1,822 annually. This payment is consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements.

Other Long-Term Obligations—During 1997, Big Rivers terminated two unfavorable coal contracts. In connection with that settlement, the Company paid $351, $351, and $351 during 2005, 2004, and 2003, respectively. At December 31, 2005, the Company has a remaining liability of $437 payable over the next three years, of which $345 is included in current maturities of long-term obligations.

Notes Payable—Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation. The maximum borrowing capacity on the line of credit is $15,000, and there were no amounts outstanding on the line of credit at December 31, 2005. The line of credit bears interest at a variable rate. Each advance on the line of credit is payable within one year.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a demand charge per kW and an energy charge per kWh consumed as approved by the KPSC. The rates include specific rate designs for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. The remaining customers demand charge is based upon the maximum coincident demand of each member's delivery points. The demand and energy charges are not subject to adjustments for increases or decreases in fuel or environmental costs. Big Rivers' current rates will remain in effect until changed by the KPSC.

Effective since September 1, 2000, the KPSC has approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members through August 31, 2006, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. The extent to which Big Rivers requests KPSC approval to continue the adjustment depends upon its planned environmental compliance costs and its overall financial condition. In March 2006, Big Rivers plans to request the KPSC's approval to extend the adjustment through August 31, 2007.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31, 2005 and 2004 were as follows:

	2005	2004
Deferred tax assets:		
Net operating loss carryforward	$ 80,769	$ 88,875
Alternative minimum tax credit carryforwards	4,283	3,965
Sale-leaseback	130,568	124,755
Lease agreement	(15,395)	(9,145)
Total deferred tax assets	200,225	208,450
Deferred tax liabilities:		
Fixed asset basis difference	(10,178)	(18,143)
Other accruals	2,066	1,727
Total deferred tax liabilities	(8,112)	(16,416)
Net deferred tax asset (pre-valuation allowance)	192,113	192,034
Valuation allowance	(187,830)	(188,069)
Net deferred tax asset	$ 4,283	$ 3,965

Big Rivers was formed as a tax-exempt cooperative organization described in Internal Revenue Code Section 501(c)(12). To retain tax-exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to non-members resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company is a taxable cooperative. Big Rivers is also subject to Kentucky income tax.

Under the provisions of SFAS No. 109, *Accounting for Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse.

At December 31, 2005 and 2004, Big Rivers had a non-patron net operating loss carryforward of approximately $196,998 and $216,771, respectively, for tax reporting purposes expiring 2006 through 2013, and an alternative minimum tax credit carryforward at December 31, 2005 and 2004 of approximately $4,283 and $3,965, respectively, which carries forward indefinitely.

Big Rivers has a net deferred tax asset, against which a valuation allowance has been provided, in part, based upon the fact that it is presently uncertain whether such asset will be realized. The resulting net deferred tax asset at December 31, 2005 and 2004 is approximately $4,283 and $3,965, respectively, that represents the alternative minimum tax credit carryforward, against which no allowance has been provided.

8. POWER PURCHASED

In accordance with the Lease Agreement, Big Rivers supplies all of the members' requirements for power to serve their customers, other than the Aluminum Smelters. Contract limits were established in the Lease Agreement and include minimum and maximum hourly and annual power purchase amounts. Big Rivers cannot reduce the contract limits by more than 12 MW in any year, or by more than a total of 72 MW over the lease term. In the event Big Rivers fails to take the minimum requirement during any hour or year, Big Rivers is liable to LEM for a certain percentage of the difference between the amount of power actually taken and the applicable minimum requirement.

Although Big Rivers will be required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease does not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the years ended December 31, 2005, 2004, and 2003 were $96,795, $89,696 and $79,136, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

Big Rivers has non-contributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The following is an assessment of the Company's non-contributory defined benefit pension plans at December 31, 2005 and 2004:

	2005	2004
Projected benefit obligation	$ (16,550)	$ (15,931)
Fair value of plan assets	11,868	11,982
Funded status	$ (4,682)	$ (3,949)

The accumulated benefit obligation for all defined benefit pension plans was $11,426 and $11,359 at December 31, 2005 and 2004, respectively.

Amounts recognized in the statement of financial position at December 31, 2005 and 2004:

	2005	2004
Prepaid benefit cost	$ 110	$ 239
Accrued benefit liability	(108)	-
Net amount recognized	$ 2	$ 239

Net periodic pension costs, which are calculated based on actuarial assumptions at January 1, were as follows for the years ended December 31, 2005, 2004, and 2003:

	2005	2004	2003
Benefit cost	$ 1,158	$ 954	$ 995
Employer contribution	921	843	823
Benefits paid or transferred	1,757	103	937

Assumptions used to develop the projected benefit obligation were:

	2005	2004	2003
Discount rates	5.75 %	5.75 %	6.25 %
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.50	7.50

The expected long-term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, we determined the expected rate of return at a 50% probability of achievement level based on (a) forward-looking rate of return expectations for passively-managed asset categories over a 20-year time horizon and (b) historical rates of return for passively-managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.15%, which was rounded to 7.25%.

The general investment objectives are to invest in a diversified portfolio, comprised of both equity and fixed income investments, which are further diversified among various asset classes. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plans of up to 55% equities. The remaining 45% may be allocated among fixed income or cash equivalent investments. Objectives do not target a specific return by asset class. These investment objectives are long-term in nature. As of December 31, 2005, the investment allocation was 56% equities and 44% fixed income.

Expected retiree pension benefit payments projected to be required during the years following 2005 are:

Year	Amount
2006	$ 839
2007	679
2008	1,583
2009	795
2010	1,319
2011–2015	10,688
Total	$ 15,903

In 2006, the Company expects to contribute $1,004 to its pension plan trusts.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short maturity.

The fair value of restricted investments is determined based upon quoted market prices and rates. The carrying value of the investments is recorded at accreted value and the terms of the investment are within Note 4. The estimated fair values of the restricted investments are as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted investments	$ 180,650	$ 236,571	$ 174,695	$ 221,278

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

It was not practical to estimate the fair value of long-term debt due to Big Rivers' inability to obtain long-term debt from outside parties.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. As of July 1, 2001, Big Rivers pays 85% of the cost from age 62 to 65 for all retirees. For salaried employees who retired prior to December 31, 1993, Big Rivers pays 100% of Medicare supplemental costs. For salaried employees who retire after December 31, 1993, Big Rivers pays 25% plus $25 per month of the Medicare supplemental costs.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") was enacted. The Medicare Act created Medicare Part D, a new prescription drug benefit that is available to all Medicare-eligible individuals, effective January 1, 2006. NRECA (National Rural Electric Cooperative Association), the provider of Big Rivers' health plan coverage through the NRECA Group Benefits Trust, chose to become a Medicare Part D provider. Effective January 1, 2006, Part D coverage is the only drug coverage available to Big Rivers' Medicare-eligible retirees.

The discount rate used in computing the postretirement obligation was 5.75% for 2005 and 6.25% for 2004. A health care cost trend rate of 10.0% in 2005 declining to 5.5% in 2011 was utilized.

The following is an assessment of the Company's postretirement plan at December 31, 2005 and 2004:

	2005	2004
Total benefit obligation	$ (3,339)	$ (3,440)
Unfunded accrued postretirement cost	(3,755)	(3,662)

The components of net periodic postretirement benefit costs for the years ended December 31, 2005, 2004, and 2003, which are calculated based on actuarial assumptions at January 1, were as follows:

	2005	2004	2003
Benefit cost	$ 286	$ 310	$ 277
Benefits paid	216	188	175

Expected retiree benefit payments projected to be required during the years following 2005 are:

Year	Amount
2006	$ 169
2007	190
2008	203
2009	229
2010	248
2011–2015	1,422
Total	$ 2,461

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours, such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $270 and $259 at December 31, 2005 and 2004, respectively. The postretirement expense recorded was $27, $28, and $51 for 2005, 2004, and 2003, respectively, and the benefits paid were $16, $-0-, and $21 for 2005, 2004, and 2003 respectively.

12. BENEFIT PLAN—401(K)

Big Rivers has two defined contribution retirement plans covering bargaining and salaried employees. Big Rivers matches up to 60% of the first 6% of eligible employees' wages contributed. Employees generally become vested in Company matching contributions based upon years of service as follows:

Years of Vesting Service	Vested Percentage
1	20 %
2	40
3	60
4	80
5 or more	100

Employees are also permitted to make pre-tax contributions of up to 75% of eligible wages. Big Rivers' expense under this plan was $178, $168, and $160 for the years ended December 31, 2005, 2004, and 2003, respectively.

13. RELATED PARTIES

For the years ended December 31, 2005, 2004, and 2003, Big Rivers had tariff sales to its members of $109,439, $105,004, and $103,118, respectively. In addition, for the years ended December 31, 2005, 2004, and 2003, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Weyerhaeuser loads of $46,372, $43,017, and $26,327 respectively.

At December 31, 2005 and 2004, Big Rivers had accounts receivable from its members of $12,872 and $12,128, respectively.

In October 2005, Big Rivers made a lump sum payment of $221 to Kenergy for the lease of office space in a building owned by Kenergy. The charge for the lump sum payment was deferred and is being amortized over the life of the agreement.

14. COMMITMENTS AND CONTINGENCIES

Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

* * * * * *

Big Rivers
Electric Corporation

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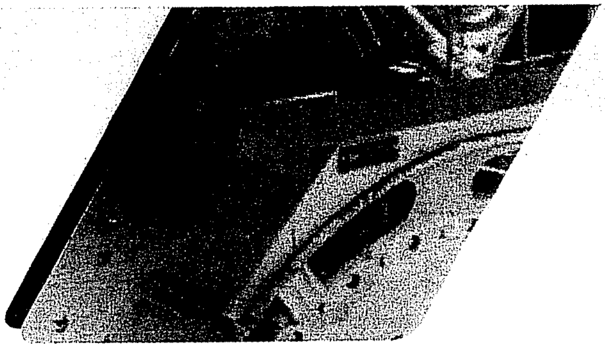
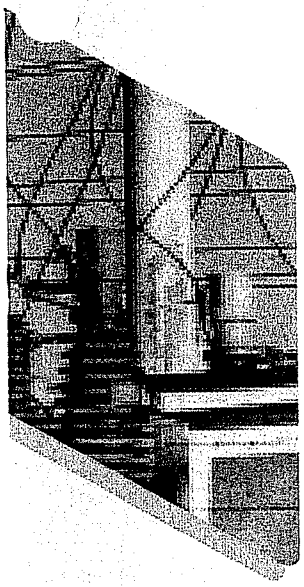
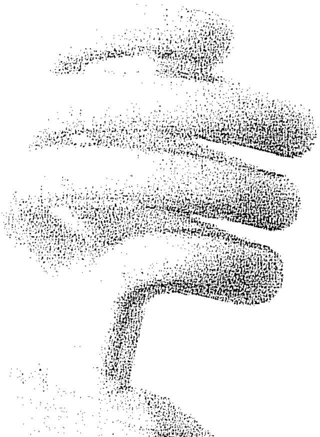
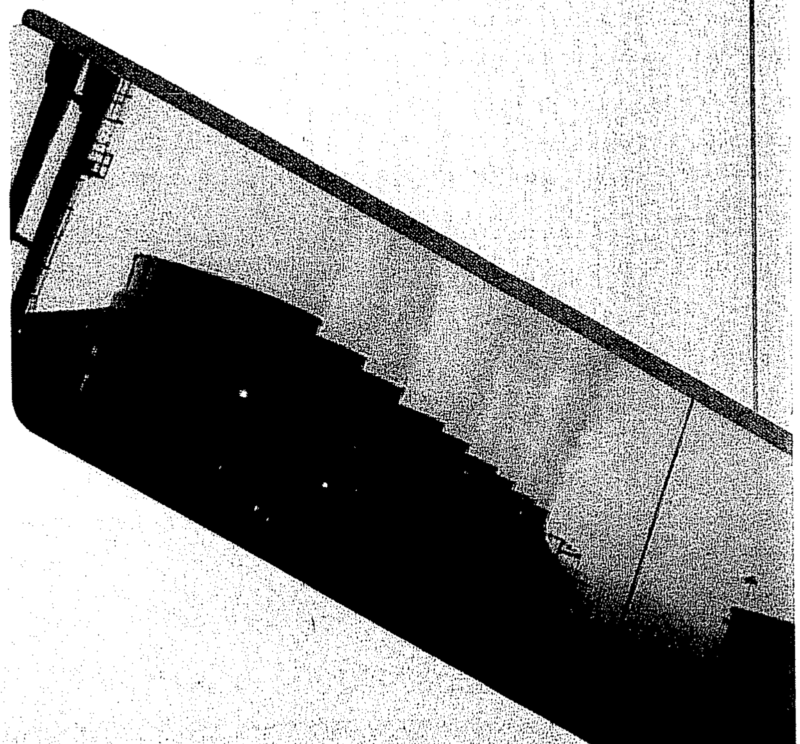
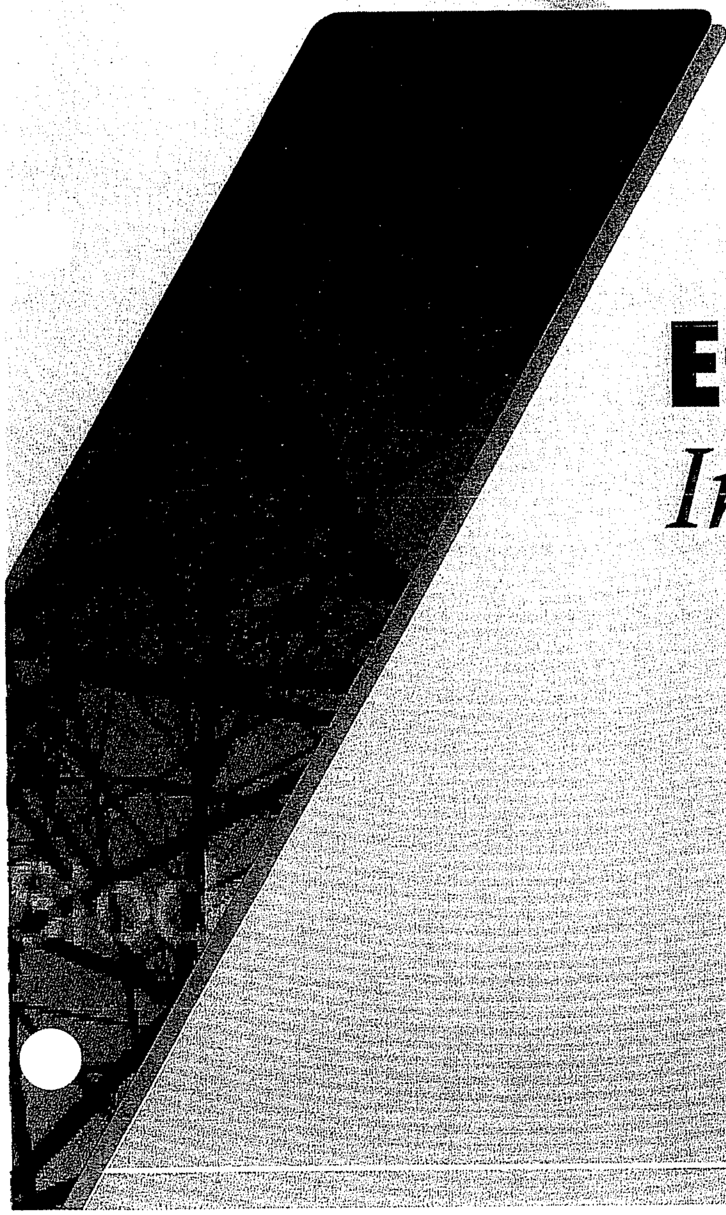
42420

270-827-2561

www.bigrivers.com

Your Touchstone Energy® Cooperative

Efficiency
In Electricity

Big Rivers
Electric Corporation

2006 Annual Report

Financial Highlights

For the years ended December 31, 2006, 2005, 2004, 2003 and 2002 | (Dollars in thousands)

	2006	2005	2004	2003	2002
Margins	34,542	26,343	22,025	18,349	10,055
Equity	(217,370)	(251,913)	(278,256)	(300, 281)	(319,013)
Capital Expenditures*	13,189	12,904	12,203	21,397	21,700
Cash & Cash Equivalents	96,143	67,264	54,891	15,802	20,061
New RUS Note Voluntary Prepayment Status	34,995	55,357	53,518	80,101	60,479
Times Interest Earned Ratio	1.47	1.37	1.32	1.27	1.14
Debt Service Coverage Ratio	1.86	1.79	1.76	1.46	1.19
Cost of Debt	5.83%	5.57%	5.35%	5.34%	5.38%
Cost of Capital	7.82%	7.58%	7.38%	7.36%	7.37%

** Big Rivers' share only.*

At-a-Glance

Incorporated . . . . June 1961

Generating Capacity . . . . 1,459 MW

Total Power Capacity . . . . 1,854 MW

Employees 105

Member Distribution Systems 3

Counties Reached 22

Member Consumers Served 110,000

Miles of Transmission Line 1,232

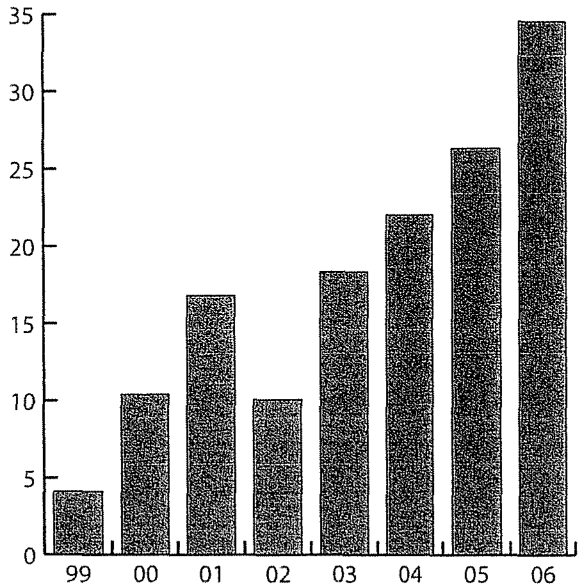
Total Energy Sales . . . . 5,250,342 MWh

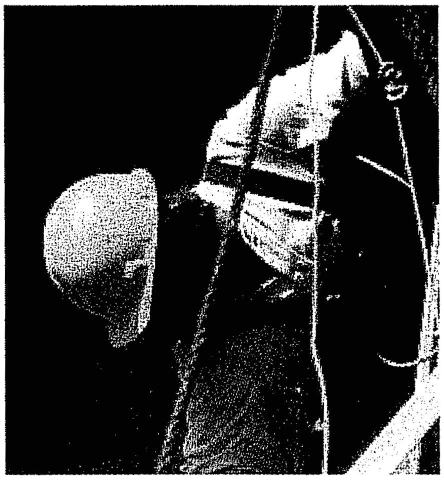
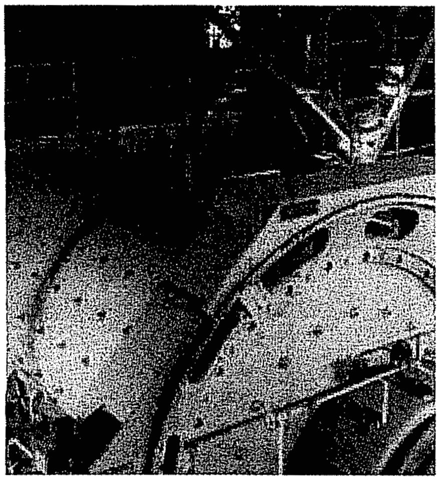
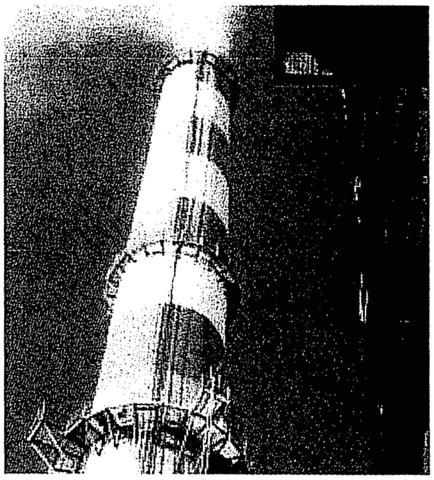
Total Energy Revenue . . . . . . $ 190,834,000

Average Member Cost . . . . . . $ 34.11/MWh

Net Margins

in millions of dollars



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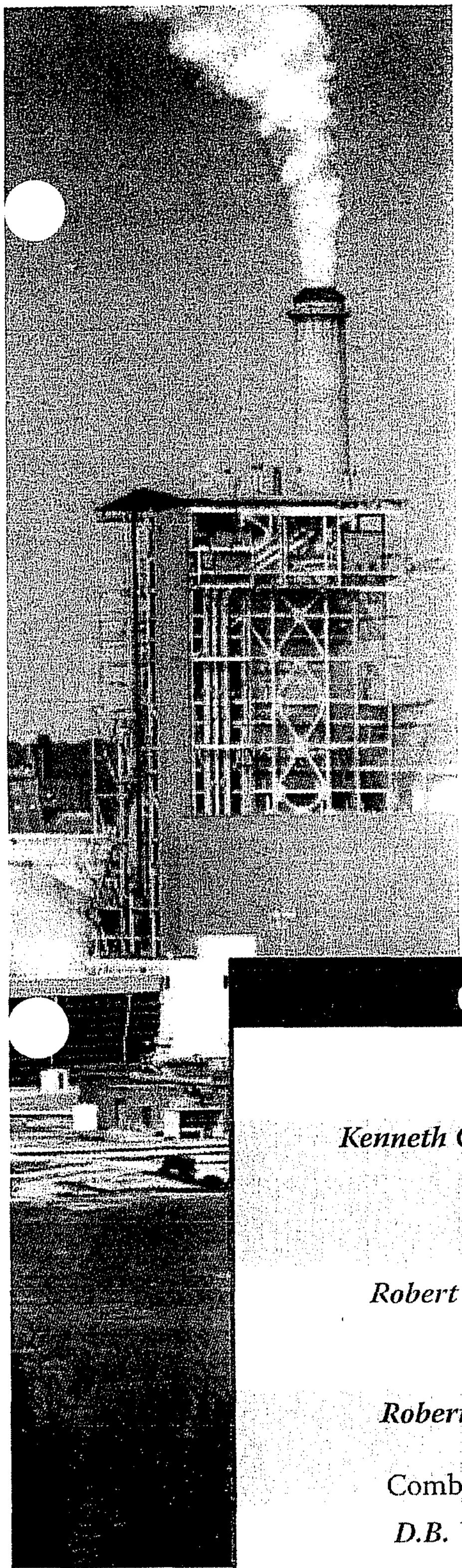


Corporate Profile

Big Rivers Electric Corporation is an electric generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky and owned by its three distribution system members—Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg.

Big Rivers supplies the wholesale power needs of its three member-systems and markets surplus power to non-member utilities and power markets. These three member-systems provide retail electric power and energy to more than 110,000 residential, commercial, and industrial member-consumers in portions of 22 western Kentucky counties.

Big Rivers owns a generating capacity of 1,459 megawatts (MW) in four plants. Total power capacity is 1,854 MW, including rights to Henderson Municipal Power and Light (HMP&L) Station Two and contracted capacity from Southeastern Power Administration (SEPA).

GENERATING CAPACITY OWNED = 1,459 Megawatts

Facilities	Type of Fuel	Net Capacity (MW)	Commercial Operation Date
Kenneth C. Coleman Plant			
Unit 1	Coal	150	1969
Unit 2	Coal	150	1970
Unit 3	Coal	155	1972
Robert D. Green Plant			
Unit 1	Coal	231	1979
Unit 2	Coal	223	1981
Robert A. Reid Plant			
Unit 1	Coal/Natural Gas	65	1966
Combustion Turbine	Oil/Natural Gas	65	1976
D.B. Wilson Unit 1	Coal	420	1986

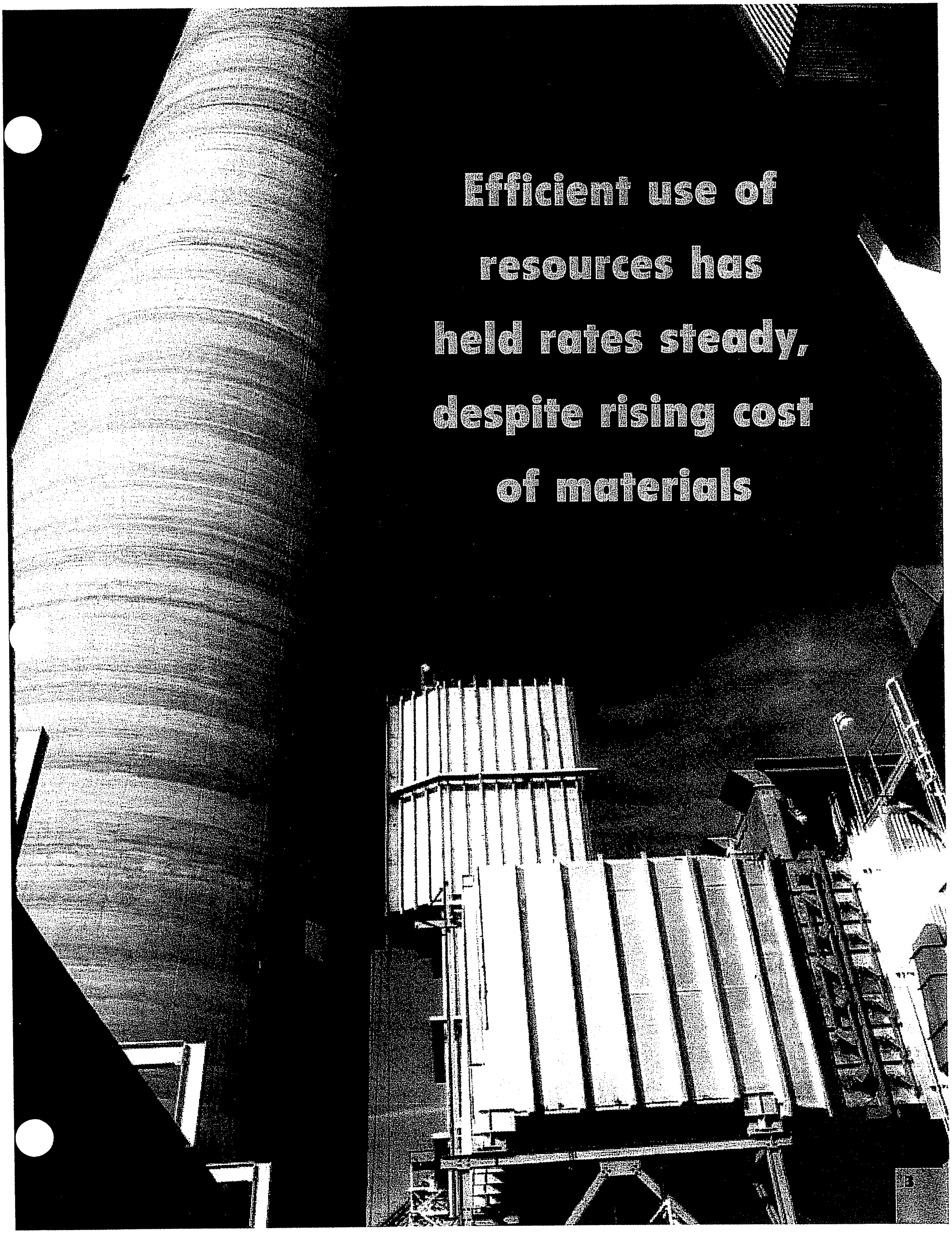
TOTAL POWER CAPACITY AVAILABLE = 1,854 Megawatts

Generating Capacity Owned* = 1,459 MW

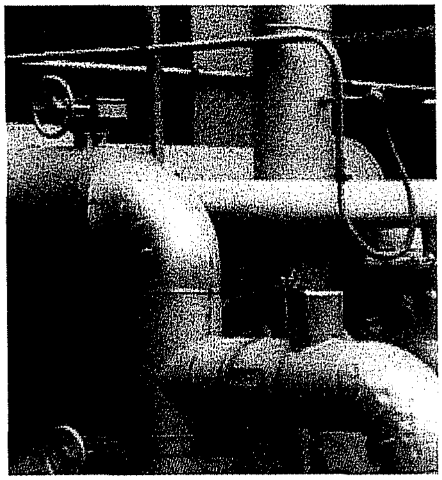
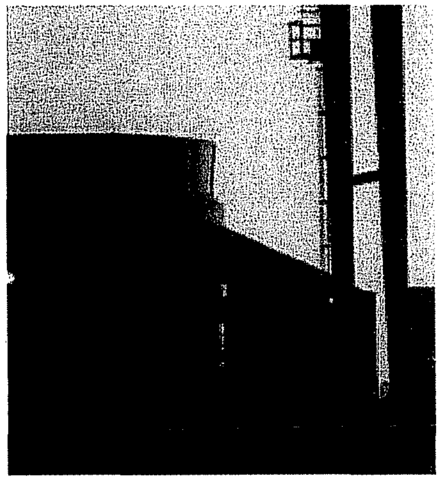
Rights to HMP&L Station Two* = 217 MW

Contracted Capacity from SEPA = 178 MW

** These facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.*


Efficient use of
resources has
held rates steady,
despite rising cost
of materials

Message from CEO & Board Chair

The word efficiency, while often overused, is still one of the most important terms in the vocabulary of business operations. Efficiency is being productive without waste. In our business, efficiency has many applications. We strive to be efficient in our budgets and the use of funds in the operations of providing electric power supply to Big Rivers' member distribution systems. We look to produce electricity as efficiently as possible.

While we continually work to improve our efficiencies at Big Rivers, we also believe our members and their member-consumers need to strive to use electricity more efficiently.

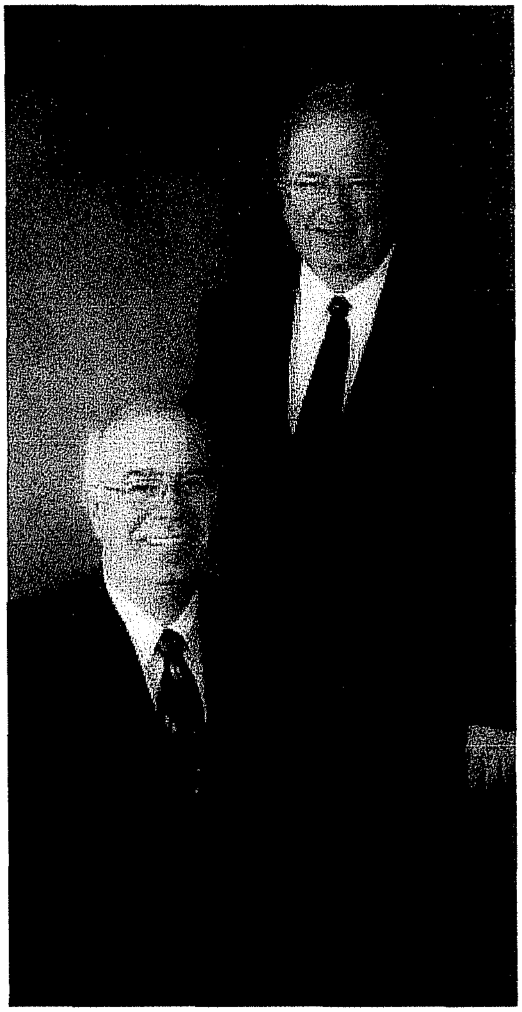
The appetite for energy in our country continues to steadily grow each year. This growth ultimately results in the need for new resources for generating additional electricity. The cost of building new electric generating plants is rising dramatically as materials and labor for construction are in high demand here and in other countries. It behooves us to use electricity more efficiently and avoid, where possible, the costs of building new generation.

Big Rivers and its member-systems are going to rededicate our efforts in emphasizing and focusing on helping the more than 110,000 member-consumers to become more efficient in their use of electricity. After all, Big Rivers and its members are cooperatives owned by those 110,000 member-consumers and we take to heart the need to provide the best service we can to our owners.

Big Rivers continues to be efficient in its operations and the result was its best year ever. Margins for 2006 were $34.5 million. Seeking better efficiency each year in all aspects of its operations has propelled Big Rivers to a string of annually improving financial results.

However, Big Rivers must continue those efforts of improved efficiency if it is to be successful in working to achieve an unwind of the 1998 transaction with E.ON U.S., LLC and certain of its affiliates. In the 1998 transaction, Big Rivers leased its generating facilities and assigned its rights under the HMP&L Station Two arrangements to E.ON U.S. Big Rivers and E.ON U.S. signed a Letter of Intent in late 2005 to move forward with the unwind of this transaction. A part of this effort includes a long-term power contract with the two smelters served by Kenergy Corp., one of the three Big Rivers member-systems.

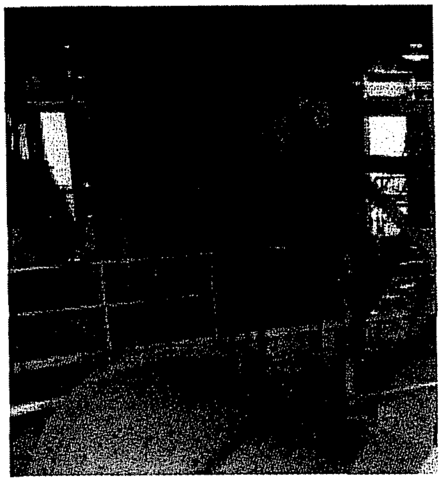
This major effort, if successful, will bring the operations of our power plants back to Big Rivers as was the case prior to the 1998 transaction. It will require us to be efficient to accomplish the mountains of work necessary for this effort and to still operate Big Rivers on a daily basis. The results of this effort will be a Big Rivers on solid financial footing and playing a key role in the future economic development of rural western Kentucky.



Michael Core
President and CEO

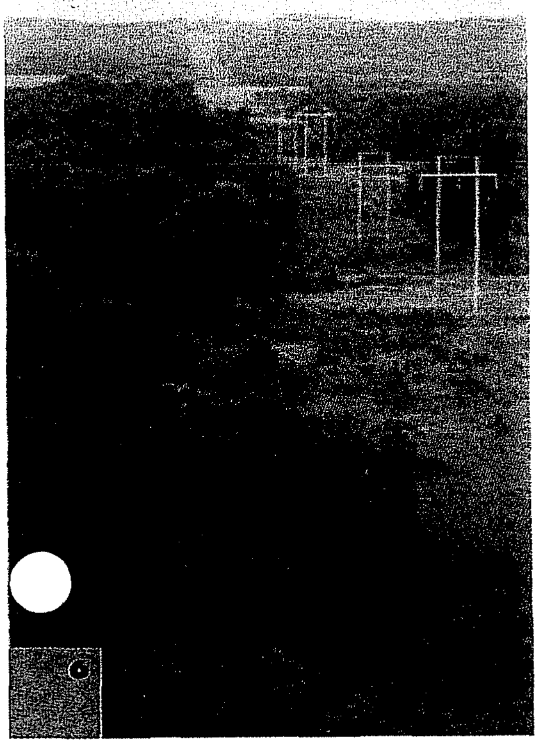
William Denton
Chair of the Board of Directors

Efficiency in Electricity

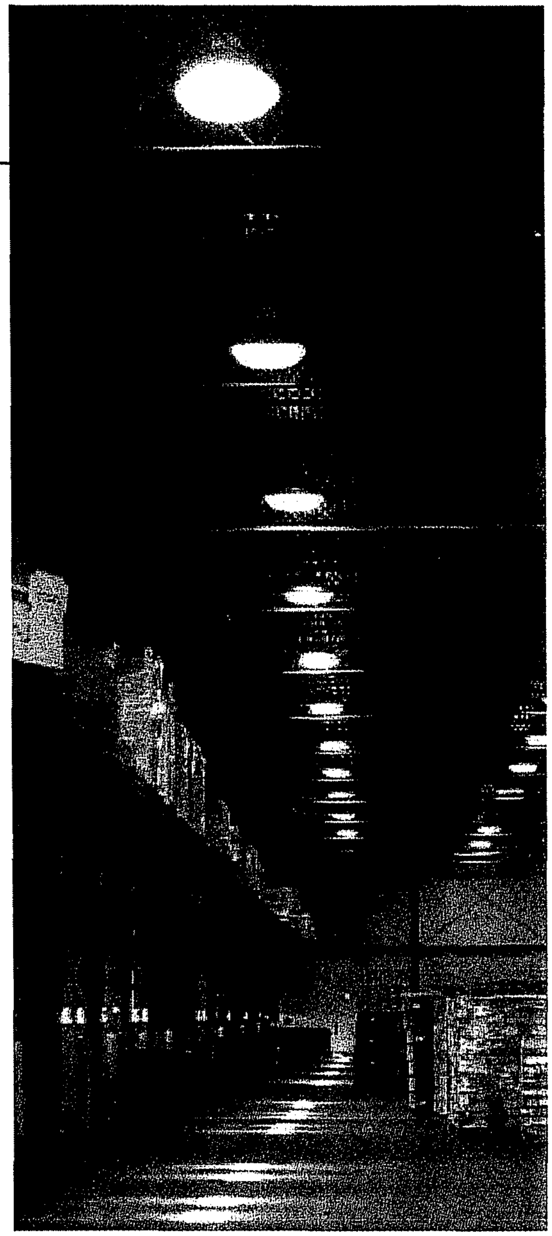

Efficiency in the energy industry can have a number of meanings, and be measured in a myriad of ways. Energy production, transmission, distribution and end usage all play into the success of Big Rivers and the three distribution systems that own it. There's nothing simple about maintaining energy efficiency for tens of thousands of member-consumers amid rising operating costs and a changing regulatory environment. Yet, that's what Big Rivers accomplished in 2006. Despite rising costs, the company was able to hold the line on rates to members and increase margins by more than 30 percent.

Big Rivers accomplished a number of important objectives in 2006 and kicked off several new initiatives that will result in the same affordable, value-conscious service on which Big Rivers members have come to depend. The following pages highlight some of the key activities from the past year that not only kept costs under control, but also benefited our members and their member-owners.



Vegetation Management Plans

Power lines downed by falling tree branches are a constant threat in this part of the country, and Big Rivers has risen to the challenge with a multimillion dollar initiative begun in 2006. Reliability and safety are at the heart of a program to keep trees and other vegetation clear of power lines throughout the Big Rivers region.



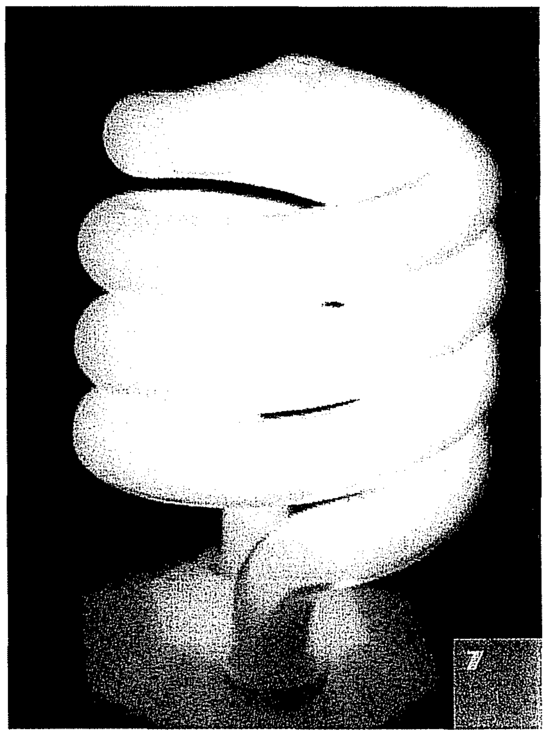
The system operations departments of Big Rivers and its member-systems have enacted vegetation management plans aimed at providing maximum reliability in preparation for severe storms, which are always a potential for power outages year-round.

Energy Efficiency Programs and Partnerships

Big Rivers partnered with its member-systems in a comprehensive, educational campaign that included energy audits, educational workshops, energy efficiency incentives and other programs designed to provide member-consumers with the general "know-how" to make decisions that improve their efficiency.

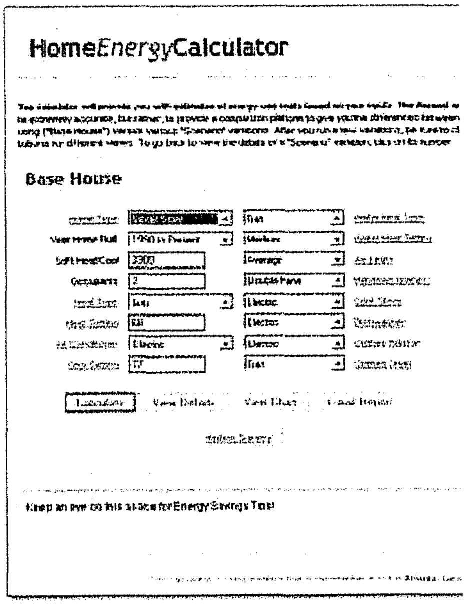
Big Rivers partnered with the Governor's Office of Energy Policy, the Department of Energy and other agencies to bring the High Performance Schools program to its service region. This partnership resulted in new and more efficient school buildings for both Hancock and Meade counties. Three Hancock County schools were renovated with high efficiency lighting, heating and cooling. A newly constructed school is a showcase of daylighting and high efficiency heating and cooling.

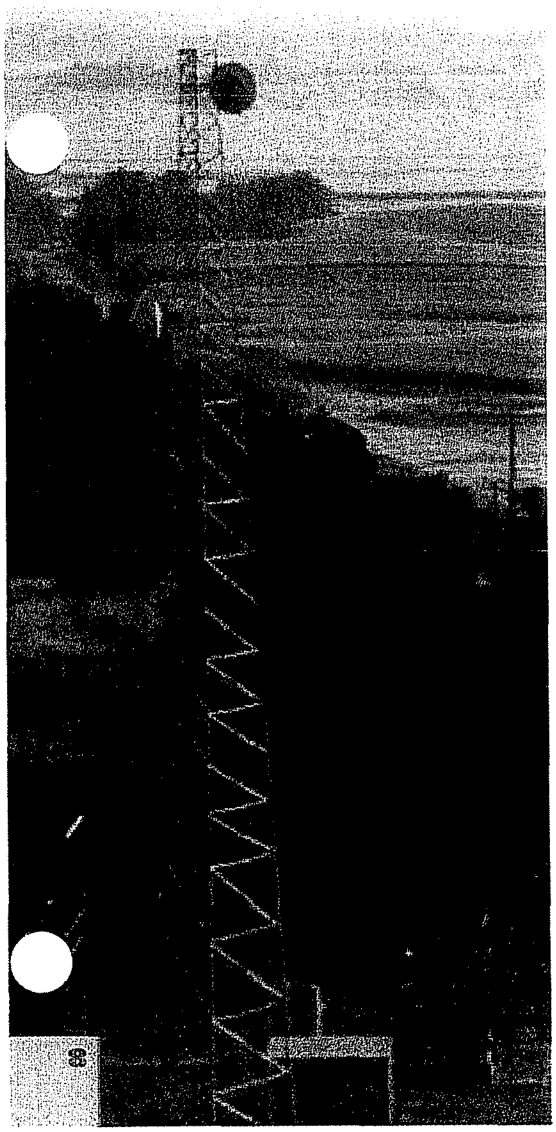
Meade County schools incorporated the highest efficiency heating and cooling system available today and used a composite concrete foam wall system that is both tight and highly insulated. Cooperative staff assisted the school system management through education, demonstration and analysis.



Industrial members benefited from the combined expertise of Big Rivers, its member-systems, and two governmental agencies—The Kentucky Pollution Prevention Center and the Kentucky Industrial Assessment Center. This combined effort helped evaluate energy consumption and provided member-consumers with recommendations on how to save money by reducing energy needs.

Big Rivers and its three member-systems distributed thousands of compact fluorescent light bulbs (CFLs) to residential member-consumers in 2006. CFLs provide the same output as conventional bulbs, but require only a quarter of the energy.





This program benefits the member-consumer financially and also serves as a tangible demonstration of energy efficiency.

Members and member-consumers now have a powerful information resource at their fingertips. Big Rivers redesigned its Web site in 2006 to incorporate educational resources and detailed energy saving recommendations.

Plans for 2007 call for an even more robust energy efficiency program, with particular emphasis placed on education for all—from the largest industrial to the smallest residential member.

Metering and Communications Upgrades

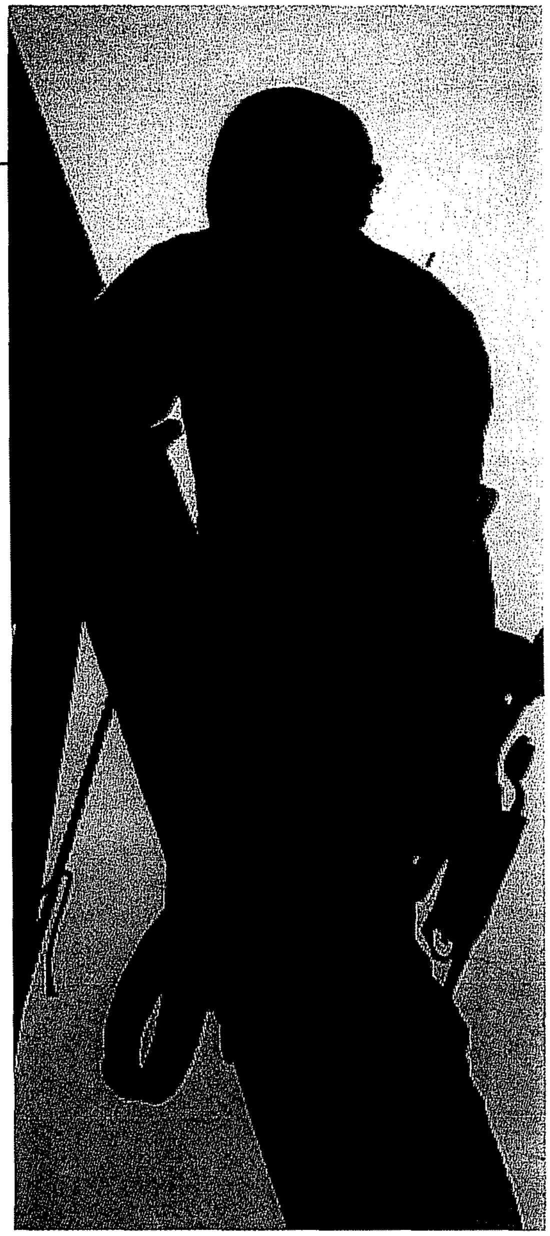
Big Rivers improved its forecasting capabilities by replacing all substation meters and upgrading cell phone communications, making it possible to receive hourly remote readings with faster speed. This increase in productivity will allow the company to be more accurate in its projections and more efficient in power utilization.

Big Rivers provided support to member-systems for the installation of tracking and identification systems designed to improve response time when a power outage takes place. The subsequent reduction in restoration time will help circumvent much of the downtime that member-consumers experience in the wake of violent weather.

Improving the two-way radio system to improve communications between Big Rivers and its three member-systems is the focus of an engineering study begun in 2006. The objective is high-speed communication services between member-system facilities to improve service and reliability.

Member Discount Adjustment Renewed

In 2000, Big Rivers' creditors and the Kentucky Public Service Commission approved a request for a $3.68 million annual discount adjustment for Big Rivers' members. In 2006, the company's Board of Directors gave its assent to a request for renewal, which would continue the revenue discount adjustment through August 31, 2008.



These adjustments pass savings along to members, which the company realizes as a benefit from the leveraged lease of three of its generating units. Big Rivers will continue to act as an advocate for its members when opportunities arise to pass along savings.

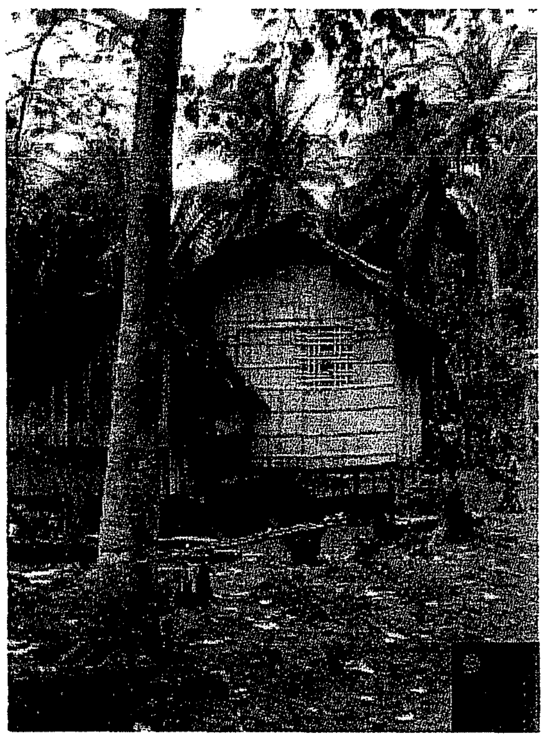
Employee Benefits and Personnel Development

Moving to a new health care plan is expected to help the company achieve greater operational efficiency. Better health care for employees and lower costs for the company are the anticipated outcome of the new preferred provider organization (PPO).

The company renewed its commitment to long-term care for its employees by increasing funding of its retirement benefit plans in 2006. Recent legislation, which permits accelerated funding, cleared the way for Big Rivers to extend this benefit, which will reduce future funding requirements and pension expenses.

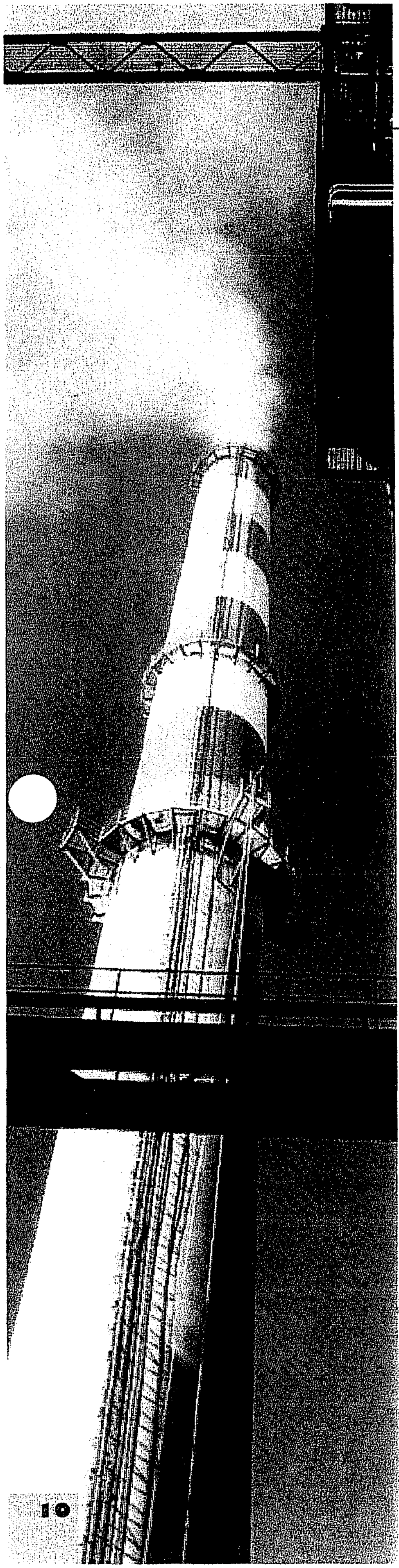
Big Rivers took a step forward in personnel development, instituting an apprentice lineman program aimed at strengthening productivity and maintaining the company's high level of service.

Humanitarian Projects



For the past seven years, Big Rivers has lent its support to the Philippine Project, which brings electric power and economic development to some of the most remote locations in the island archipelago, where multiple families living under one roof is the rule rather than the exception.

Villages tabbed for the project receive low-interest bank loans. Donated equipment is refurbished and installed, and the cost of connecting the village to the power grid is fully covered. Sewing machines, computers and other equipment have been donated to help villages establish local businesses, which in turn help pay for electricity. To date, the Philippine Project has impacted the lives of more than 7,200 people.



Big Rivers Continues To Move Toward Termination Of Lease Agreements With E.ON U.S.

Big Rivers continues to move forward with the letter of intent with E.ON U.S., LLC, formerly known as LG&E Energy LLC, to pursue terminating the various agreements in place since 1998 that gave certain E.ON U.S. subsidiaries operational control of Big Rivers' power plants and ownership of the electricity generated by them. Although the agreements were to run through 2023, the companies are working toward ending the arrangement, with Big Rivers resuming control of its generation facilities and its future.

In a related development, a memorandum of understanding was reached by Big Rivers, one of its member-systems Kenergy Corp. (Kenergy), and two aluminum smelters, Century Aluminum of Kentucky, LLC (Century) in Hawesville, Ky. and Alcan Primary Products Corporation (Alcan) in Sebree, Ky., on pursuing critical long-term arrangements to provide electricity to the smelters that could help protect jobs at the two plants, where some 1,500 people currently are employed. If final agreements are reached and all approvals are received, the smelters would be able to avoid potentially volatile open-market electricity prices when their current power contracts expire in 2010 and 2011, respectively.

Through the lease and related agreements, E.ON U.S. subsidiaries currently operate Big Rivers' facilities at three sites that include eight generating units owned by Big Rivers and two additional units owned by HMP&L. Power is purchased from an E.ON U.S. affiliate and distributed by Big Rivers as wholesale electricity to its three member-systems serving a large area of western Kentucky. In a separate agreement, the same E.ON U.S. subsidiary provides power through Kenergy to the aluminum smelters. If the 1998 agreements eventually are terminated and a number of related agreements are reached, Big Rivers would resume responsibility for power generation at all units, including the HMP&L plant, and would continue to supply wholesale electricity over its transmission system to its three member-systems, including power for Kenergy's service to the smelters.

Key Activities in 2006

Benefits and Retirement

- Management and the union negotiated renewal of the labor agreement that was due to expire on October 14, 2006. The new agreement renews the employee health plan, which moves from an indemnity plan to a PPO. The resulting reduction in overall cost of providing health care was recognized as beneficial to both the company and the employees.

- Big Rivers chose to increase funding of its defined benefit retirement plans in 2006. This action takes advantage of recent legislation permitting accelerated funding and will reduce future funding requirements and pension expense.

- Benefit program review and design, which began in 2006, will continue into 2007.

Energy Efficiency Programs

- 4,000 compact fluorescent lamps (CFLs) were distributed in 2006 to member-consumers at our distribution systems' annual meetings. CFL distribution in 2007 will increase ten-fold.

- $85,000 in incentives payments were made to member-consumers who installed energy efficient equipment or constructed energy efficient homes.

Energy Efficiency Partnerships

- Provided energy saving analyses to industrial and large commercial members by combining efforts with the member-systems, the U.S. Department of Energy, the Kentucky Governor's Office of Energy Policy and the Kentucky Pollution Prevention Center, located at the University of Louisville.

- Provided support to member-system school districts to promote the construction of high performance schools. Hancock County school district renovated three older schools, with a focus on energy efficiency, and completed a new high performance school in 2006. Meade County school district began construction of a high performance school in 2006.

Health and Safety Programs

- Big Rivers and its member-systems provided safety education to more than 8,000 school children, 180 firemen at 15 volunteer fire departments, and 300 Job Corps participants.

- Big Rivers enacted programs in 2006 promoting health and safety in the work force, part of a company-wide policy to achieve operational efficiency and promote social responsibility.

- Programs in 2006 included:
  - High-voltage demonstrations in electrical safety for member-consumers
  - Employee training sessions on chain saw safety, grounding, driving, fall protection, accident investigation, transformer connections, rubber gloving, underground systems, right-of-way maintenance, and others
  - Wellness programs, including back safety, cholesterol and blood pressure screenings, and health risk appraisals.

Humanitarian Efforts

- Progress continues with the Philippine Project, an NRECA International Foundation village development project in the Philippines. Five villages were energized in 2006, bringing the total to 29 villages energized to date. This represents a positive impact in the lives of at least 7,250 individuals.

- Worked with Habitat for Humanity affiliates in western Kentucky to provide education and other resources aimed at achieving energy efficiency.

Information Systems

- Big Rivers staff assisted its member-systems in designing and launching consumer friendly interactive web sites, which strongly emphasize energy efficiency and provide energy use data for all members.

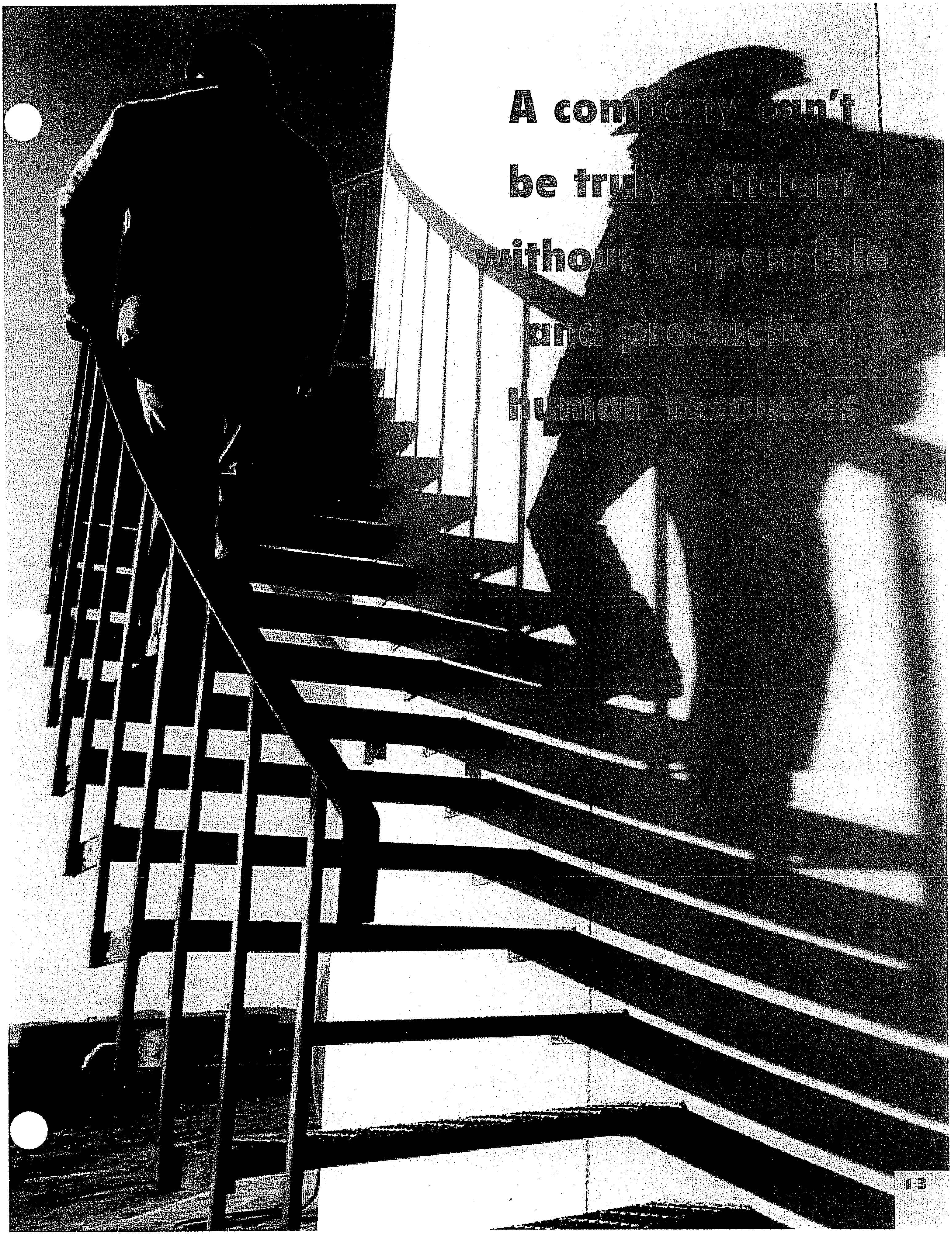
- Big Rivers tested the Disaster Recovery Center in 2006, and will continue to do so annually. Commercial computers of its member-systems' financial and operational systems have been upgraded and will be used in disaster recovery.

- Continued fine-tuning the geo information system (GIS), which was installed in 2005 to help locate power outages.

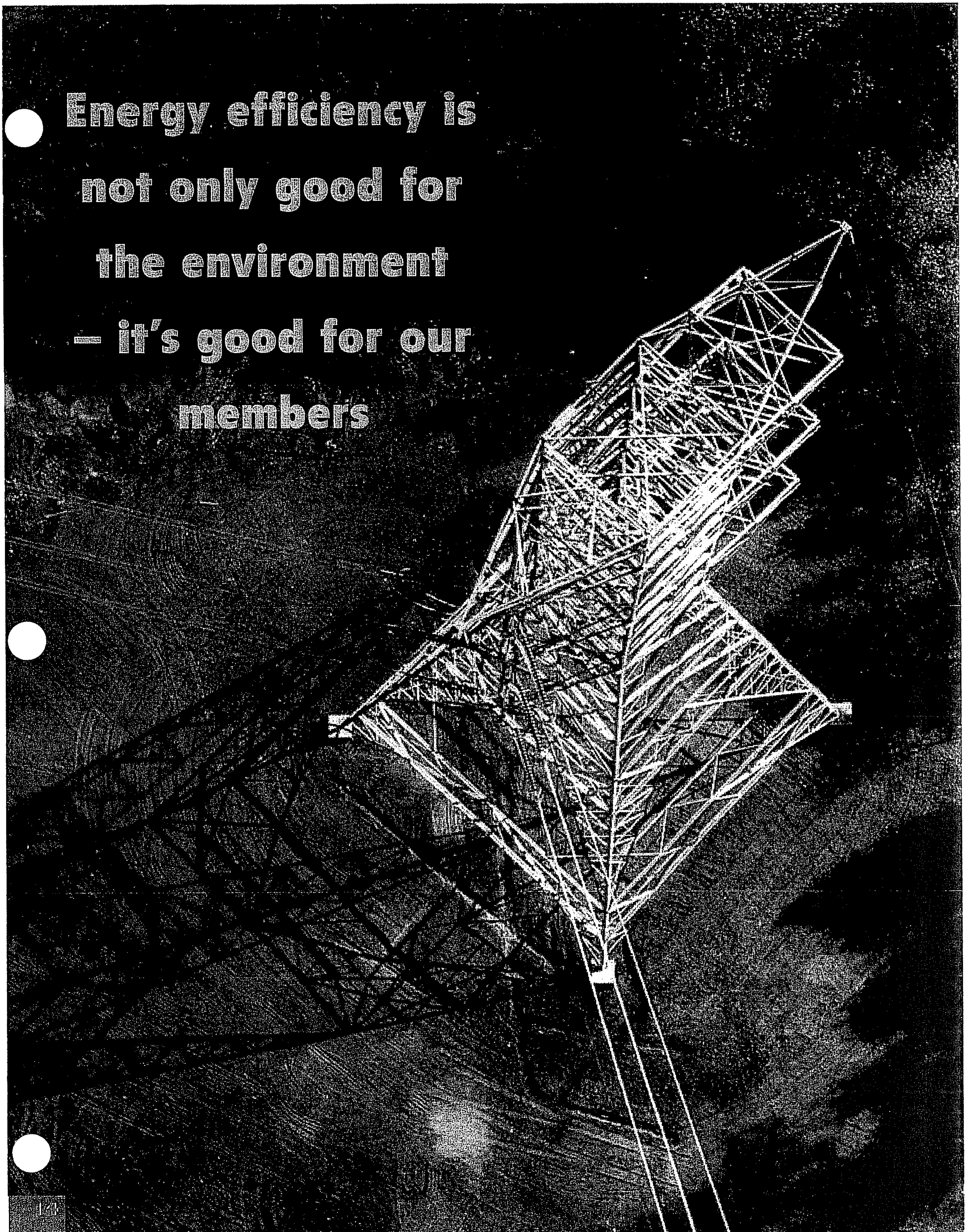
- Installed the outage management system utilizing GIS information to reduce restoration time after storms. An integrated voice recorder was interfaced to the GIS and customer information system to automatically handle member outage calls.

Staffing and Labor Relations

- Faced with an aging work force and a shortage of experienced line workers nationwide, the company and the union worked to develop an apprentice lineman program. It was registered with the Kentucky Department of Labor in December 2006. Having the program in place improves the company's ability to maintain productivity.


A company can't
be truly efficient
without responsible
and productive
human resources

Energy efficiency is not only good for the environment – it's good for our members



▶ Additional full-time employees were hired in 2006 to enhance Big Rivers' ability to meet future needs of the corporation.

Regulatory Affairs

▶ In 2006, the sulfur dioxide (SO_2) scrubbers at Big Rivers' Coleman Station became operational. This will reduce sulfur emissions at the plant by 95 percent. The facility also produces commercial grade gypsum.

▶ Big Rivers retained Stanley Consultants, Inc. to complete its fifth review of the condition and operation of its owned and leased electric generating units. Results of these analyses are communicated annually to Western Kentucky Energy Corp. (WKE) which is responsible for operating and maintaining the Big Rivers units and the HMP&L Station Two units. Annual reviews will continue.

▶ Several regulatory issues which could affect Big Rivers were monitored. The Clean Air Mercury Rule (CAMR) and the Clean Air Interstate Rule (CAIR) may require additional control equipment be installed to comply with reduced emissions. When fully implemented in 2015, CAIR is projected to reduce nitrogen oxide (NOx) emissions by more than 60 percent from 2003 levels, and SO_2 levels by more than 70 percent.

▶ Big Rivers continued a $3.68 million annual revenue discount adjustment to its members. After reviewing Big Rivers' financial requirements, the Board of Directors authorized the company to request the discount adjustment through August 31, 2008.

Resource Planning and Power Supply

▶ Utilizing cell phone technology, data is now being retrieved hourly from revenue meters. This will help Big Rivers gauge its member-systems' electric loads, resulting in more effective surplus power sales.

▶ Arbitrage margins were a record $35.5 million, which exceeded the previous record by 36 percent.

▶ MetrixIDR software was implemented for day-ahead load forecasting and work was begun on the 2007 Load Forecast.

▶ Big Rivers and Kenergy assisted Alcan and Century with their power needs. Smelter contracts were negotiated and additional power for the smelters was purchased on the open market.

System Operations

- Completed technical upgrade of revenue meters and improved cell phone communication to allow for hourly remote reading. This upgrade results in faster and more accurate load forecasting.

- Completed development of Alternate Control Center emergency power supply and microwave system communications.

- Completed construction on 69 kV lines to Jackson Purchase Energy's Possum Trot and Cumberland Resources substations and Kenergy's Madisonville substations.

- Continued construction on the Meade County station second 161 kV line and began construction on the station line terminal.

- Worked with Kentucky Utilities (KU) on development of a revised Interconnection Agreement to add a 345 kV tie between Big Rivers and KU in eastern Daviess County.

- Completed the transition to a digital microwave communication system and performed engineering studies to develop a system expansion plan to the west into the Jackson Purchase service area and to the east into the Meade County service area. This project will move into the construction phase in 2007.

- Replaced static relaying systems at Wilson, Reid, and Coleman EHV stations protecting the 345 kV lines.

- Began new brush control and tree clearing program to improve service reliability to member-systems through reduction in tree-related outages. This was the first year of a multi-year Vegetation Management Plan filed with the Federal Energy Regulatory Commission (FERC.)

- Completed maintenance activities on transmission system scheduled for 2006, including inspection and treatment of 2,862 poles and replacement of 93 poles.

The effective delivery of energy requires reliability and efficiency in every phase of the process

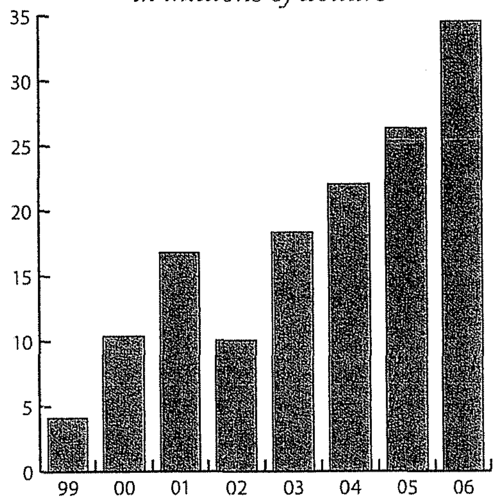
Financial Review : 2006

Big Rivers Records Strong 2006

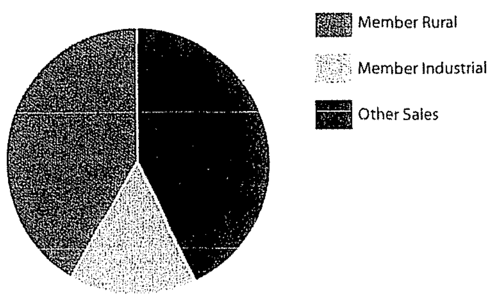
Big Rivers' commitment to efficient operations and careful management of resources produced a strong financial performance in 2006. Record margins were established as the company significantly improved its revenue-to-power cost ratio, an important measurement of efficiency.

Record arbitrage sales, voluntary debt pre-payments and other key factors resulted in a more than 30 percent increase in net margins over 2005, enabling Big Rivers to continue to improve its cash position. The company ended 2006 with a notable increase in its overall "cushion" status and improved its negative equity position over the previous fiscal year.

Net Margins
in millions of dollars



Revenue Sources
as a percentage



FINANCIAL HIGHLIGHTS	2006	2005
Years ended December 31 | (Dollars in thousands)		
Margins	34,542	26,343
Equity	(217,370)	(251,913)
Capital Expenditures*	13,189	12,904
Cash & Cash Equivalents	96,143	67,264
New RUS Note Voluntary Prepayment Status	34,995	55,357
Times Interest Earned Ratio	1.47	1.37
Debt Service Coverage Ratio	1.86	1.79
Cost of Debt	5.83%	5.57%
Cost of Capital	7.82%	7.58%

* *Big Rivers' share only.*

Net Margins

Big Rivers ended 2006 with net margins of $34.5 million, an $8.2 million increase over 2005. Arbitrage sales, which included the aluminum smelter Tier 3 and an industrial co-generator backup sales, reached record levels and led to a $9.4 million increase in sales margins as compared to 2005. Record power sales reflect Big Rivers' efficiency in utilization of available power and the development of marketing strategies designed to take advantage of market opportunities to improve its revenue-to-power cost ratio.

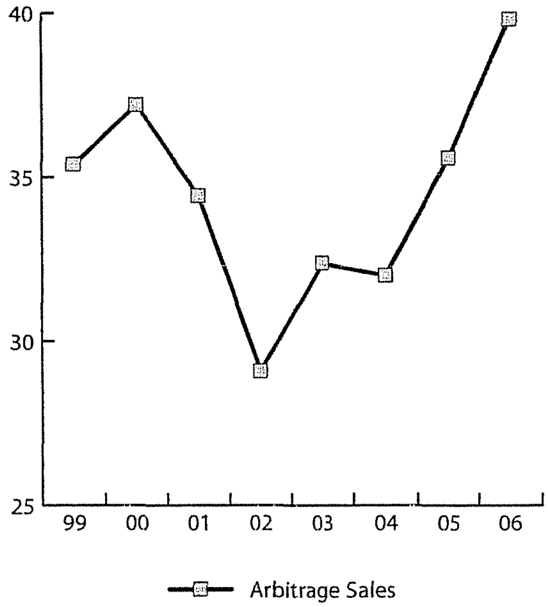
Operating Revenue

The upward trend in power revenue continued in 2006 with Big Rivers reporting $200.7 million compared to $191.3 million in 2005 (up from $175.8 million in 2004). The lease revenue for 2006 was $57.9 million with total operating revenue for 2006 at $258.6 million, an increase of approximately $10 million over 2005.

Arbitrage Sales

Big Rivers exceeded its previous year arbitrage margins record by 36 percent, reporting $35.5 million in 2006. The average price for 2.1 million MWh of surplus power was $39.81 per MWh in 2006, compared to a rate of $35.58 per MWh for 2 million MWh in 2005.

Arbitrage Sales
in dollars per MWh

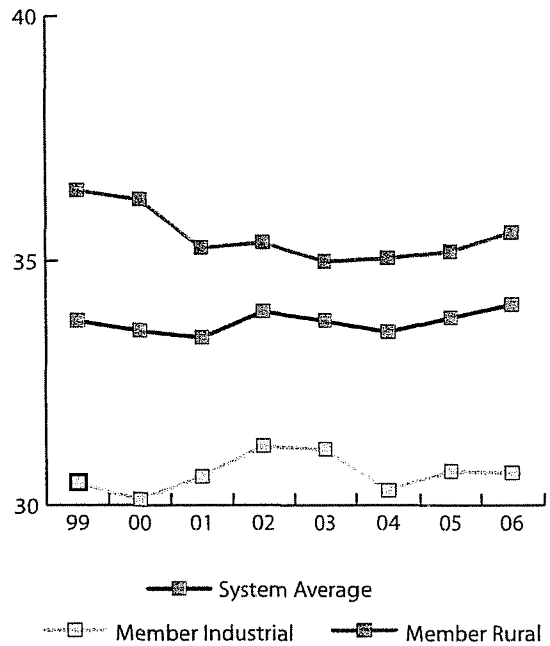


Wholesale Member Sales

The average price for 3.2 million MWh of member power increased to $34.11 per MWh in 2006 from $33.84 per MWh in 2005. Member sales to rural loads were $35.58 per MWh in 2006, up from $35.19 in 2005. Large industrial sales reflected a slight decrease from the previous year. Big Rivers continued the 3.3 percent revenue discount during 2006 that resulted in the benefits of the April 2000 sale-leaseback being passed through to its members.

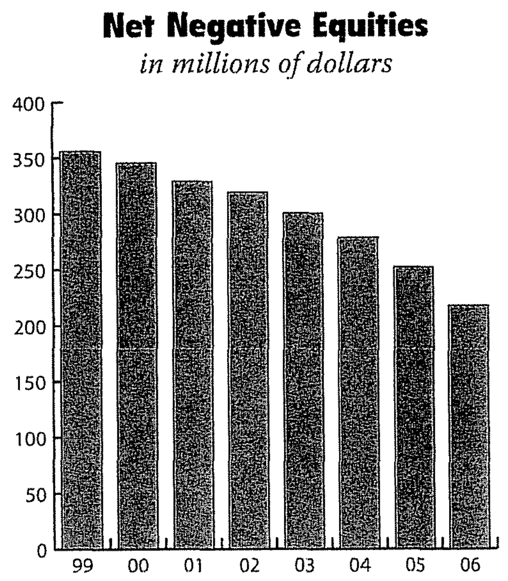
The slight decrease in member tariff load growth, -1.42 percent for 2006 vs. 3.32 percent in 2005, was due largely to more temperate weather conditions in 2006 and the closing of a small industrial customer. Heating and cooling degree-days for 2006 decreased by 3.6 percent and 13.1 percent, respectively, as compared to 2005.

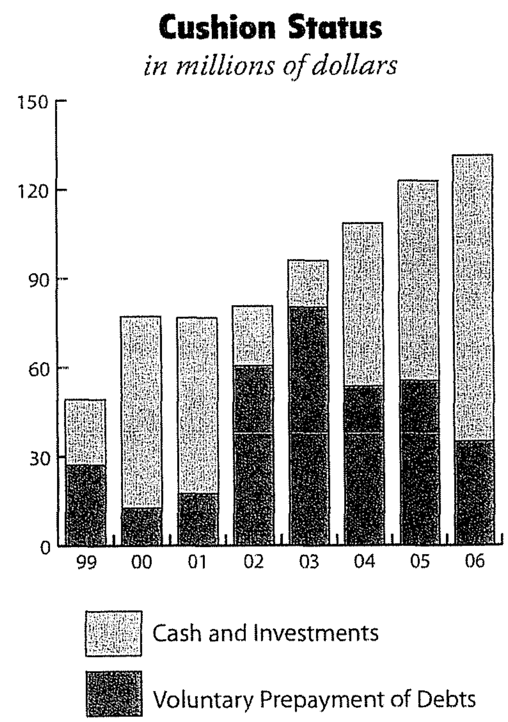
Wholesale Member Sales
in dollars per MWh



Equity

Big Rivers reduced its total net negative equity from $251.9 million in 2005 to $217.4 million, a direct benefit of its record net margins recorded in 2006. Net utility plant decreased $11.2 million, with net plant additions at $20.9 million and depreciation and amortization of $32.1 million.





Long-Term Debt

Voluntary prepayments on the Rural Utilities Service (RUS) promissory note led to a $1.7 million decrease in interest expense for 2006, compared to 2005. Pollution Control Bond interest expense reflects a $1.5 million increase over 2005 due to higher interest rates (3.50 percent for 2006 vs. 2.46 percent for 2005).

Big Rivers holds a line of credit with National Rural Utilities Coopérative Finance Corporation for $15 million as of Dec. 31, 2006. This line of credit has an underlying $15 million master letter of credit facility for supporting off-system sales.

As of December 31, 2006, there was $5.95 million outstanding under the master letter of credit facility. Participation in the Midwest Independent System Operator Energy Market required a letter of credit in the amount of $1.0 million. Forward sales to Morgan Stanley, Fortis Energy Marketing and Constellation Energy required letters of credit in the amounts of $2.2 million, $2.5 million and $0.25 million, respectively.

Cash Flow

Higher net margins and efficient management of resources aided Big Rivers' cash flow status in 2006. As of December 31, 2006, the company's overall cushion stood at $130.9 million, an increase of more than $8 million over 2005. Cash and investments amounted to $95.9 million, while voluntary prepayment of debt on the RUS notes totaled $35 million.

Focused Audits

In an effort to ensure that proper internal controls are maintained, the Big Rivers' Board of Directors engaged the services of an outside auditor to perform a series of focused audits. The audits conducted in 2006 included purchasing and payroll cycles; cash management, debt and debt-related covenants; and power sales and load forecasting.

Audit results indicated that proper internal controls were established and no irregularities were found to exist in those areas audited.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Big Rivers Electric Corporation:

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the "Company") as of December 31, 2006 and 2005, and the related statements of operations, equities (deficit), and of cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2007, on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

March 14, 2007

Member of
Deloitte Touche Tohmatsu

Balance Sheets

As of December 31, 2006 and 2005 | (Dollars in thousands)

ASSETS	2006	2005
UTILITY PLANT – Net	$ 917,668	$ 928,872
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	186,690	180,650
OTHER DEPOSITS AND INVESTMENTS – At cost	3,816	3,397
CURRENT ASSETS:		
Cash and cash equivalents	96,143	67,264
Accounts receivable	17,748	16,350
Materials and supplies inventory	811	667
Prepaid expenses	3,608	91
Total current assets	**118,310**	**84,372**
DEFERRED CHARGES AND OTHER	27,905	28,689
TOTAL	$ 1,254,389	$ 1,225,980

EQUITIES (DEFICIT) AND LIABILITIES

CAPITALIZATION:		
Equities (deficit)	$ (217,371)	$ (251,913)
Long-term debt	1,041,075	1,046,846
Obligations related to long-term lease	177,310	170,954
Other long-term obligations	45	92
Total capitalization	**1,001,059**	**965,979**
CURRENT LIABILITIES:		
Current maturities of long-term obligations	11,959	810
Voluntary prepayment of long-term debt	-	10,403
Purchased power payable	9,219	10,732
Accounts payable	3,366	2,394
Accrued expenses	2,164	2,172
Accrued interest	7,631	7,542
Total current liabilities	**34,339**	**34,053**
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	17,316	21,755
Deferred gain on sale-leaseback	56,380	59,262
Residual value payments obligation	140,744	139,710
Other	4,551	5,221
Total deferred credits and other	**218,991**	**225,948**
COMMITMENTS AND CONTINGENCIES	–	–
TOTAL	$ 1,254,389	$ 1,225,980

See notes to financial statements.

Statements of Operations

Big Rivers Electric Corporation

For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

	2006	2005	2004
POWER CONTRACTS REVENUE	$ 200,692	$ 191,280	$ 175,777
LEASE REVENUE	57,896	57,675	56,753
Total operating revenue	**258,588**	**248,955**	**232,530**
OPERATING EXPENSES:			
Operations:			
Power purchased and interchanged	114,516	114,500	106,099
Transmission and other	21,684	20,309	18,674
Maintenance	3,652	3,195	2,597
Depreciation	30,408	30,192	29,732
Total operating expenses	**170,260**	**168,196**	**157,102**
ELECTRIC OPERATING MARGIN	88,328	80,759	75,428
INTEREST EXPENSE AND OTHER:			
Interest	60,754	59,639	56,923
Interest on obligations related to long-term lease	9,505	9,109	8,725
Other – net	111	124	158
Total interest expense and other	**70,370**	**68,872**	**65,806**
OPERATING MARGIN	17,958	11,887	9,622
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	12,069	11,670	11,278
Interest income and other	4,515	2,786	1,125
Total non-operating margin	**16,584**	**14,456**	**12,403**
NET MARGIN	**$ 34,542**	**$ 26,343**	**$ 22,025**

See notes to financial statements.

Statements of Equities (Deficit)

For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

			Other Equities	
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	Consumers' Contributions to Debt Service
BALANCE – January 1, 2004	$ (300,281)	$ (304,726)	$ 764	$ 3,681
Net margin	22,025	22,025	-	-
BALANCE – December 31, 2004	(278,256)	(282,701)	764	3,681
Net margin	26,343	26,343	-	-
BALANCE – December 31, 2005	(251,913)	(256,358)	764	3,681
Net margin	34,542	34,542	-	-
BALANCE – December 31, 2006	**$ (217,371)**	**$ (221,816)**	**$ 764**	**$ 3,681**

See notes to financial statements.

Statements of Cash Flows

Big Rivers Electric Corporation

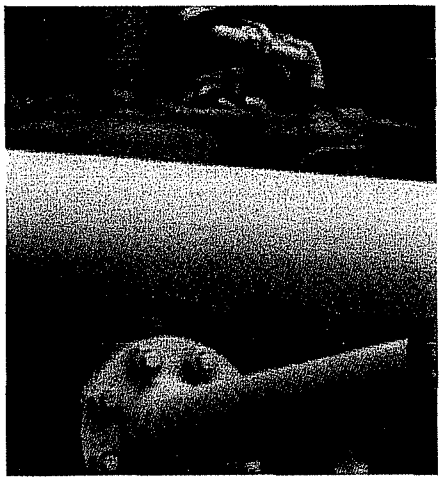
For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

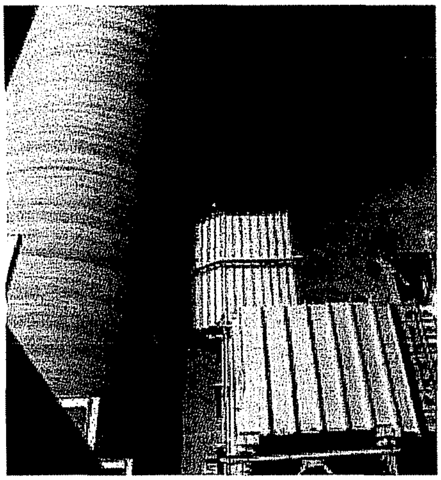
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 34,542	$ 26,343	$ 22,025
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	33,592	33,386	32,625
Increase in restricted investments under long-term lease	(6,040)	(5,955)	(5,836)
Amortization of deferred gain on sale-leaseback	(2,882)	(2,856)	(2,823)
Deferred lease revenue	(4,439)	(4,335)	(4,267)
Residual value payments obligation	(6,187)	(5,969)	(5,077)
Increase in RUS ARVP Note	5,313	5,077	4,807
Increase in New RUS Promissory Note	13,889	8,205	21,849
Increase in obligations under long-term lease	6,356	6,250	6,107
Changes in certain assets and liabilities:			
Accounts receivable	(1,398)	(741)	(261)
Materials and supplies inventory	(144)	(112)	33
Prepaid expenses	(3,517)	257	226
Deferred charges	(694)	480	(368)
Purchased power payable	(1,513)	1,528	550
Accounts payable	972	(516)	(87)
Accrued expenses	81	72	1,459
Other – net	(1,170)	351	(104)
Net cash provided by operating activities	**66,761**	**61,465**	**70,858**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(13,189)	(12,904)	(12,203)
Other deposits and investments	(419)	(151)	(277)
Net cash used in investing activities	**(13,608)**	**(13,055)**	**(12,480)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(24,274)	(36,037)	(9,289)
Principal payments on short-term notes payable	-	-	(10,000)
Net cash used in financing activities	**(24,274)**	**(36,037)**	**(19,289)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,879	12,373	39,089
CASH AND CASH EQUIVALENTS – Beginning of year	67,264	54,891	15,802
CASH AND CASH EQUIVALENTS – End of year	**$ 96,143**	**$ 67,264**	**$ 54,891**
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 47,277	$ 46,534	$ 28,485
Cash paid for taxes	$ 375	$ 271	$ 270

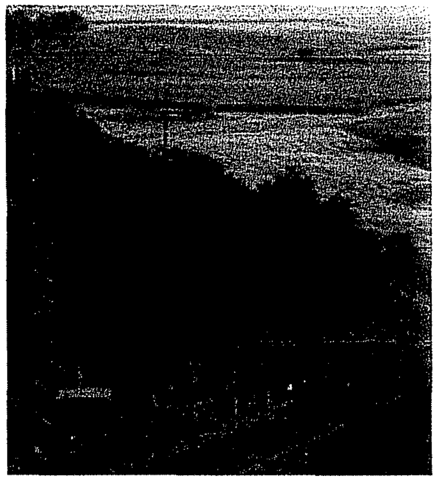
See notes to financial statements.

Notes to Financial Statements

Years Ended December 31, 2006, 2005, and 2004 | (Dollars in thousands)







1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information— Big Rivers Electric Corporation ("Big Rivers" or the "Company"), an electric generation and transmission cooperative, supplies wholesale power to its three member distribution cooperatives (Kenergy Corp., Jackson Purchase Energy Corporation, and Meade County Rural Electric Cooperative Corporation) under all requirements contracts, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"), sells surplus power under separate contracts to Kenergy Corp. for a portion of the Aluminum Smelters load, and markets power to nonmember utilities and power marketers. The members provide electric power and energy to industrial, residential, and commercial customers located in portions of 22 western Kentucky counties. The wholesale power contracts with the members extend to January 1, 2023. Rates to Big Rivers' members are established by the Kentucky Public Service Commission ("KPSC") and are subject to approval by the Rural Utilities Service ("RUS"). The financial statements of Big Rivers include the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of these agencies.

In 1999, Big Rivers Leasing Corporation ("BRLC") was formed as a wholly-owned subsidiary of Big Rivers. BRLC's principal assets are the restricted investments acquired in connection with the 2000 sale leaseback transaction discussed in Note 4.

Principles of Consolidation— The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, BRLC. All significant intercompany transactions have been eliminated.

Estimates— The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

System of Accounts— Big Rivers' accrual basis accounting policies follow the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. The regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters.

Revenue recognition— Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. In accordance with SFAS No. 13, *Accounting for Leases*, Big Rivers' revenue from the Lease Agreement is recognized on a straight-line basis over the term of the lease. The major components of this lease revenue include the annual lease payments and the Monthly Margin Payments (described in Note 2).

In conjunction with the Lease Agreement, Big Rivers expects to realize the minimum lease revenue for the years ending December 31, as follows:

Year	*Amount*
2007	$ 52,332
2008	52,332
2009	52,332
2010	52,332
2011	41,291
Thereafter	420,908
	$ 671,527

Utility Plant and Depreciation— Utility plant is recorded at original cost, which includes the cost of contracted services, materials, labor, overhead, and an allowance for borrowed funds used during construction. Replacements of depreciable property units, except minor replacements, are charged to utility plant.

Allowance for borrowed funds used during construction is included on projects with an estimated total cost of $250 or more before consideration of such allowance. The interest capitalized is determined by applying the effective rate of Big Rivers' weighted-average debt to the accumulated expenditures for qualifying projects included in construction in progress.

In accordance with the terms of the Lease Agreement, the Company generally records capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by E.ON U.S. (formerly LG&E Energy Corporation) as utility plant to which the Company maintains title. A corresponding obligation to E.ON U.S. is recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation is amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2006 and 2005, the Company has recorded $7,221 and $6,986, respectively, for such additions in utility plant. The Company has recorded $6,187, $5,969, and $5,077 in 2006, 2005, and 2004, respectively, as related lease revenue in the accompanying financial statements.

In accordance with the Lease Agreement, and in addition to the capital costs funded by E.ON U.S (see Note 2) that are recorded by the Company as utility plant and lease revenue, E.ON U.S also incurs certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they forego a Residual Value Payment by Big Rivers upon lease termination. Such amounts are not recorded as utility plant or lease revenue by the Company. At December 31, 2006, the cumulative Nonincremental Capital Costs amounted to $6,618 (unaudited).

E.ON U.S is also in the process of constructing a scrubber (Major Capital Improvement) on Big Rivers' Coleman plant. First operation at the Coleman units occurred in February 2006, while commercial acceptance is anticipated to occur in March 2007. The project is expected to be completed in the third quarter of 2007 at a cost of $98,000 (unaudited), none of which is expected to be recorded as utility plant or lease revenue.

Depreciation of utility plant in service is recorded using the straight-line method over the estimated remaining service lives, as approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

Electric plant-leased	1.60%–2.47%
Transmission plant	1.76%–3.24%
General plant	1.11%–5.62%

For 2006, 2005, and 2004, the average composite depreciation rates were 1.86%, respectively. At the time plant is disposed of, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation, as required by the RUS.

Impairment Review of Long-Lived Assets— Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. This review is performed in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. SFAS No. 144 requires the evaluation for impairment involve the comparison of an asset's carrying value to the estimated future cash flows the asset is expected to generate over its remaining life. If this evaluation were to conclude that the carrying value of the asset is impaired, an impairment charge would be recorded based on the difference between the asset's carrying amount and its fair value (less costs to sell for assets to be disposed of by sale) as a charge to operations or discontinued operations.

Restricted Investments— Investments are restricted under contractual provisions related to the sale-leaseback transaction discussed in Note 4. These investments have been classified as held-to-maturity and are carried at amortized cost.

Cash and Cash Equivalents— Big Rivers considers all short-term, highly-liquid investments with original maturities of three months or less to be cash equivalents.

Income Taxes— As a taxable cooperative, Big Rivers is entitled to exclude the amount of patronage allocations to members from taxable income. Income and expenses related to nonmember operations are taxable to Big Rivers. Big Rivers and BRLC file a consolidated Federal income tax return and Big Rivers files a separate Kentucky income tax return.

Patronage Capital— As provided in the bylaws, Big Rivers accounts for each year's patronage-sourced income, both operating and nonoperating, on a patronage basis. Notwithstanding any other provision of the bylaws, the amount to be allocated as patronage capital for a given year shall not be less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income. During 2006, the Company made a patronage allocation to its three member distribution cooperatives in accordance with its bylaws of $8,602. During 2005, the Company was not required to make a patronage allocation to its three member cooperatives in accordance with its bylaws. In 2007, the Company anticipates making a patronage allocation to its members based on such calculations for tax year 2006 of approximately $27,760.

Derivatives— Management has reviewed the requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted, and has determined that all contracts meeting the definition of a derivative also qualify for the normal purchases and sales exception under SFAS No. 133. The Company has elected the Normal Purchase and Normal Sale exception for these contracts and, therefore, the contracts are not required to be recognized at fair value in the financial statements.

New Accounting Pronouncements— In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its results of operations and financial condition but has not yet determined the impact the adoption will have on the Company.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS No. 157 will have on its results of operations and financial condition and does not expect the adoption will have a significant impact on the Company.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"). SFAS No. 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the change occurs through comprehensive income of a business entity. It also requires an employer to measure the funded status of a plan as of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for fiscal years ending after June 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS No. 158 will have on its results of operations and financial condition but cannot readily determine whether the adoption will have a significant impact on the Company.

2. LG&E LEASE AGREEMENT

On July 15, 1998 ("Effective Date"), a lease was consummated ("Lease Agreement"), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation ("WKEC"), a wholly owned subsidiary of E.ON U.S. Pursuant to the Lease Agreement, WKEC operates the generating facilities and maintains title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill its obligation to supply power to its members, the Company purchases substantially all of its power requirements from LG&E Energy Marketing Corporation ("LEM"), a wholly owned subsidiary of E.ON U.S., pursuant to a power purchase agreement.

Big Rivers continues to operate its transmission facilities and charges LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement are as follows:

I. WKEC leases and operates Big Rivers' generation facilities through 2023.

II. Big Rivers retains ownership of the generation facilities both during and at the end of the lease term.

III. WKEC pays Big Rivers an annual lease payment of $30,965 over the lease term, subject to certain adjustments.

IV. On the Effective Date, Big Rivers received $69,100 representing certain closing payments and the first two years of the annual lease payments. In accordance with SFAS No. 13, *Accounting for Leases*, the Company amortizes these payments to revenue on a straight-line basis over the life of the lease.

V. Big Rivers continues to provide power for its members, excluding the member loads serving the Aluminum Smelters, through its power purchase agreements with LEM and the Southeastern Power Administration, based on a pre-determined maximum capacity. When economically feasible, the Company also obtains the power necessary to supply its member loads, excluding the Aluminum Smelters, in the open market. Kenergy Corp.'s retail service for the Aluminum Smelters is served by LEM and other third-party providers that may include Big Rivers. To the extent the power purchased from LEM does not reach pre-determined minimums, the Company is required to pay certain penalties. Also, to the extent additional power is available to Big Rivers under the LEM contract, Big Rivers may sell to nonmembers.

VI. LEM will reimburse Big Rivers an additional $75,870 for the margins expected from the Aluminum Smelters through 2011, being defined as the net cash flows that Big Rivers anticipated receiving if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the "Monthly Margin Payments").

VII. WKEC is responsible for the operating costs of the generation facilities; however, Big Rivers is partially responsible for ordinary capital expenditures ("Nonincremental Capital Costs") for the generation facilities over the term of the Lease Agreement, generally up to predetermined annual amounts. This cumulative amount is not expected to exceed $148,000 over the entire 25 1/2 year Lease Agreement. At the end of the lease term, Big Rivers is obligated to fund a "Residual Value Payment" to E.ON U.S. for such capital additions during the lease, currently estimated to be $125,880 (see Note 1). Adjustments to the Residual Value Payment will be made based upon actual capital expenditures. Additionally, WKEC will make required capital improvements to the facilities to comply with a new law or a change to existing law ("Incremental Capital Costs") over the lease life (the Company is partially responsible for such costs: 20% through 2010) and the Company will be required to submit another Residual Value Payment to LEC for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease, currently estimated to be $15,677. The Company will have title to these assets during the lease and upon lease termination.

VIII. Big Rivers entered into a note payable with LEM for $19,676 (the "LEM Settlement Note") to be repaid over the term of the Lease Agreement, which bears interest at 8% per annum, in consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements. The Company recorded this obligation as a component of deferred charges with the related payable recorded as long-term debt in the accompanying balance sheets. This deferred charge is being amortized on a straight-line basis over the lease term.

IX. On the Effective Date, Big Rivers paid a non-refundable marketing payment of $5,933 to LEM, which has been recorded as a component of deferred charges. This amount is being amortized on a straight-line basis over the lease term.

X. During the lease term, Big Rivers will be entitled to certain "billing credits" against amounts the Company owes LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers received a credit of $89. For the year 2011, Big Rivers will receive a credit of $2,611 and for the years 2012 through 2023, the Company will receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company is allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM does not meet certain minimum levels, and to sell excess power (power not needed to supply its jurisdictional load) in the open market (collectively referred to as "Arbitrage"). Pursuant to the New RUS Promissory Note and the RUS ARVP Note, the benefit, net of tax, as defined, derived from Arbitrage must be divided as follows: one-third, adjusted for capital expenditures, will be used to make principal payments on the New RUS Promissory Note; one-third will be used to make principal payments on the RUS ARVP Note; and the remaining value may be retained by the Company.

Management is of the opinion that the Company is in compliance with all covenants of the Lease Agreement.

3. UTILITY PLANT

At December 31, 2006 and 2005, utility plant is summarized as follows:

	2006	2005
Classified plant in service:		
Electric plant – leased	$ 1,506,822	$ 1,497,039
Transmission plant	208,760	202,925
General plant	15,581	14,819
Other	67	67
	1,731,230	1,714,850
Less accumulated depreciation	826,647	798,684
	904,583	916,166
Construction in progress	13,085	12,706
Utility plant - net	$ 917,668	$ 928,872

Interest capitalized for the years ended December 31, 2006, 2005, and 2004 was $236, $160, and $221, respectively.

The Company has not identified any material legal obligations, as defined in SFAS No. 143, *Accounting for Asset Retirement Obligations*, which was further interpreted by FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. In accordance with regulatory treatment, the Company records an estimated net cost of removal of its utility plant through normal depreciation. As of December 31, 2006 and 2005, the Company had a regulatory liability of approximately $26,670 and $23,619, respectively, related to nonlegal removal costs included in accumulated depreciation.

4. SALE-LEASEBACK

On April 18, 2000, the Company completed a sale-leaseback of two of its utility plants, including the related facilities and equipment. The sale-leaseback provides Big Rivers a $1,089,000 fixed price purchase option, at the end of each lease term (25 and 27 years), which, together with future contractual interest receipts, will be fully funded.

This transaction has been recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, Big Rivers received $866,676 of proceeds and incurred $791,626 of related obligations. Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished $656,029 of these obligations with an equivalent portion of the proceeds. The Company also purchased investments with an initial value of $146,647 to fund the remaining $135,597 of the obligations. These amounts are reflected as restricted investments under long-term lease and obligations related to long-term lease in the accompanying balance sheets. Interest received and paid will be recorded to these accounts over the life of the lease. Currently, the Company is paying 7.57% interest on its obligations related to long-term lease and receiving 6.89% on its related investments. The Company made a $64,000 principal payment on the New RUS Promissory Note with the remaining proceeds. The $75,050 gain was deferred and will be amortized over the respective lease terms, of which the Company recognized $2,881, $2,856, and $2,824, in 2006, 2005, and 2004, respectively. Principal payments begin in 2009.

Amounts recognized in the statement of financial position related to the sale-leaseback as of December 31, 2006 and 2005, are as follows:

	2006	2005
Restricted investments under long-term lease	$ 186,690	$ 180,650
Obligations related to long-term lease	177,310	170,954
Deferred gain on sale-leaseback	56,380	59,262

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2006, 2005, and 2004, are as follows:

	2006	2005	2004
Power contracts revenue (revenue discount adjustment, see Note 6)	$(3,680)	$(3,680)	$(3,680)
Interest on obligations related to long-term lease:			
Interest expense	12,386	11,965	11,548
Amortize gain on sale-leaseback	(2,881)	(2,856)	(2,823)
Net interest on obligations related to long-term lease	9,505	9,109	8,725
Interest income on restricted investments under long-term lease	12,069	11,670	11,278
Interest income and other (CoBank patronage allocation)	777	772	661

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2006 and 2005, is as follows:

	2006	*2005*
New RUS Promissory Note, stated amount of $803,601, stated interest rate of 5.75%, with an interest rate of 5.81%, maturing July 2021	$ 799,789	$ 808,094
RUS ARVP Note, stated amount of $251,215, no stated interest rate, with interest imputed at 5.81%, maturing December 2023	94,391	90,347
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023	16,707	17,173
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.49% and 2.46% in 2006 and 2005 respectively), maturing in October 2022	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.49% and 2.46% in 2006 and 2005 respectively), maturing in June 2013	58,800	58,800
Total long-term debt	1,052,987	1,057,714
Current maturities	11,912	465
Voluntary prepayment	-	10,403
Total long-term debt – net of current maturities and prepayment	$1,041,075	$1,046,846

The following are scheduled maturities of long-term debt at December 31:

Year	*Amount*
2007	$ 11,912
2008	39,178
2009	39,230
2010	41,286
2011	47,345
Thereafter	874,036
	$ 1,052,987

RUS Notes— On July 15, 1998, Big Rivers recorded the New RUS Promissory Note and the RUS ARVP Note at fair value using the applicable market rate of 5.81%. The RUS Notes are collateralized by substantially all assets of the Company.

Pollution Control Bonds— The County of Ohio, Kentucky, issued $83,300 of Pollution Control Periodic Auction Rate Securities, Series 2001, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate. These bonds bear interest at a variable rate and mature in October 2022.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983, the proceeds of which are supported by a promissory note from Big Rivers, which bears the same interest rate as the bonds. These bonds bear interest at a variable rate and mature in June 2013.

The Series 1983 bonds are supported by a liquidity facility issued by Credit Suisse First Boston, which was assigned to Dexia Credit in 2006. Both Series are supported by municipal bond insurance and surety policies issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policies or the surety policies.

LEM Settlement Note— On the Effective Date, Big Rivers executed the Settlement Note with LEM. The Settlement Note requires Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment is approximately $1,822 annually. This payment is consideration for LEM's assumption of the risk related to unforeseen costs with respect to power to be supplied to the Aluminum Smelters and the increased responsibility for financing capital improvements.

Other Long-Term Obligations— During 1997, Big Rivers terminated two unfavorable coal contracts. In connection with that settlement, the Company paid $345, $351, and $351 during 2006, 2005, and 2004, respectively. At December 31, 2006, the Company has a remaining liability of $92 payable over the next two years, of which $47 is included in current maturities of long-term obligations.

Notes Payable— Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation. The maximum borrowing capacity on the line of credit is $15,000. There were no amounts outstanding on the line of credit at December 31, 2006. The line of credit bears interest at a variable rate. Each advance on the line of credit is payable within one year.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a demand charge per kW and an energy charge per kWh consumed as approved by the KPSC. The rates include specific rate designs for its members' two classes of customers, the large industrial customers and the rural customers under its jurisdiction. For the large industrial customers, the demand charge is generally based on each customer's maximum demand during the current month. The remaining customers demand charge is based upon the maximum coincident demand of each member's delivery points. The demand and energy charges are not subject to adjustments for increases or decreases in fuel or environmental costs. Big Rivers' current rates will remain in effect until changed by the KPSC.

Effective since September 1, 2000, the KPSC has approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members through August 31, 2006, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. The extent to which Big Rivers requests KPSC approval to continue the adjustment depends upon its planned environmental compliance costs and its overall financial condition. In March 2007, Big Rivers plans to request the KPSC's approval to extend the adjustment through August 31, 2008.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31, 2006 and 2005, were as follows:

	2006	*2005*
Deferred tax assets:		
Net operating loss carryforward	$68,696	$80,769
Alternative minimum tax credit carryforwards	4,790	4,283
Sale-leaseback	136,598	130,568
Other accruals	2,465	2,066
Total deferred tax assets	212,549	217,686
Deferred tax liabilities:		
Lease agreement	(21,270)	(15,395)
Fixed asset basis difference	(827)	(10,178)
Total deferred tax liabilities	(22,097)	(25,573)
Net deferred tax asset (pre-valuation allowance)	190,452	192,113
Valuation allowance	(185,662)	(187,830)
Net deferred tax asset	$4,790	$4,283

Big Rivers was formed as a tax-exempt cooperative organization described in Internal Revenue Code Section 501(c)(12). To retain tax-exempt status under this section, at least 85% of the Big Rivers' receipts must be generated from transactions with the Company's members. In 1983, sales to nonmembers resulted in Big Rivers failing to meet the 85% requirement. Until Big Rivers can meet the 85% member income requirement, the Company is a taxable cooperative. Big Rivers is also subject to Kentucky income tax.

Under the provisions of SFAS No. 109, *Accounting for Income Taxes*, Big Rivers is required to record deferred tax assets and liabilities for temporary differences between amounts reported for financial reporting purposes and amounts reported for income tax purposes. The Company has not recorded any income tax expense for the years ended December 31, 2006, 2005 and 2004 as the Company has utilized federal net operating losses to offset any taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $10,599, $7,995, and $6,759 in current tax expense for the years ended December 31, 2006, 2005 and 2004, respectively. Deferred tax assets and liabilities are determined based upon these temporary differences using enacted tax rates for the year in which these differences are expected to reverse. Deferred income tax expense or benefit is based on the change in assets and liabilities from period to period, subject to an ongoing assessment of realization.

At December 31, 2006 and 2005, Big Rivers had a nonpatron net operating loss carryforward of approximately $167,551 and $196,998, respectively, for tax reporting purposes expiring through 2013, and an alternative minimum tax credit carryforward at December 31, 2006 and 2005, of approximately $4,790 and $4,283, respectively, which carries forward indefinitely.

Big Rivers has a net deferred tax asset, against which a valuation allowance has been provided, in part, based upon the fact that it is presently uncertain whether such asset will be realized. The resulting net deferred tax asset at December 31, 2006 and 2005, is approximately $4,790 and $4,283, respectively, which represents the alternative minimum tax credit carryforward, against which no allowance has been provided.

8. POWER PURCHASED

In accordance with the Lease Agreement, Big Rivers supplies all of the members' requirements for power to serve their customers, other than the Aluminum Smelters. Contract limits were established in the Lease Agreement and include minimum and maximum hourly and annual power purchase amounts. Big Rivers cannot reduce the contract limits by more than 12 MW in any year or by more than a total of 72 MW over the lease term. In the event Big Rivers fails to take the minimum requirement during any hour or year, Big Rivers is liable to LEM for a certain percentage of the difference between the amount of power actually taken and the applicable minimum requirement.

Although Big Rivers will be required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease does not prevent Big Rivers from paying the associated penalty in certain hours to purchase lower cost power, if available, in the open market or reselling a portion of its purchased power to a third party. The power purchases made under this agreement for the years ended December 31, 2006, 2005, and 2004, were $97,999, $96,795, and $89,696, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements. The plans provide benefits based on the participants' years of service and the five highest consecutive years' compensation during the last ten years of employment. Big Rivers' policy is to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974. The plans are measured as of December 31, 2006 and 2005.

At December 31, 2006 and 2005, the following is an assessment of the Company's noncontributory defined benefit pension plans:

	2006	*2005*
Projected benefit obligation	$(17,464)	$(16,550)
Fair value of plan assets	16,416	11,868
Funded status	$(1,048)	$(4,682)

The accumulated benefit obligation for all defined benefit pension plans was $12,421 and $11,426 at December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005, amounts recognized in the statement of financial position are as follows:

	2006	*2005*
Prepaid benefit cost	$3,520	$110
Accrued benefit liability	-	(108)
Net amount recognized	$ 3,520	$ 2

Net periodic pension costs, which are calculated based on actuarial assumptions at January 1, for the years ended December 31, 2006, 2005, and 2004, were as follows:

	2006	*2005*	*2004*
Benefit cost	$1,167	$1,158	$954
Employer contribution	4,684	921	843
Benefits paid or transferred	852	1,757	103

Assumptions used to develop the projected benefit obligation were as follows:

	2006	*2005*	*2004*
Discount rates	5.75 %	5.75 %	5.75 %
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.50

The expected long-term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen by the Company from a best estimate range determined by applying anticipated long-term returns and long-term volatility for various asset categories to the target asset allocation of the plans, as well as taking into account historical returns.

Using the asset allocation policy adopted by the Company noted in the paragraph below, we determined the expected rate of return at a 50% probability of achievement level based on (a) forward-looking rate of return expectations for passively-managed asset categories over a 20 year time horizon and (b) historical rates of return for passively-managed asset categories. Applying an approximately 80%/20% weighting to the rates determined in (a) and (b), respectively, produced an expected rate of return of 7.28%, which was rounded to 7.25%.

The general investment objectives are to invest in a diversified portfolio, comprised of both equity and fixed income investments, which are further diversified among various asset classes. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plans of up to 55% equities. The remaining 45% may be allocated among fixed income or cash equivalent investments. Objectives do not target a specific return by asset class. These investment objectives are long-term in nature. As of December 31, 2006 and 2005, the investment allocation was 0% and 56%, respectively, in equities and 100% and 44%, respectively, in fixed income. This temporary departure from the above investment objectives reflects the process of transferring to a new investment advisor.

Expected retiree pension benefit payments projected to be required during the years following 2006 are as follows:

Years ending December 31	*Amount*
2007	$ 488
2008	1,104
2009	803
2010	1,346
2011	1,220
2012-2016	12,343
	$ 17,304

In 2007, the Company expects to contribute $1,111 to its pension plan trusts.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their short maturity.

The fair value of restricted investments is determined based upon quoted market prices and rates. The carrying value of the investments is recorded at accreted value and the terms of the investment are within Note 4. The estimated fair values of the restricted investments are as follows:

	2006		*2005*	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted investments	$186,690	$233,418	$180,650	$236,571

It was not practical to estimate the fair value of patronage capital included within other deposits and investments due to these being untraded companies.

It was not practical to estimate the fair value of long-term debt due to Big Rivers' inability to obtain long-term debt from outside parties.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. As of July 1, 2001, Big Rivers pays 85% of the cost from age 62 to 65 for all retirees. For salaried employees who retired prior to December 31, 1993, Big Rivers pays 100% of Medicare supplemental costs. For salaried employees who retire after December 31, 1993, Big Rivers pays 25% plus $25 per month of the Medicare supplemental costs.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") was enacted. The Medicare Act created Medicare Part D, a new prescription drug benefit that is available to all Medicare-eligible individuals, effective January 1, 2006. National Rural Electric Cooperative Association ("NRECA"), the provider of Big Rivers' health plan coverage through the NRECA Group Benefits Trust, chose to become a Medicare Part D provider. Effective January 1, 2006, Part D coverage is the only drug coverage available to Big Rivers' Medicare-eligible retirees.

The discount rate used in computing the postretirement obligation was 5.75% for 2006 and 2005. A health care cost trend rate of 9% in 2006 declining to 5.5% in 2011 was utilized.

An assessment of the Company's postretirement plan at December 31, 2006 and 2005, is as follows:

	2006	2005
Total benefit obligation	$ (2,695)	$ (3,339)
Unfunded accrued postretirement cost	(3,787)	(3,755)

The components of net periodic postretirement benefit costs for the years ended December 31, 2006, 2005, and 2004, which are calculated based on actuarial assumptions at January 1, were as follows:

	2006	2005	2004
Benefit cost	$ 241	$ 286	$ 310
Benefits paid	171	216	188

Expected retiree benefit payments projected to be required during the years following 2006 are as follows:

Year	Amount
2007	$ 153
2008	142
2009	162
2010	184
2011	199
2012-2016	1,246
	$ 2,086

In addition to the postretirement plan discussed above, in 1992 Big Rivers began a postretirement benefit plan which vests a portion of accrued sick leave benefits to salaried employees upon retirement or death. To the extent an employee's sick leave hour balance exceeds 480 hours, such excess hours are paid at 20% of the employee's base hourly rate at the time of retirement or death. The accumulated obligation recorded for the postretirement sick leave benefit is $294 and $270 at December 31, 2006 and 2005, respectively. The postretirement expense recorded was $44, $27, and $28 for 2006, 2005, and 2004, respectively, and the benefits paid were $20, $16, and $-0- for 2006, 2005, and 2004 respectively.

12. BENEFIT PLAN – 401(K)

Big Rivers has two defined contribution retirement plans covering bargaining and salaried employees. Big Rivers matches up to 60% of the first 6% of eligible employees' wages contributed. Employees generally become vested in Company matching contributions based upon years of service as follows:

Years of Vesting Service	*Vested Percentage*
1	20%
2	40
3	60
4	80
5 or more	100

Employees are also permitted to make pre-tax contributions of up to 75% of eligible wages. Big Rivers' expense under this plan was $193, $178, and $168 for the years ended December 31, 2006, 2005, and 2004, respectively.

13. RELATED-PARTIES

For the years ended December 31, 2006, 2005, and 2004 Big Rivers had tariff sales to its members of $108,737, $109,439, and $105,004, respectively. In addition, for the years ended December 31, 2006, 2005, and 2004, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Weyerhaeuser loads of $57,374, $46,372, and $43,017, respectively.

At December 31, 2006 and 2005, Big Rivers had accounts receivable from its members of $13,015 and $12,872, respectively.

In October 2005, Big Rivers made a lump sum payment of $221 to Kenergy for the lease of office space in a building owned by Kenergy. The charge for the lump sum payment was deferred and is being amortized over the life of the agreement.

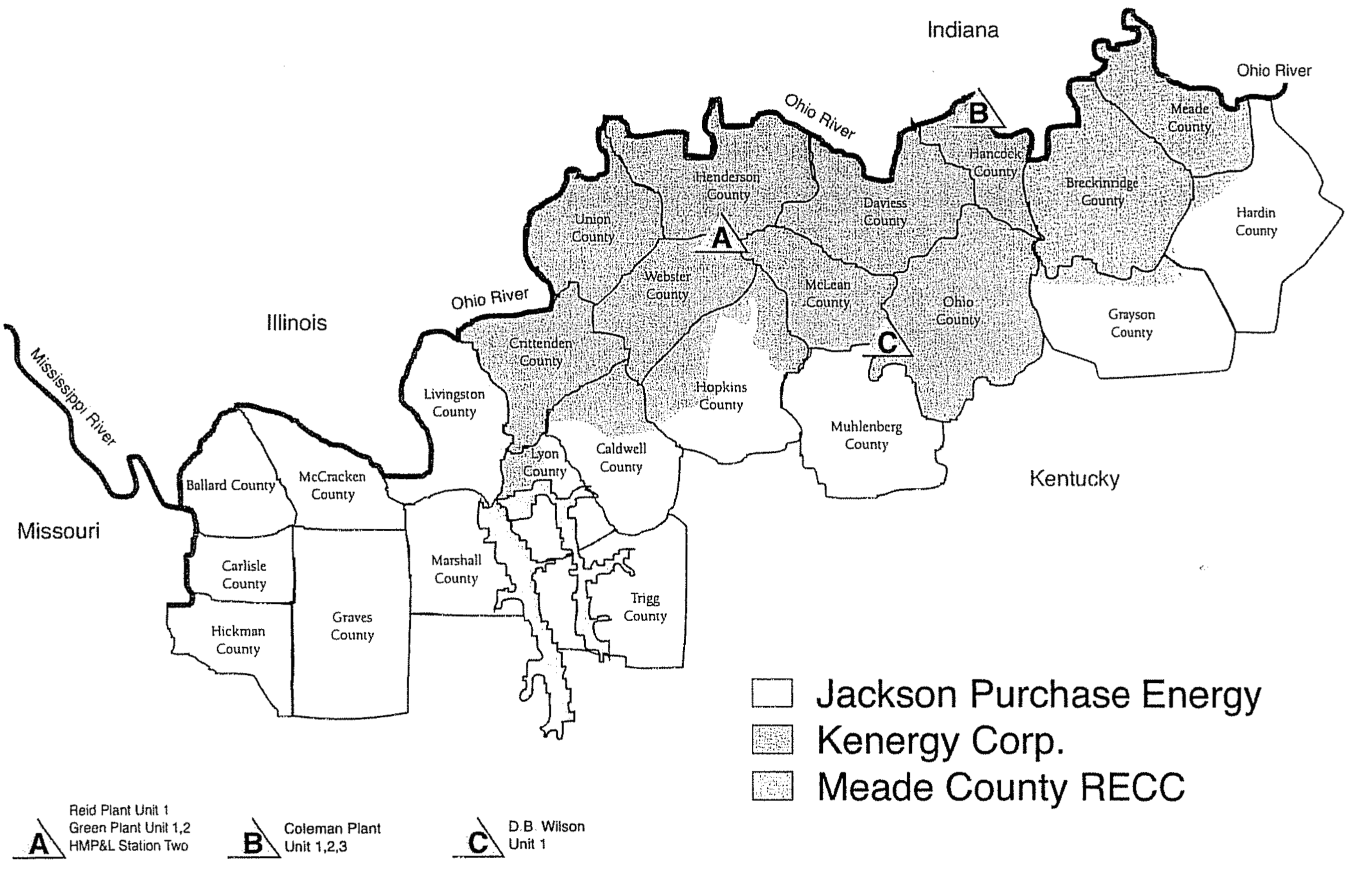
14. COMMITMENTS AND CONTINGENCIES

Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

14. SUBSEQUENT EVENT

The Big Rivers board of directors adopted resolutions on February 23, 2007, authorizing management, among other things, to execute a Transaction Termination Agreement Among Big Rivers Electric Corporation, LG&E Energy Marketing Inc., and Western Kentucky Energy Corp. (the "Termination Agreement"). The Termination Agreement establishes the terms on which Big Rivers, on the one hand, and LG&E Energy Marketing Inc. and Western Kentucky Energy Corp. on the other hand, agree to terminate a series of contractual relationships established in 1998 under which, among other things, LG&E Energy Marketing Inc. and Western Kentucky Energy Corp. currently lease and operate the generating units owned or previously operated by Big Rivers, and sell power to Big Rivers to use in meeting the requirements of its system. Those resolutions additionally authorize management to sign various agreements under which Big Rivers agrees to sell its member, Kenergy Corp., 850 MW in the aggregate for resale to Alcan Primary Products Corporation and Century Aluminum of Kentucky General Partnership, contingent upon the closing of the transaction contemplated in the Termination Agreement.

System Map



Kelly Nuckols, President & CEO
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

Serves: Ballard, Carlisle, Graves, Livingston, Marshall and McCracken

Headquartered:	Paducah, KY
Number of members:	28,569
Miles of Line:	3,221

Mark Bailey, President & CEO
Kenergy Corp.

KENERGY CORP.

(270) 826-3991
www.kenergycorp.com

Serves: Breckinridge, Daviess, Caldwell, Crittenden, Hancock, Henderson, Hopkins, Livingston, Lyon, McLean, Muhlenberg, Ohio, Union and Webster

Headquartered:	Henderson, KY
Number of Members:	54,252
Miles of Line:	6,915

Burns Mercer, President & CEO
Meade County RECC

MEADE COUNTY RURAL ELECTRIC COOPERATIVE CORPORATION

(270) 422-2162
www.mcrecc.coop

Serves: Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio

Headquartered:	Brandenburg, KY
Number of Members:	27,500
Miles of Line:	2,914

Board of Directors

Standing (left to right):

- Paul Edd Butler
  Meade Co RECC
- John Myers, Secretary-Treasurer
  Jackson Purchase Energy
- Dr. James Sills, Vice-Chair
  Meade Co RECC

Seated (left to right):

- Lee Bearden
  Jackson Purchase Energy
- William Denton, Chair
  Kenergy Corp.
- Larry Elder
  Kenergy Corp.

Management Team

Standing (left to right):

- James Miller
  Corporate Counsel
- Travis Housley
  V.P. Special Projects
- David Crockett
  V.P. System Operations
- James Haner
  V.P. Administrative Services
- C. William Blackburn
  V.P. Financial Services
  Chief Financial Officer
  Acting V.P. Power Supply

Seated (left to right):

- David Spainhoward
  V.P. External Relations
  Interim Chief Production Officer
- Michael Core
  President & CEO
- Paula Mitchell
  Executive Assistant

Corporate Directory

PRESIDENT'S OFFICE

- **Mike Core, President & CEO**

ADMINISTRATIVE SERVICES

- **James Haner, Vice President**

CORPORATE COUNSEL

- **James Miller**

EXTERNAL RELATIONS

- **David Spainhoward, Vice President and Interim Chief Production Officer**
- Russ Pogue, Manager Marketing & Member Relations
- Mike Thompson, Manager Technical Support: Power Production

FINANCIAL SERVICES

- **Bill Blackburn, Vice President and Chief Financial Officer**
- Ralph Ashworth, Manager Accounting
- Dave Titzer, Manager Information Systems

POWER SUPPLY

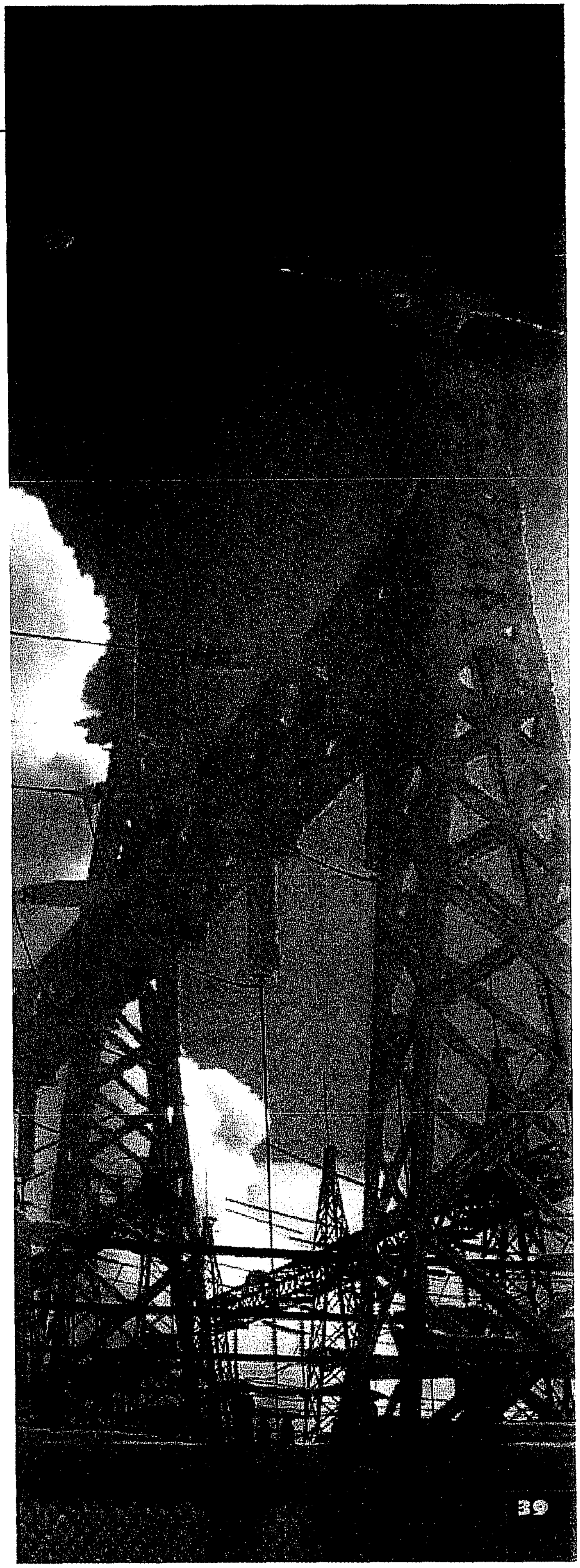
- **Bill Blackburn, Acting Vice President**
- Michael Mattox, Manager Resource Plannning
- Bill Yeary, Manager Energy Marketing

SYSTEM OPERATIONS

- **David Crockett, Vice President**
- Tim Tapp, Manager Transmission System
- Glen Thweatt, Manager Engineering & Energy Control

SPECIAL PROJECTS

- **Travis Housley, Vice President**



Five Year Review

Years Ended December 31 | (Dollars in thousands)

	2006	2005	2004	2003	2002
SUMMARY OF OPERATIONS					
Operating Revenue:					
Power Contracts Revenue	$ 200,692	$ 191,280	$ 175,777	$ 162,432	$ 146,548
Lease Revenue	57,896	57,675	56,753	53,040	51,094
Total Operating Revenue	258,588	248,955	232,530	215,472	197,642
Operating Expenses:					
Power Purchased	114,516	114,500	106,099	96,577	85,722
Transmission and Other	21,684	20,309	18,674	17,383	14,669
Maintenance	3,652	3,195	2,597	2,617	3,100
Depreciation	30,408	30,192	29,732	28,257	27,745
Total Operating Expenses	170,260	168,196	157,102	144,834	131,236
Interest Expense and Other:					
Interest	60,754	59,639	56,923	57,645	59,801
Interest on Obligations Related to Long-Term Lease	9,505	9,109	8,725	8,355	8,003
Other-net	111	124	158	136	147
Total Interest Expense & Other	70,370	68,872	65,806	66,136	67,951
Operating Margin	17,958	11,887	9,622	4,502	(1,545)
Non-Operating Margin	16,584	14,456	12,403	13,847	11,600
NET MARGIN	$ 34,542	$ 26,343	$ 22,025	$ 18,349	$ 10,055
SUMMARY OF ASSETS					
Utility Plant in Service	$1,731,229	$1,714,850	$1,698,519	$1,639,755	$1,551,313
Construction Work in Progress	13,085	12,706	15,068	61,504	104,898
Total Utility Plant	1,744,314	1,727,556	1,713,587	1,701,259	1,656,211
Accumulated Depreciation	826,646	798,684	772,938	754,301	734,076
Net Utility Plant	$ 917,668	$ 928,872	$ 940,649	$ 946,958	$ 922,135
TOTAL ASSETS	$1,254,389	$1,225,980	$1,220,640	$1,182,856	$1,164,532
ENERGY SALES - MWh					
Member Rural	2,231,554	2,262,698	2,132,801	2,089,688	2,114,691
Member Large Industrial	956,502	971,243	997,202	962,670	1,077,322
Other	2,062,286	2,021,365	1,868,657	1,508,516	1,042,496
Total Energy Sales	5,250,342	5,255,306	4,998,660	4,560,874	4,234,509
PURCHASED ENERGY - MWh					
LG&E Energy Marketing	4,980,506	4,947,727	4,623,620	4,106,024	3,862,970
Southeastern Power Administration	242,099	296,982	270,762	250,043	287,318
Other	71,533	60,169	156,665	260,474	139,591
Total Energy Purchased	5,294,138	5,304,878	5,051,047	4,616,541	4,289,879
NET CAPACITY - MW					
Net Generating Capacity Owned*	1,459	1,459	1,459	1,459	1,459
Rights to HMP&L Station Two*	217	217	217	217	218
Other Net Capacity Available	178	178	178	178	178

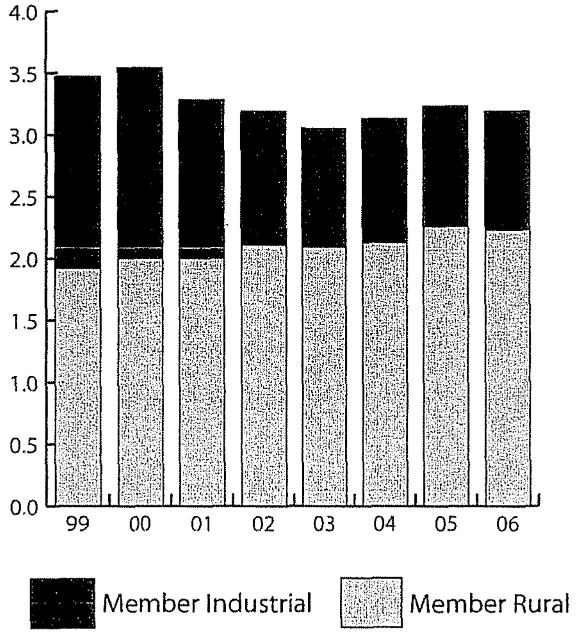
**Big Rivers owns its 1,459 megawatts of electric generating facilities and it has rights to the HMP&L Station Two facility. All of these facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.*

Energy Sales and Revenue

Big Rivers Electric Corporation

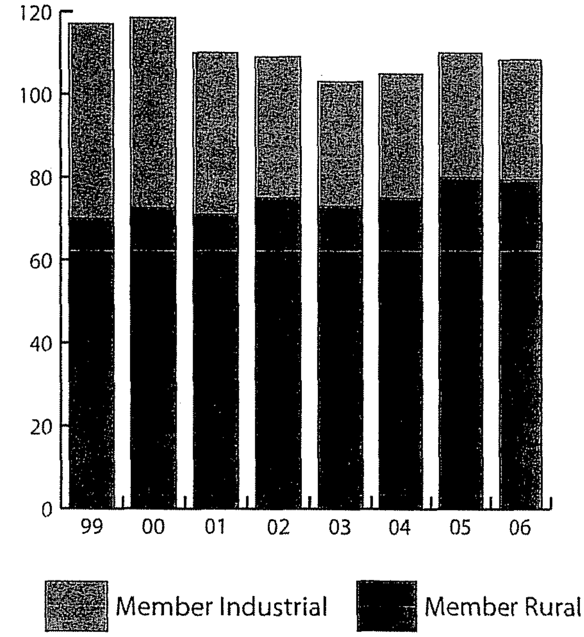
Energy Sales to Members

in millions of MWhs



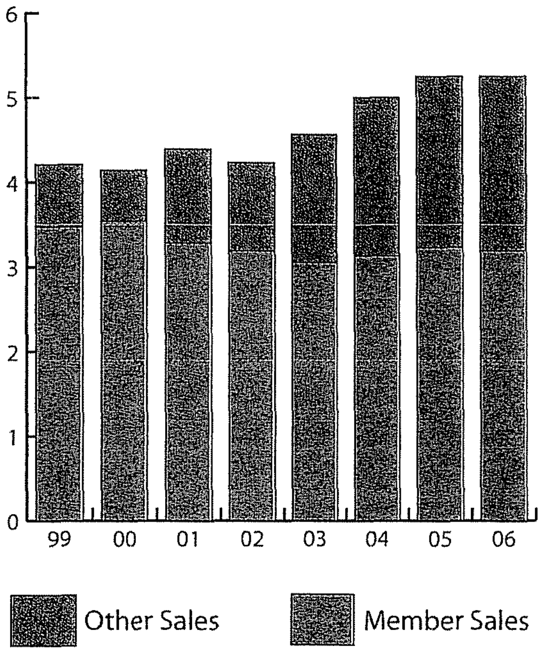
Energy Revenue from Members

in millions of dollars



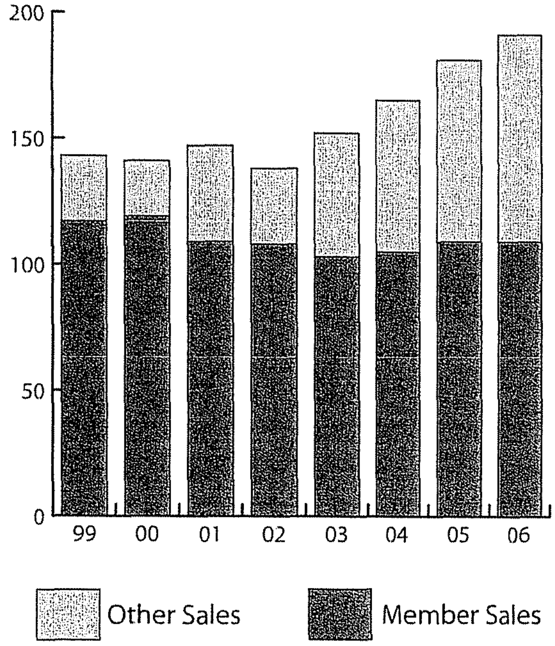
Total Energy Sales

in millions of MWhs



Total Energy Revenue

in millions of dollars



Big Rivers
Electric Corporation

Your Touchstone Energy® Cooperative

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Henderson, KY 42420
(270) 827-2561
www.bigrivers.com