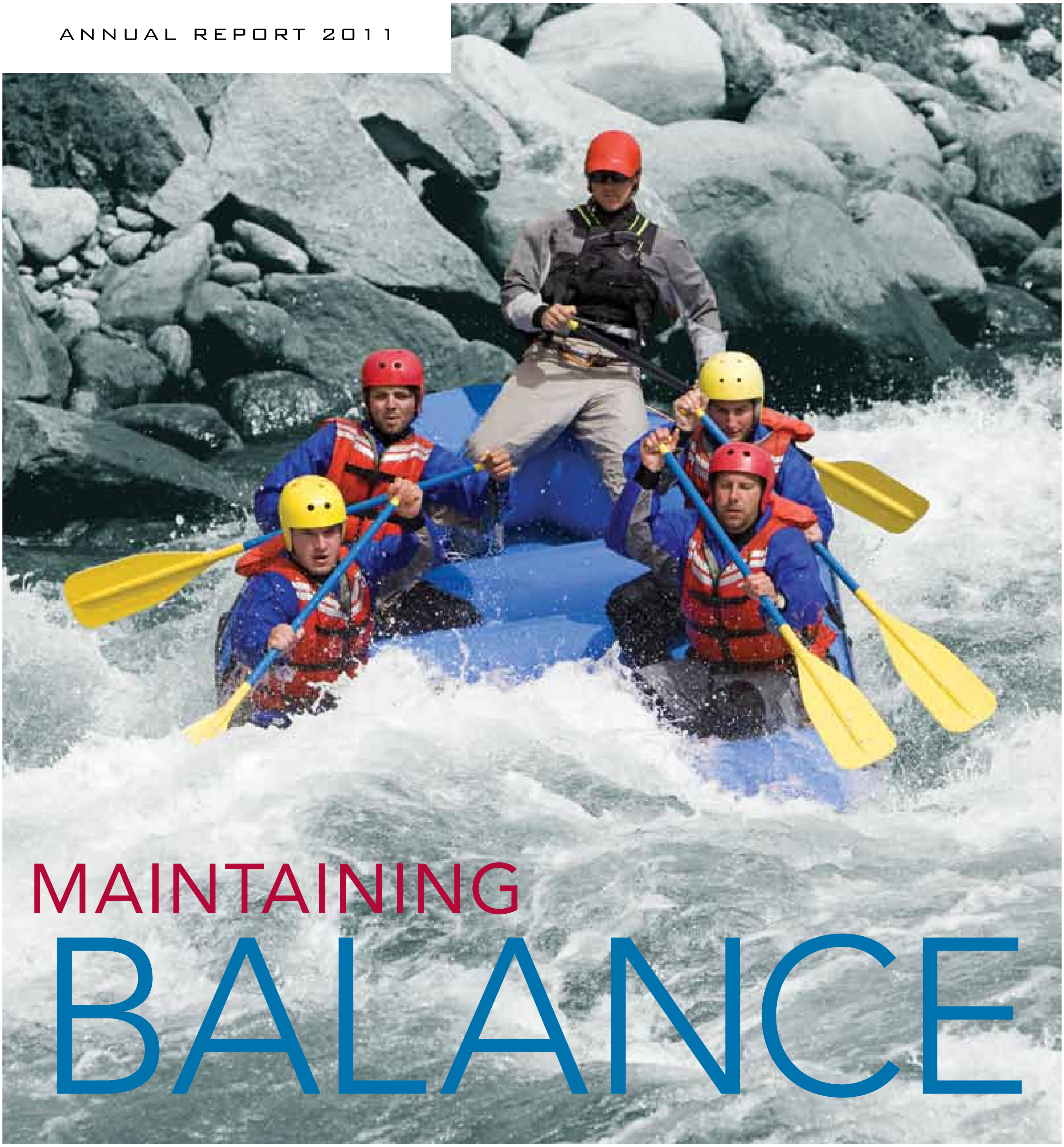
ANNUAL REPORT 2011



MAINTAINING BALANCE

Big Rivers
ELECTRIC CORPORATION

Our Mission

Big Rivers will safely deliver low-cost, reliable wholesale power and cost-effective shared services desired by the Members.

Our Vision

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the Members desire in meeting future challenges.

Our Values

- SAFETY
- INTEGRITY
- EXCELLENCE
- MEMBER AND COMMUNITY SERVICE
- RESPECT FOR THE EMPLOYEE
- TEAMWORK
- ENVIRONMENTALLY CONSCIOUS

Financial Highlights

For the years ended Dec. 31. Dollars in thousands.

	2011	2010	2009	2008	2007
Margins	5,600	6,991	531,330	27,816	47,177
Equity	389,820	386,575	379,392	(154,602)	(174,137)
Capital Expenditures*	38,746	42,683	58,388	22,760	18,682
Cash & Investment Balance	44,849	44,780	60,290	38,903	148,914
RUS Series A Note Voluntary Prepayment Status	46,510	23,859	–	–	–
Times Interest Earned Ratio	1.12	1.15	9.85	1.37	1.64
Debt Service Coverage Ratio	1.47	1.47	2.44	1.17	2.04
Cost of Debt	5.69%	5.73%	6.33%	6.33%	5.76%
Cost of Capital	7.98%	7.93%	8.39%	8.33%	7.75%

** Big Rivers' share only.*

Table of Contents

2 Profile of the Big Rivers System

4 Member Cooperatives

7 Message from Board Chair and CEO

12 2011 in Review

30 2011 Financial Review

34 Financial Statements

39 Notes to Financial Statements

61 Five-Year Review

PROFILE

Big Rivers Electric Corporation (Big Rivers) is a Member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and services to three distribution cooperative Members across 22 counties in western Kentucky.

The Member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, the Members distribute retail electric power and provide other services to more than 112,000 homes, farms, businesses and industries.

Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low-cost, reliable wholesale power and cost-effective shared services desired by the Members. Business operations revolve around seven core values: teamwork, integrity, excellence, safety, Member and community service, environmental consciousness, and respect for the employee.

With headquarters in Henderson, Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity in four stations.

Kenneth C. Coleman	443 MW	Hawesville, Ky.
Robert A. Reid	130 MW	Robards, Ky.
Robert D. Green	454 MW	Robards, Ky.
D. B. Wilson	417 MW	Centertown, Ky.
Owned Generation	1,444 MW	

Total generation capacity available is 1,824 MW, including rights to Henderson Municipal Power and Light (HMP&L) Station Two and contracted capacity from Southeastern Power Administration (SEPA).

Owned Generation	1,444 MW
HMP&L Station Two	202 MW
SEPA	178 MW
Total Generation	1,824 MW

High voltage electric power is delivered to the Member cooperatives over a system of 1,266 miles of transmission lines and 22 substations owned by Big Rivers. Twenty-two interconnects link our system with seven surrounding utilities.

Big Rivers is led by an experienced management team and is governed by a six-member board of directors. The board is comprised of two representatives from each distribution cooperative. We employ over 600 people at seven locations in Kentucky, who actively contribute to the communities our Members serve.

Constantly focused on the needs and local priorities of the Member cooperatives, Big Rivers provides assistance in areas such as information technology, mapping and planning, safety programs and training, economic development, education and customer support services.

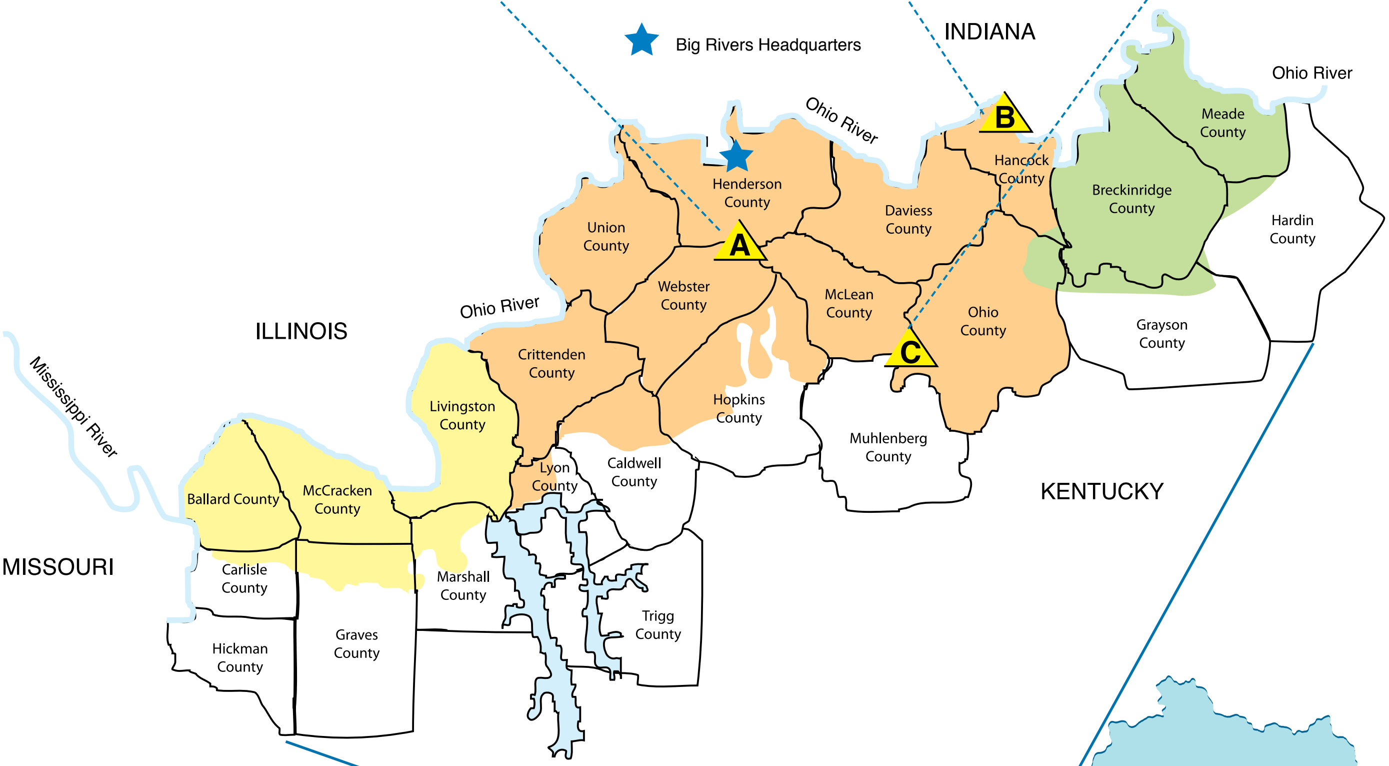
As long-standing members of Touchstone Energy®, Big Rivers and the Member cooperatives pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Keeping the cost of electricity low and the reliability high has always been a priority.

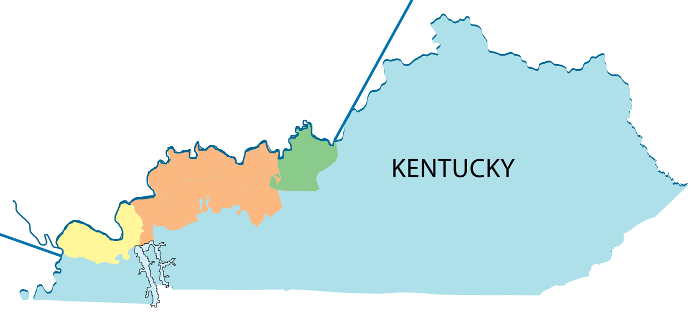
BIG RIVERS ELECTRIC GENERATING STATIONS

A Reid Plant CT
HMP&L Station Two
Reid Plant Unit 1
Green Plant Units 1 & 2

B Coleman Plant
Units 1,2,3

C D.B. Wilson
Unit 1





Jackson Purchase Energy Corporation
Kenergy Corp.
Meade County RECC

MEMBER COOPERATIVES

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 counties

Headquartered:	Paducah, KY
Number of accounts:	29,160
Miles of line:	2,918

Sandy Novick, *President & CEO*
Kenergy Corp.

KENERGY CORP.

(800) 844-4832
www.kenergycorp.com

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

Headquartered:	Henderson, KY
Number of meters:	55,282
Miles of line:	7,047

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 counties

Headquartered:	Brandenburg, KY
Number of meters:	28,478
Miles of line:	2,974

Mark A. Bailey
President and CEO

Dr. James Sills
Chair, Board of Directors

MESSAGE
FROM THE BOARD CHAIR AND CEO

Founded in June of 1961, Big Rivers Electric Corporation celebrated its 50th anniversary in 2011. We are proud of this milestone and owe a significant debt of gratitude to the vision and foresight of our founders. Much of our success today is a tribute to our predecessors' planning and ambition.

Half a century later, we remain dedicated to our mission of safely delivering low-cost, reliable wholesale power and cost-effective services desired by our Members. Our electric rates continue to be some of the lowest in the country, while our generating units remain among the most reliable in our region. Likewise, our employees have continued their commitment to excellence. One of the most visible examples is their record of being some of the safest workers nationally within the electric cooperative program. These accomplishments were no accident, as Big Rivers relies upon dedicated employees committed to serving our Members and the company's success. Teamwork is a core value for Big Rivers, since it is one of the key factors necessary for the company to successfully achieve our mission.

As the times have changed since our creation in 1961, so has the electric utility industry's business climate. Like many electric generation and transmission cooperatives, we have experienced rapid transformation in recent years. This year alone, we faced uncertainty in nearly every sector of our business—the most pressing being a difficult economy and impending environmental regulations. A competent and well-prepared team will be vital to successfully navigating the rough waters ahead. To meet those challenges, Big Rivers' management team is continuously exploring options to successfully balance achievement of our corporate mission, while preparing for emerging environmental regulations and ever-changing utility markets. We are confident our dedicated staff and board of directors are prepared to handle the tough challenges ahead thanks to an experienced leadership team, committed workforce and solid management practices.

To be certain we are equipped to handle the future demands, Big Rivers undertook several long-term initiatives this past year to meet the challenges ahead. At the top of the list was our first wholesale rate increase in 20 years. While no one wants higher electricity rates, Big Rivers' board of directors and management team determined we could no longer continue to defer spending in critical areas and still responsibly operate our generation and transmission system. Although numerous significant cost containment efforts were made prior and subsequent to the rate increase filing, routine and planned maintenance of Big Rivers' transmission and generation assets are necessary to safely deliver low-cost, reliable wholesale power to our Members in western Kentucky.

Big Rivers applied for a 6.85 percent increase in total Member revenue with the Kentucky Public Service Commission on March 1, 2011. On November 17, the Kentucky Public Service Commission granted Big Rivers an increase of $26.7 million annually, a 6.19 percent increase in total Member revenue. Cost containment efforts combined with an increase in revenue were largely responsible for the company achieving net margins of $5.6 million in 2011. This margin achievement satisfied our loan contract requirements. Fortunately, even with this rate increase, Big Rivers will still supply our Members with some of the lowest-priced electricity in the nation.

To satisfy mandated generation reliability requirements set forth by the North American Electric Reliability Corporation (NERC), Big Rivers successfully completed our first full year as a member of the Midwest Independent Transmission System Operator, Inc. (MISO). This move was the most cost-effective alternative for meeting NERC-mandated emergency reserve requirements. Big Rivers is the 35th transmission owning member of MISO, which provided us market access through approximately 57,000 miles of interconnected transmission lines valued at approximately $17 billion. Most importantly, we are happy to report that MISO membership enabled Big Rivers to meet our reliability responsibilities and sell 92 percent of our available generation in 2011—a 4 percent increase from 2010. This helped us keep our rates low.

Another major focus this past year was an analysis of the impacts and costs associated with the Environmental Protection Agency's proposed environmental regulations. This helped determine our compliance strategy. These proposed new environmental compliance rules will create some of the greatest challenges ever faced by electric generators in the U.S. The rules are complex, aggressive and will negatively impact electricity production, availability and rates. Their impact will go well beyond the confines of Kentucky, impacting our U.S. economy and national security.

This year, we have taken a proactive approach to inform local officials and community leaders, as well as state and national legislators, regarding our concerns with these burdensome proposals, which come at a time when the economy is still struggling from recession. In April of 2011, we testified before the U.S. Congressional Subcommittee on Energy and Power regarding how these regulations will affect Big Rivers and our Members. We also worked hard to inform our Members' customers how these regulations will ultimately increase electric costs, affect reliability and reduce employment. To help further address these matters, Big Rivers hired Eric Robeson as vice president of plant construction in 2011. Since joining the management team, he has analyzed compliance options, costs and implementation timeframes.

Big Rivers' executive management and board of directors will continue to carefully evaluate all options to optimize our investment and ensure environmental compliance, while safely maintaining reliability with the least possible cost impact to our Members. Working as a

team, Big Rivers' board, management and employees have accomplished major milestones in 2011. We know that maintaining the right balance in the future will be the key to Big Rivers and our Members' continuing success in the coming years. The future holds great challenges, but we are confident in our ability to navigate the uncertain waters ahead. We will continue to add value for Members through excellence in providing reliable and low-cost power for years to come.

Dr. James Sills
Chair, Board of Directors

Mark A. Bailey
President and CEO

BOARD OF DIRECTORS

Standing (left to right):

Dr. James Sills, Chair
Meade County RECC

Wayne Elliott, Vice-Chair
Jackson Purchase Energy Corporation

William Denton
Kenergy Corp.

Seated (left to right):

Lee Bearden
Jackson Purchase Energy Corporation

Paul Edd Butler
Meade County RECC

Larry Elder, Secretary-Treasurer
Kenergy Corp.

MANAGEMENT TEAM

Standing (left to right):

Paula Mitchell, *Executive Assistant*

James Miller, *Corporate Counsel*

Albert Yockey, *V.P. Governmental Relations & Enterprise Risk Management*

David Crockett, *V.P. System Operations*

James Haner, *V.P. Administrative Services*

Marty Littrel, *Communications & Community Relations Manager*

Seated (left to right):

Eric Robeson, *V.P. Environmental Services & Construction*

Robert Berry, *V.P. Power Production*

Mark Bailey, *President & CEO*

Mark Hite, *V.P. Accounting & Interim CFO*

USING TEAMWORK
TO NAVIGATE THE TURBULENT WATERS

On March 1, 2011, Big Rivers Electric Corporation filed with the Kentucky Public Service Commission (KPSC) its first general rate adjustment in 20 years. The filing application requested approval to increase wholesale electric rates by 6.85 percent to our three distribution cooperative Members: Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation.

In the years since Big Rivers last increased wholesale rates in 1991, the Consumer Price Index has risen approximately 64 percent. Prior to and following the rate increase filing, Big Rivers initiated multiple cost containment actions to address decreased wholesale electric revenue resulting from the depressed economy as well as additional expenses required to judiciously operate its business.

Our board of directors and management team constantly strive to safely provide reliable, low-cost service to our Members. However, to address increasing requirements in a challenging environment, we could no longer delay a wholesale electric rate increase.

This rate application process required considerable planning and teamwork among Big Rivers' employees and advisors. Satisfactorily meeting required deadlines for filing testimony and responding to data requests and discovery for the better part of a year was a true demonstration of the leadership and dedication of our employees.

Yet, even with the recent rate change, Big Rivers continues to provide some of the lowest wholesale power rates in Kentucky and in the nation.

Big Rivers conducted a thorough evaluation of the costs of service to determine the revenue contribution each customer class made compared to the cost to serve those customers. This cost of service study revealed that large industrial customers were paying more than their share compared to residential customers. The gap was so significant that even without any rate increase at all, residential rates would have had to be increased 6.7 percent to eliminate the disparity. As a result, Big Rivers proposed to reduce the gap by one-quarter of the difference. In addition, a depreciation study was conducted of all Big Rivers assets as part of the rate case filing.

On November 17, the KPSC authorized Big Rivers to adjust its electric rates approximately $26.7 million annually, a 6.19 percent increase in total Member revenue. Successfully navigating this complex process was a direct result of significant effort and cooperation from a team of employees.

Line crew personnel inspect, treat, and replace transmission poles as part of an ongoing maintenance program.

MOVING THOUGH CHANGING WATERS WITH

INTEGRITY

Energy services personnel plan, schedule, analyze, and forecast use of our generating assets to maximize the benefit to Members.

Big Rivers has a good working relationship with state and federal legislators. Big Rivers personnel actively monitor legislation and regulations that might impact electric cooperatives and the utility industry. The company is especially vigilant in monitoring a series of regulations recently proposed by the Environmental Protection Agency (EPA), as they will have a significant impact on coal-fired power plants. The regulations, if approved, would ultimately increase the cost of electricity and could affect reliability, at least in the short term.

During much of 2011, Big Rivers personnel analyzed the near and distant impact of pending EPA regulations on company operations and financial metrics. A number of cross-departmental teams are evaluating environmental compliance requirements that will necessitate expensive construction projects at our generating stations, as well as financing, financial modeling, rate case evaluation, and demand side management programs. Although everyone is interested in protecting the environment, the challenge is to balance benefits with costs, while achieving the intended results in the most efficient and cost-effective manner.

Big Rivers also continues to maintain a good working relationship with the Kentucky Public Service Commission. Big Rivers personnel are working with other Kentucky utilities in regulatory advisory groups regarding possible changes to the KPSC's regulations on rules of procedures and tariffs. Big Rivers personnel are also providing input in connection with the implementation of smart grid standards and related investments. Big Rivers received recommendations from KPSC staff on the 2010 filing of its integrated resource plan, which will be incorporated in Big Rivers' next integrated resource plan filing.

Regarding fuel supply, Big Rivers continues to balance the fuel portfolio in accordance with our strategic plan while maintaining transparent fuel procurement processes. Big

The rate application process required employees and advisors to file testimony and respond to requests for data and discovery.

Rivers' generating units are operated in a way that minimizes cost and maximizes efficiency. In light of the low demand for electricity and low market prices for off-system energy sales, Big Rivers has been challenged to meet the needs of Members while still achieving financial objectives. As noted earlier, cost containment measures have enabled Big Rivers to do both.

Big Rivers successfully integrated into Midwest Independent Transmission System Operator, Inc. (MISO) in late 2010 and actively participates in related activities and training to ensure the effectiveness of Big Rivers' operations within the MISO market. Examination of the costs and benefits of MISO membership versus other options is ongoing, and the company filed an annual report to update the KPSC on this matter in 2011. To develop new revenue streams, Big Rivers continues to identify and evaluate power supply business opportunities and strategic partnerships. Now that full integration into MISO is complete, the focus is on optimizing participation and developing strategies designed to maximize Member benefit. Personnel received training in 2011 to gain additional understanding of MISO procedures, as well as oversee transmission-related issues and advocate Big Rivers' position.

By maintaining a balance between risks and benefits, Big Rivers manages Member rate volatility and the impact on net margins. Personnel monitor the effectiveness of enterprise risk management policies and work with the Members to implement depreciation studies, cost of service studies, and rate design to stabilize earnings for Big Rivers and our Members.

PERFORMING WITH EXCELLENCE

Big Rivers' generating stations exceeded all of their key performance indicator targets in 2011. The power plants achieved a near-record equivalent availability factor of 93.3 percent, which is the percentage of time a generating unit is available for power production. The higher the percentage, the more efficiently and productive the generating system is running. Results of 2011 were second only to the year 2010 as the best performance in the company's history.

The 2011 equivalent forced outage rate, which measures the percentage of time a generating unit is unexpectedly off-line or unable to obtain its rated capacity, was 4.1 percent, and actual net generation for the year was 12,444,872 MWh.

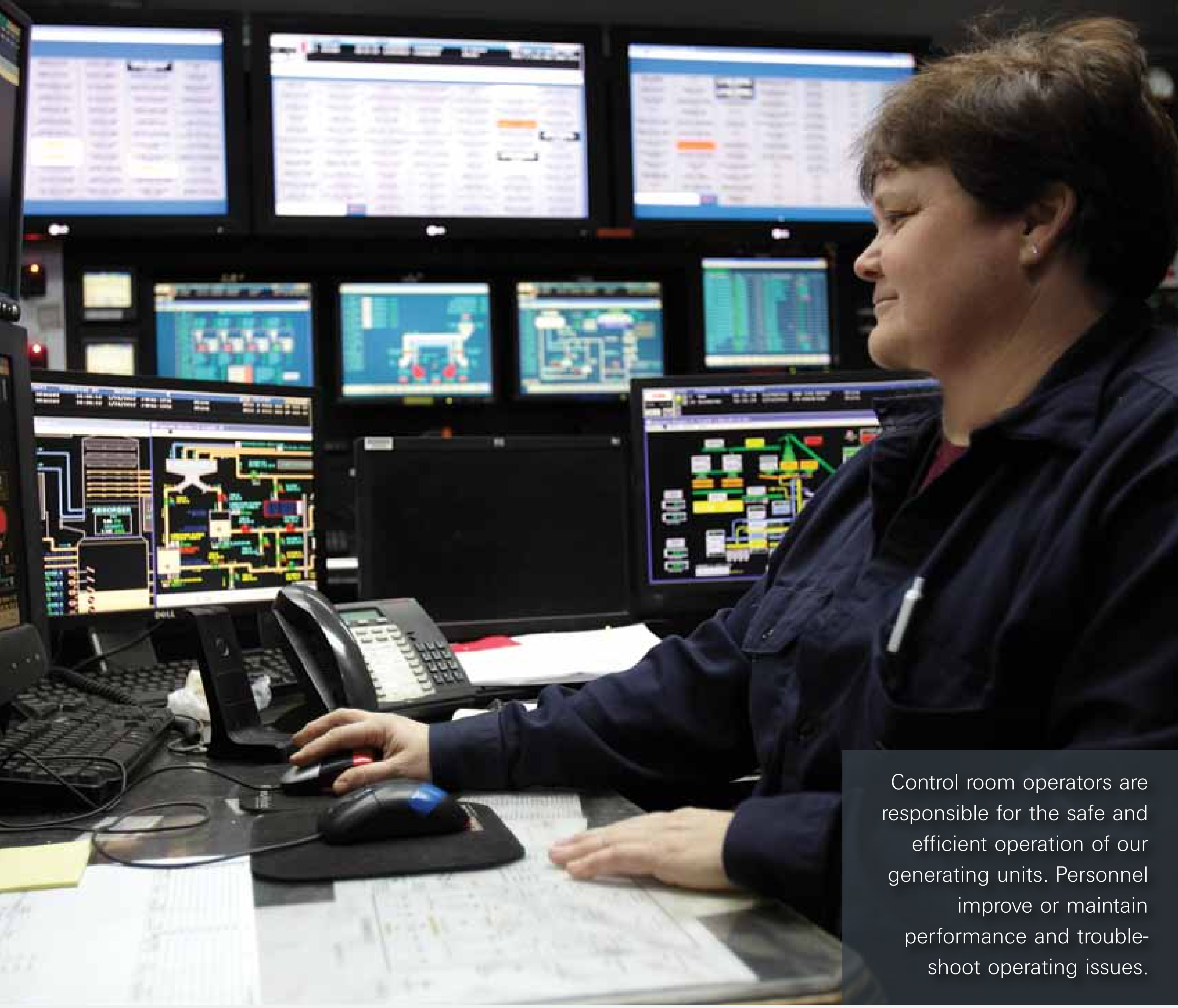
The fleet-wide net heat rate of our generating fleet was also favorable at 11,001 net Btu/kWh compared to the annual target of 11,067. Net heat rate measures how efficiently the energy contained in coal that is burned is converted to electricity. This favorable heat rate saved Big Rivers' Members more than $1.7 million in fuel costs in 2011.

Coleman Station set records for continuous days in service on all three of its generating units in 2011: Unit 1 – 144 days, Unit 2 – 104 days, and Unit 3 – 140 days. Coleman Station also exceeded its annual generation target by more than 215,000 MWh.

As part of our mission, Big Rivers strives to meet the Members' reliability needs and regulatory compliance requirements in the most cost-effective manner. Employees work with our Members to adopt criteria to evaluate the economic and reliability impact of transmission expansion or improvement projects, as well as monitor the capabilities and expansions of surrounding utility transmission systems. Big Rivers completed or substantially completed 12 capital construction projects in 2011. Regarding transmission service reliability, Big Rivers met the target goal for two member systems as well as system-wide target for average outage duration.

Big Rivers complies with all North American Electric Reliability Corporation (NERC) reliability standards and SERC Reliability Corporation regional guidelines consistent with a corporate culture of compliance. Employees continue to efficiently maintain the transmission system with a focus on Member reliability and power import and export capability. This includes evaluation of shared services that provide value to end-use consumers through economies of scale. Installation of a new two-way radio system

Right-of-way personnel manage vegetation to keep trees from causing outages and to help maintain reliability of our transmission system.



Control room operators are responsible for the safe and efficient operation of our generating units. Personnel improve or maintain performance and trouble-shoot operating issues.

for Big Rivers and all three Members began in 2011 and will be completed in 2012.

As part of an ongoing maintenance program, Energy Transmission & Substation employees inspected and treated 3,375 poles and re-placed 62 rejected poles. They performed a ground inspection of 466 miles of transmission line right-of-way as required by NERC, treated 380 miles with herbicide, and performed a full-width cut on 48 miles of right-of-way. In addition, employees tested 43 circuit breakers, 39 transformers, six capacitor banks, 37 line switches, and 78 battery banks. Big Rivers also completed two aerial inspections of the trans-mission system as required by Kentucky Public Service Commission regulations.

Energy Transmission & Substation employees achieved one year with no lost-time incidents in January 2011.

SHOOTING THE RAPIDS OF POWER DELIVERY WITH SAFETY

Big Rivers emphasizes safety with employees, Members, contractors, and the public. Team members update, implement, and communicate the comprehensive safety plan on an annual basis and assist the Member systems with their safety needs.

On January 14, Big Rivers employees reached a significant company-wide safety milestone by completing a year without a lost-time incident, which was the first time company employees reached this milestone. This achievement is a credit to all employees, because it could not have been accomplished without each employee doing his or her part to maintain a safe working environment. Also in January, Transmission & Substation employees achieved one year with no lost-time incidents; Coleman Station and Sebree Station completed five years and two years, respectively.

Employees at Sebree Generating Station were awarded their seventh Governor's Safety Award in June. Sebree Station employees received this award for achieving more than one million man-hours without a lost-time injury as of March 31. Safety is a foundation for all decisions and expectations of Big Rivers' workforce, so this milestone is a significant achievement.

Wilson Station employees completed four years with no lost-time incidents on May 15, and they successfully worked 835,667 hours with no lost time as of June 30. As a result, Wilson employees received their eighth Governor's Safety Award. Safety is the most important corporate value at Big Rivers, because it protects the life and well being of our most important asset: our employees.

Big Rivers sent a contingent of employees to Kentucky's 2011 Governor's Safety and Health Conference, including Warren Hust Jr., past president of the Kentucky Safety and Health Network, and Donna Haynes, present board member of the Kentucky Safety and Health Network.

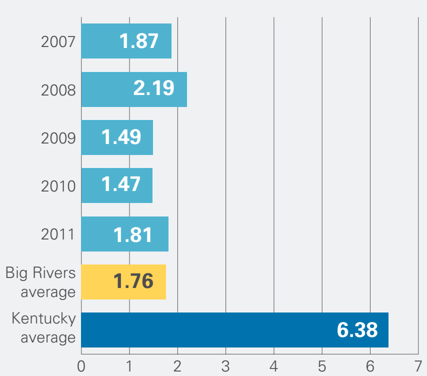
Headquarters employees completed one year with no recordable incidents on June 22, as did Wilson Station employees on October 6, and Transmission & Substation employees on November 17.

Coleman Station employees completed five years with no lost-time incidents in January 2011 and received the Governor's Safety Award at the 2011 Governor's Safety and Health Conference.

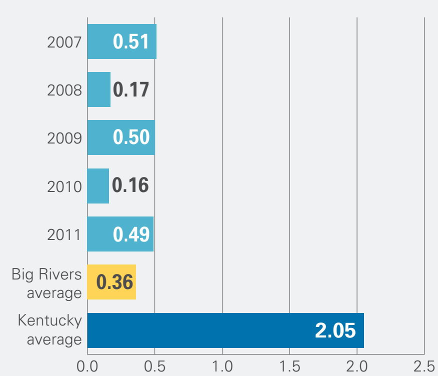
Sebree Station employees completed two years with no lost-time incidents in January 2011 and received the Governor's Safety Award at the 2011 Governor's Safety and Health Conference.

Wilson Station employees completed four years with no lost-time incidents in May 2011 and received their eighth Governor's Safety Award from Kentucky Secretary of Labor Mark Brown.

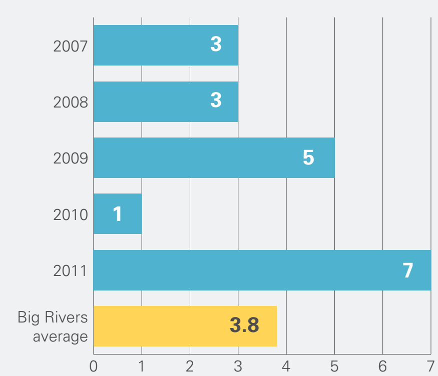
OSHA Recordable Incident Rate



Lost-Time Incident Rate



Number of Vehicle Incidents



MOVING IN SYNC WITH OUR MEMBERS' NEEDS

Big Rivers has taken a proactive approach towards advancing Kentucky Governor Steve Beshear's energy plan: Intelligent Energy Choices for Kentucky's Future. Strategy 1 of the plan addresses the energy efficiency of Kentucky's homes, buildings, industries, and transportation fleet by establishing the goal that energy efficiency will offset at least 18 percent of Kentucky's projected 2025 energy demand.

In 2011, Big Rivers worked cooperatively with our Members in developing demand side management programs intended to impact summer and winter demands for electricity, annual kWh sales, and water savings designed to reduce energy consumption at the retail level. These energy efficiency programs provide incentives to both residential and commercial customers of the Member cooperatives to modify energy consumption through purchase, construction, or servicing of electricity-consuming equipment. The following nine programs were launched in October 2011:

- Residential Lighting Program (CFL distribution)
- Residential ENERGY STAR Clothes Washer
- Residential ENERGY STAR Refrigerator Program
- ENERGY STAR Heating, Ventilation and Air Conditioning (HVAC) Program
- Residential Weatherization Program (development still underway)
- Residential Touchstone Energy New Construction Program
- HVAC Tune-Up Program
- Commercial/Industrial Efficient Lighting Program
- Commercial/Industrial Efficient Equipment Program

The KPSC approved an annual budget for the energy efficiency programs of $1 million in 2012 that could result in more than 2.2 MW of reduced demand and save an estimated 6,900 MWh annually for retail Members. Energy efficiency programs have the capability to slow load growth, which may allow Big Rivers to delay the need for purchase of additional generating assets.

Engineering personnel manage construction projects to expand or improve the capabilities of our transmission system.

Information systems personnel develop software applications for the Member cooperatives.

SHOWERING THE

COMMUNITY

WITH CORPORATE AND EMPLOYEE INVOLVEMENT

The United Way committee at Big Rivers is comprised of employee volunteers from each of our locations. These volunteers plan and deliver an annual campaign to generate employee contributions to United Way.

Community service, as part of our corporate values, is a strategic objective at Big Rivers. We persistently support and encourage employee involvement in civic and philanthropic organizations within the communities served by Big Rivers and our Members.

This year, Big Rivers and our employees contributed $208,285 to local United Way agencies. This was a 7 percent increase in employee contributions from the previous year's campaign, which is a testament to the charitable character of our employees. Big Rivers has always encouraged a strong tradition of volunteering and giving back to the communities it serves. This year alone, 77 percent of our employees contributed to United Way, which was one of the highest participation rates in the region. Total employee contributions to the 2011 United Way campaign were $166,285, an average of $326 per employee. Big Rivers stimulates employee participation and giving rates by increasing the corporate contribution based on the percentage increase of employee dollars and participation rates over the previous year. This year, the Big Rivers corporate donation totaled $42,000.

Big Rivers employees are extremely active in a variety of civic and community events. To foster proactive involvement in philanthropic activities, Big Rivers initiated an employee community support program that financially supplements employees' participation in community activities based on their volunteer hours or dollar-for-dollar matching of their financial contributions.

In addition, the company was a major contributor to Junior Achievement, March for Babies, Relay for Life, Habitat for Humanity, Kentucky Governor's Scholars Program, and the Philippine Project (in conjunction with the National Rural

Big Rivers supports a team of employees annually to participate in the March for Babies walk in Henderson, Kentucky.

Electric Cooperative Association International Foundation, which brings electricity to rural villages). Thanks to active participation and a concern for helping others, this year's fundraising efforts were a success and brought value to our communities.

Over the past 50 years, employees at Big Rivers have consistently offered their leadership abilities by serving on numerous committees and boards throughout the area. This year, many of our employees gave back to the local communities in our region by serving in advisory positions for children advocacy groups, economic development organizations, health care foundations, chambers of commerce, and contributing to university and school boards. Helping our local communities grow and prosper is a long tradition for Big Rivers and our Members.

Production employees receive training on power plant operations, equipment maintenance, and safety procedures. Big Rivers stresses the importance of safety, because the company values employees as our most important asset.

RESPECT FOR EVERY EMPLOYEE ON BOARD

Big Rivers is powered by a well-trained, engaged workforce dedicated to teamwork and the success of both the company and our Member cooperatives. The company has:

- Planned to meet current and anticipated staffing needs in recognition of an aging workforce;
- Enhanced the strategy and process for communicating with employees;
- Encouraged teamwork across departments through multi-functional teams;
- Developed tools necessary to track and meet training needs;
- Maintained a positive relationship with the Union;
- Emphasized with employees the importance of Members and helped build employee understanding of how their efforts impact Members; and
- Nurtured and supported employee participation in civic and philanthropic organizations within our local communities.

Maintaining balance is an integral part of the human resources function. Compensation and benefits are adjusted as necessary to attract and retain employees, while minimizing costs to help meet profit or margin requirements for the corporation. A sufficient and well-trained workforce is necessary to keep day-to-day operations running smoothly while preparing for the future. Staffing is made all the more challenging given the number of employees approaching retirement, and the increased pressure on costs due to the depressed power sales market in the current economy.

During 2011, the generating stations lost 16 employees to retirement, taking with them more than 522 years of experience in operating and maintaining power plant equipment. With this in mind, hiring practices have been put into place to prepare for and offset the

Human resources personnel address critical issues in staffing, benefit design, and employee relations.

impact of an aging workforce. This includes temporarily hiring additional employees at the generating stations before they are needed due to upcoming retirements.

In addition, the production department purchased a power plant operator training simulator in 2011 to improve the quality of its control room operator training program and to expedite the training of new operators to replace retirees. In order to continue serving Members with excellence, Big Rivers also sharpens employees' skills through various training activities.

Benefit costs were also a focus in 2011, with the decision made to market the employee health plan. As a result of that effort, Big Rivers is self-insuring its medical plan and moved to a new dental plan provider in 2012 with significant expected savings in the cost of providing employee health plan benefits.

A compensation study was initiated to gauge the competiveness of pay rates and appropriateness in design of the non-bargaining employee salary structure. Adjustments as determined by the study were implemented in early 2012.

ENVIRONMENTALLY CONSCIOUS

OF THE LANDSCAPE THAT SURROUNDS US

This nesting box, installed at Wilson Station, will hopefully house a pair of Peregrine Falcons in the near future.

One of the greatest challenges facing the electric utility industry is finding the proper balance between the public's desire for a cleaner environment and low-cost reliable electricity. To address these challenges, Big Rivers took several proactive steps in 2011 to realize its environmental responsibilities.

In May, Big Rivers hired Eric Robeson as vice president of plant construction to develop an overall compliance strategy to achieve federal EPA requirements of the Cross-State Air Pollution Rule and Mercury and Air Toxics Standards. These regulations will require electric utilities to further reduce their emissions of sulfur dioxide, nitrogen oxides, and mercury from their generating units.

As part of this effort, Big Rivers engaged the engineering firm of Sargent & Lundy to perform a three-phase environmental compliance study. The study measured existing emissions from the generation fleet, identified viable technology solutions to meet the new environmental regulations, and developed a least-cost solution for compliance with these regulations.

In addition, Big Rivers formed an internal team to ensure that all appropriate areas of the company were focused on these new environmental regulations. The primary goal of this team is to develop the required regulatory filings associated with an environmental compliance plan, certificates of public convenience and necessity, and environmental surcharge update by the end of 2012. These filings will allow Big Rivers to receive KPSC approval of its compliance plan.

A ladder structure is assembled onto the front of the nesting box to provide falcons with a perch.

HELPING WILDLIFE

Personnel from the Kentucky Department of Fish and Wildlife Resources installed a Peregrine Falcon nesting box at the top of the Wilson Generating Station stack in mid-September.

Kate Heyden, aviation biologist, offered her thanks to the Wilson crew that helped with the installation. "We greatly appreciate your support of our Peregrine Falcon restoration program. The Peregrine Falcon is a rare species, with only 13 nesting pairs in Kentucky (most of which are in nest boxes)."

Hopefully, this nest box will provide another safe nesting location for these birds in the near future. A similar nesting box was installed at Coleman Generating Station in 2010.

EXPLORING ELECTRIC VEHICLES

Big Rivers purchased the highly-touted Chevy

Environmentally Conscious (continued)

Volt in December 2011 to test its performance and raise public awareness of new electric vehicle technology. This vehicle purchase follows a corporate strategic initiative of proactive asset management, because electric vehicles are typically charged at night when our generating assets are not fully utilized.

The Volt is the first American production vehicle designed to travel extended distances in the electric vehicle mode with full performance and speed. In its simplest form, the Volt operates two ways: short range using only battery power and extended range using gasoline-generated electricity. The Chevy Volt can be charged with a standard 120-volt household outlet, making charging easily available. Initial indications suggest about $1.50 of electricity will permit the vehicle to travel approximately 35 miles using battery power only. Beyond its battery power radius, the Volt's gasoline-powered generator automatically engages to produce electricity that allows the vehicle to be driven an additional 300 miles. Overall, the Volt is allowing Big Rivers to better understand this technology and the opportunities it may present.

Looking to the future, this technology could lead to expansion of our demand side management programs that permit better utilization of our generating assets, while delaying the need to add even more expensive assets to meet our Members' increased electricity needs. As the popularity and economics become more attractive for these electric vehicles, they could provide opportunities for low-cost, off-peak energy programs.

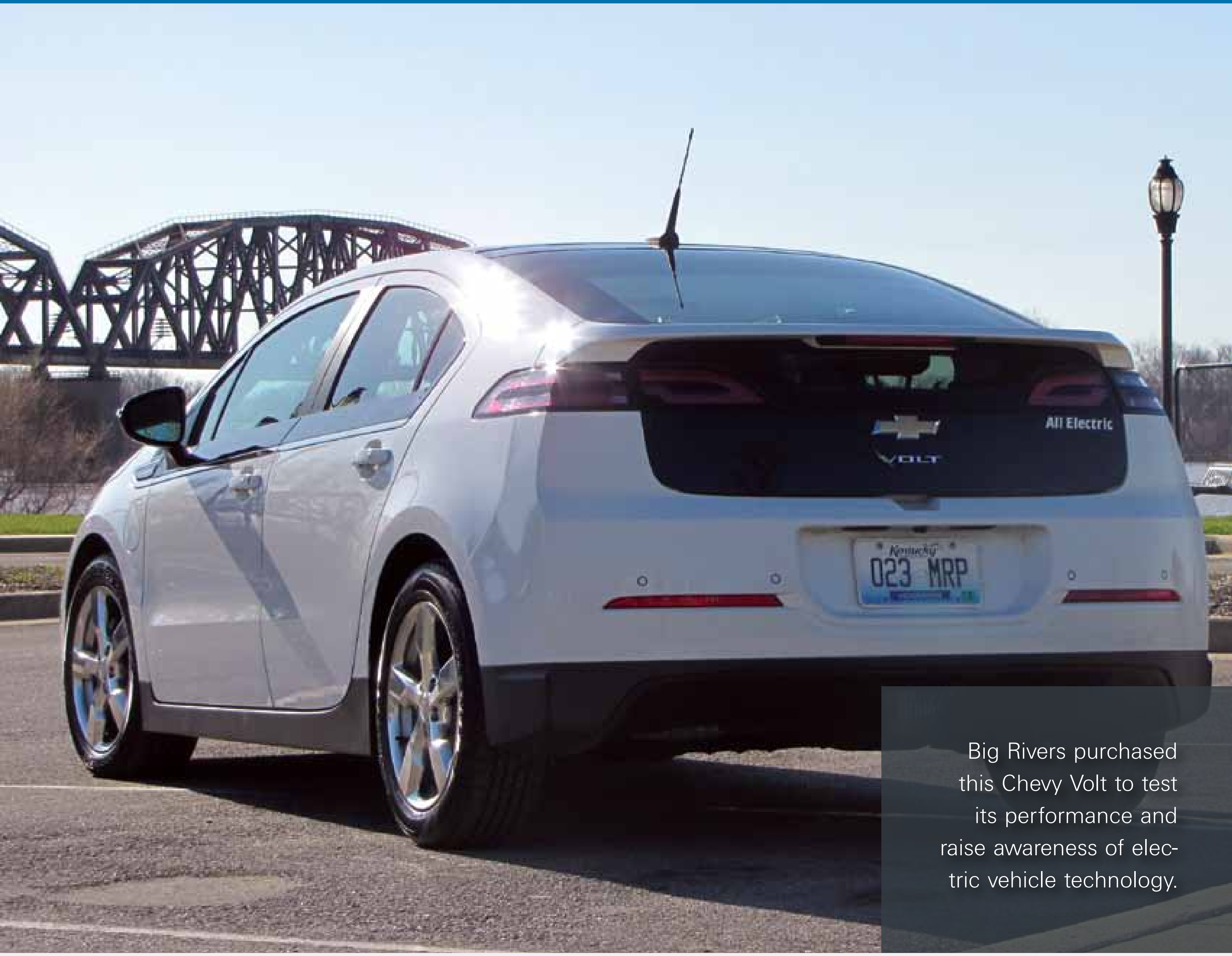
RECYCLING

In order to be better stewards of the environment, Big Rivers launched on-site recycling efforts in 2011. Recycling programs are now operational at three facilities, and the remaining locations will begin participation in 2012.

Sebree Generating Station and Energy Transmission & Substation have partnered with Henderson Recycling to collect cardboard and paper waste. Sebree Station also collects plastic recyclable waste. Big Rivers personnel installed 96-gallon plastic bins in areas such as the control room, offices, and lunch rooms for easy access by employees. These bins collect recyclable items like newspaper, magazines, and plastic bottles.

Sebree warehouse personnel also recycle large cardboard boxes received with material shipments. The program was so successful that Sebree Station is on the waiting list with Henderson Recycling for a second large collection bin. The ultimate goal of this program at our Sebree and Transmission & Substation facilities is to reduce the amount of recyclable material

In partnership with Henderson Recycling, warehouse personnel recycle cardboard boxes received with material shipments.



Big Rivers purchased this Chevy Volt to test its performance and raise awareness of electric vehicle technology.

sent to the Henderson, Kentucky landfill and extend its usable life, which is only about six more years at current usage levels.

As part of another recycling partnership, the city of Hartford, Kentucky delivered a new recycle trailer to Wilson Generating Station, one of six tailor-made trailers Hartford purchased with grant money for recycling. Wilson employees are pleased to join the city of Hartford in this effort to reduce recyclable materials going to landfills.

Thanks to the conscientious efforts of our employees, their waste recycling will not only reduce the volume of material being sent to landfills, it will also reduce the cost associated with traditional garbage removal. These recycling programs at Energy Transmission & Substation, Sebree Station, and Wilson Station exemplify our corporate values of community service, teamwork, and environmental consciousness.

2011 FINANCIAL REVIEW

Big Rivers' mission is to safely provide low-cost, reliable wholesale electricity and cost-effective shared services to three Member distribution cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp. and Meade County Rural Electric Cooperative Corporation. At December 31, 2011, the Members provide service to 112,936 retail customers in 22 western Kentucky counties.

On March 1, 2011, Big Rivers filed an application with the Kentucky Public Service Commission (KPSC) seeking to increase its Member wholesale tariff rates. Per the application, the proposed Member revenue increase was $29.6 million, a 6.85 percent increase in total Member revenue. At the time of the filing, Big Rivers had not obtained a wholesale tariff rate increase in 20 years. The KPSC issued an order on November 17, 2011, approving an increase in electric rates of $26.7 million, a 6.19 percent increase in total Member revenue. The rate increase was retroactively applied for service rendered on September 1, 2011.

In 2011 Big Rivers also completed its first full year of membership with Midwest Independent Transmission System Operator, Inc. (MISO). MISO coordinates, monitors and controls operation of the electrical power system in this region. ACES Power Marketing continues to market Big Rivers' surplus power.

Big Rivers operates 1,444 MW of owned generating facilities and 312 MW of Henderson Municipal Power & Light Station Two, of which Big Rivers is currently allocated 202 MW. The company also owns transmission assets, principally 1,266 miles of transmission lines and 22 transmission substations. Net utility plant at December 31, 2011 was $1,092.1 million, and total assets were $1,417.9 million.

Big Rivers completed 2011 with a favorable set of key financial metrics, discussed in the pages that follow.

Net Margins
Dollars in millions

Equity
Dollars in millions

NET MARGINS AND EQUITIES

The 2011 net margin was $5.6 million, resulting in a 1.12 times interest earned ratio (TIER) and margins for interest ratio (MFIR), and a 1.47 debt service coverage ratio (DSCR). Equities to total assets were 27.49 percent at December 31, 2011.

The net margin for 2010 was $7.0 million. Three items account for the majority of the $1.4 million decline in the 2011 net margin. First, 2011 reflects additional expense of $4.6 million related to a full year of MISO membership fees versus one month of membership expense in 2010. Second, following a thorough analysis during 2010, the balance of the reserve for obsolescence that was established for certain materials and supplies inventory upon the Unwind closing was written off, resulting in a positive impact of $1.9 million to the 2010 net margin. Third, largely offsetting the unfavorable expense variance is a $5.0 million increase in net sales margin (electric sales revenue less variable cost) in 2011. This is principally due to the Member rate increase and higher smelter and off-system sales volumes in 2011, largely offset by lower market pricing in off-system sales.

ENERGY SALES AND ELECTRIC REVENUES

Energy sales increased to 13,255,125 MWh in 2011, up from 11,969,420 MWh in 2010. There were two primary reasons for the MWh sales increase. First, an additional 506,389 MWh were sold to the smelters, a 7.98 percent increase over 2010, due to the restarting of an idle potline at Century Aluminum. Second, an additional 846,675 MWh were sold in the off-system market, a 38.32 percent increase over 2010.

Non-smelter Member sales decreased 67,359 MWh in 2011, or 1.98 percent, driven by weather. Electric energy revenue increased to $558.4 million in 2011, up from $514.5 million in 2010, due to a combination of off-system sales, Century Aluminum restarting one of their potlines, and the September 1, 2011, rate increase.

Energy Sales

Megawatt-hours (MWhs) in millions

Electric Revenues

Dollars in millions

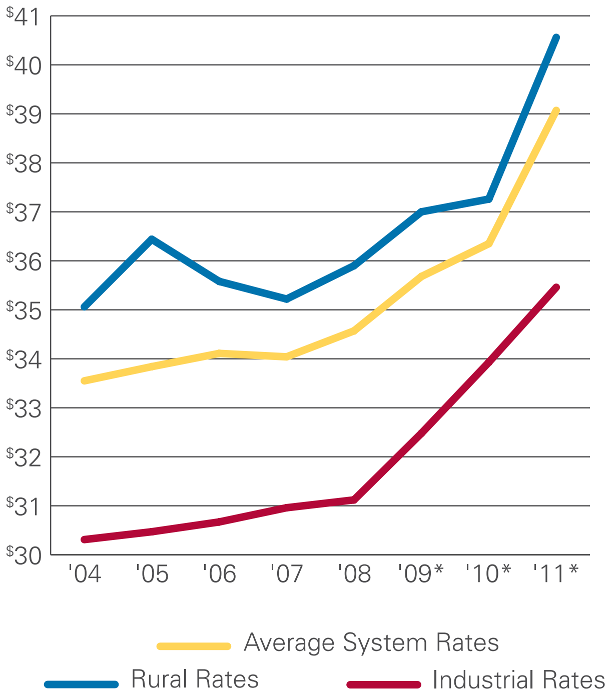
WHOLESALE RATES

Big Rivers has all-requirements wholesale power contracts with its Members through December 31, 2043. Rural Member wholesale revenue per MWh was $46.78 in 2011 versus $45.15 in 2010. Large industrial Member wholesale revenue per MWh was $41.68 in 2011 versus $41.85 in 2010. The aluminum smelter wholesale contracts terminate December 31, 2023. Aluminum smelter wholesale revenue per MWh was $44.48 in 2011 versus $44.05 in 2010. Big Rivers' wholesale Member tariff rate and the aluminum smelter contracts are regulated by the KPSC and the Rural Utilities Service (RUS).

Wholesale Member Rates*

Dollars per megawatt-hour (MWh)

**Note that: 2009, 2010 and 2011 rates reflect a reduction due to the Member Rate Stability Mechanism*



Wholesale power market prices continue to be depressed, as has been the case since 2008. The revenue per MWh received by Big Rivers for its off-system sales was $33.30 in 2011, down from $37.90 received in 2010, and significantly below the off-system sales rate of $48.03 received in 2007.

LINES OF CREDIT AND LETTERS OF CREDIT

Big Rivers has two $50 million lines of credit available, one with CoBank, ACB, expiring July 16, 2012, and the other with National Rural Utilities Cooperative Finance Corporation (CFC), expiring July 16, 2014. The CFC line of credit contains a $10 million embedded letter of credit facility. At December 31, 2011, letters of credit totaling $5.4 million are outstanding with CFC.

LONG-TERM DEBT

At December 31, 2011, debt to total assets is 55.46 percent. Big Rivers significantly reduced its long-term debt by $252.7 million over the past three years to $786.4 million at December 31, 2011, down from $1,039.1 million at December 31, 2008. The effective interest rate thereon, at December 31, 2011, is 5.75 percent. The RUS Series A Note has a December 31, 2011 fair value of $521.3 million and a stated value of $523.2 million. The non-interest bearing RUS Series B Note, having a December 31, 2011 fair value of $123.0 million and a stated value of $245.5 million, has no payment due until maturity on December 31, 2023.

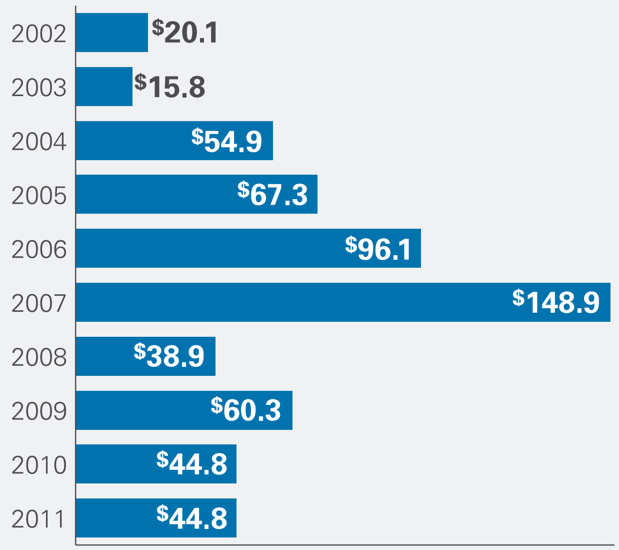
Big Rivers has two issues of tax-exempt pollution control bonds outstanding, totaling $142.1 million. The larger of the two issues was refinanced June 8, 2010—the $83.3 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 2010A. These Series 2010A Bonds now bear interest at a 6 percent fixed rate, with a maturity date of July 15, 2031. The second issue—the $58.8 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 1983—are variable rate demand bonds currently being held by the liquidity provider, bearing an interest rate of 3.25 percent.

LIQUIDITY

Liquidity is good, as cash and cash equivalents total $44.8 million at December 31, 2011. Additionally, the company has the two lines of credit totaling $100 million discussed earlier. Also of significance, at December 31, 2011, Big Rivers had voluntarily prepaid $11.5 million on its 5.75 percent RUS Series A Note, which the company may claw back by avoiding future quarterly debt service payments. Big Rivers funded all of its operating expenses and capital expenditures in 2011 internally without any new borrowing. Capital expenditures totaled $38.7 million in 2011, versus $42.7 million in 2010.

Cash and Cash Equivalents

Dollars in millions



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the Company) as of December 31, 2011 and 2010, and the related statements of operations, equities, and cash flows for the years then ended. 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. The accompanying financial statements of the Company for the year ended December 31, 2009 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

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 Big Rivers Electric Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2012, on our consideration of Big Rivers Electric Corporation'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 audits.

KPMG LLP

March 26, 2012

BALANCE SHEETS As of December 31, 2011 and 2010 — (Dollars in thousands)

Assets

	2011	2010
UTILITY PLANT – Net	$1,092,063	$ 1,091,566
RESTRICTED INVESTMENTS – Member rate mitigation	163,162	217,562
OTHER DEPOSITS AND INVESTMENTS – At cost	5,911	5,473
CURRENT ASSETS:		
Cash and cash equivalents	44,849	44,780
Accounts receivable	44,287	45,905
Fuel inventory	33,894	37,328
Nonfuel inventory	25,295	23,218
Prepaid expenses	4,217	2,502
Total current assets	152,542	153,733
DEFERRED CHARGES AND OTHER	4,244	3,851
TOTAL	$1,417,922	$ 1,472,185

Equities and Liabilities

	2011	2010
CAPITALIZATION:		
Equities	$ 389,820	$ 386,575
Long-term debt	714,254	809,623
Total capitalization	1,104,074	1,196,198
CURRENT LIABILITIES:		
Current maturities of long-term obligations	72,145	7,373
Notes payable	-	10,000
Purchased power payable	1,878	1,516
Accounts payable	28,446	29,782
Accrued expenses	10,380	10,627
Accrued interest	9,899	11,134
Total current liabilities	122,748	70,432
DEFERRED CREDITS AND OTHER:		
Regulatory liabilities – Member rate mitigation	169,001	185,893
Other	22,099	19,662
Total deferred credits and other	191,100	205,555
COMMITMENTS AND CONTINGENCIES (see Note 14)		
TOTAL	$1,417,922	$ 1,472,185

See accompanying notes to financial statements.

STATEMENTS OF OPERATIONS

For the years ended December 31, 2011, 2010 and 2009 — (Dollars in thousands)

	2011	2010	2009
OPERATING REVENUE	$ 561,989	$ 527,324	$ 341,333
LEASE REVENUE	–	–	32,027
Total operating revenue	561,989	527,324	373,360
OPERATING EXPENSES:			
Operations:			
Fuel for electric generation	226,229	207,749	80,655
Power purchased and interchanged	112,262	99,421	116,883
Production, excluding fuel	50,410	52,507	22,381
Transmission and other	39,085	35,273	35,444
Maintenance	47,718	46,880	29,820
Depreciation and amortization	35,407	34,242	32,485
Total operating expenses	511,111	476,072	317,668
ELECTRIC OPERATING MARGIN	50,878	51,252	55,692
INTEREST EXPENSE AND OTHER:			
Interest	45,226	46,570	59,898
Amortization of loss from termination of long-term lease	–	–	2,172
Income tax expense	100	259	1,025
Other – net	220	166	112
Total interest expense and other	45,546	46,995	63,207
OPERATING MARGIN	5,332	4,257	(7,515)
NON-OPERATING MARGIN:			
Gain on Unwind transaction (see Note 2)	–	–	537,978
Interest income and other	268	2,734	867
Total non-operating margin	268	2,734	538,845
NET MARGIN	$ 5,600	$ 6,991	$ 531,330

See accompanying notes to financial statements.

STATEMENTS OF EQUITIES (Deficit)

For the years ended December 31, 2011, 2010 and 2009 — (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Margin (Deficit)	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
BALANCE – December 31, 2008	$ (154,602)	$ (146,823)	$ 764	$ 3,681	$(12,224)
Comprehensive income:					
Net margin	531,330	531,330	–	–	–
Defined benefit plans	2,664	–	–	–	2,664
Total comprehensive income	533,994	531,330	–	–	2,664
BALANCE – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	–	–	–
Defined benefit plans	192	–	–	–	192
Total comprehensive income	7,183	6,991	–	–	192
BALANCE – December 31, 2010	386,575	391,498	764	3,681	(9,368)
Comprehensive income:					
Net margin	5,600	5,600	–	–	–
Defined benefit plans	(2,355)	–	–	–	(2,355)
Total comprehensive income	3,245	5,600	–	–	(2,355)
BALANCE – December 31, 2011	$ 389,820	$ 397,098	$ 764	$ 3,681	$(11,723)

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011, 2010 and 2009 — (Dollars in thousands)

	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 5,600	$ 6,991	$ 531,330
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,808	37,650	37,084
Amortization of deferred loss (gain) on sale-leaseback – net	–	–	2,172
Deferred lease revenue	–	–	(3,768)
Residual value payments obligation gain	–	–	(3,881)
Interest compounded - RUS Series A Note	8,398	–	–
Interest compounded - RUS Series B Note	6,884	6,499	6,136
Noncash gain on Unwind transaction	–	–	(269,441)
Cash received for member rate mitigation	–	–	217,856
Noncash member rate mitigation revenue	(18,947)	(23,953)	(12,033)
Changes in certain assets and liabilities:			
Accounts receivable	1,618	1,588	(26,049)
Inventories	1,357	(2,304)	(3,497)
Prepaid expenses	(1,715)	731	(2,783)
Deferred charges	121	1,251	(1,538)
Purchased power payable	362	(1,846)	(5,973)
Accounts payable	(1,336)	(875)	24,825
Accrued expenses	(1,481)	2,800	7,881
Other – net	(70)	555	6,852
Net cash provided by operating activities	38,599	29,087	505,173
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(38,746)	(42,683)	(58,388)
Proceeds from restricted investments	56,095	28,143	8,982
Purchases of restricted investments and other deposits & investments	–	–	(252,798)
Net cash provided by (used in) investing activities	17,349	(14,540)	(302,204)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(45,879)	(121,355)	(168,956)
Proceeds from long-term obligations	–	83,300	–
Principal payments on short-term notes payable	(10,000)	–	(12,380)
Proceeds from short-term notes payable	–	10,000	–
Debt issuance cost on bond refunding	–	(2,002)	(246)
Net cash used in financing activities	(55,879)	(30,057)	(181,582)
Net increase (decrease) in cash and cash equivalents	69	(15,510)	21,387
CASH AND CASH EQUIVALENTS — Beginning of year	$ 44,780	$ 60,290	$ 38,903
CASH AND CASH EQUIVALENTS — End of year	$ 44,849	$ 44,780	$ 60,290
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 31,441	$ 37,268	$ 51,078
Cash paid for income taxes	$ 130	$ 260	$ 626

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2011 and 2010 (Dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for 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 remain in effect until December 31, 2043. 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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

Management evaluated subsequent events up to and including March 26, 2012, the date the financial statements were available to be issued.

(b) Principles of Consolidation — The financial statements of Big Rivers include the accounts of Big Rivers and its wholly owned subsidiary, Big Rivers Leasing Corporation (BRLC). All significant intercompany transactions have been eliminated. BRLC was dissolved July 7, 2009.

(c) Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

(d) System of Accounts — Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

(e) Revenue Recognition — Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, *Leases*, Big Rivers' revenue from the Lease Agreement was 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).

(f) 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.

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. During 2010, the Company commissioned a depreciation study to evaluate the remaining economic lives of its assets. In 2011, the study was completed and approved by the RUS and KPSC. The annual composite depreciation rates used to compute depreciation expense were as follows:

	Jan-Nov 2011	Dec 2011
Electric plant	1.60%–2.47%	0.50%–20.22%
Transmission plant	1.76%–3.24%	1.42%–02.23%
General plant	1.11%–5.62%	2.84%–17.12%

For 2011, 2010, and 2009, the average composite depreciation rates were 1.91%, 1.86%, and 1.85%, 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.

(g) Impairment Review of Long Lived Assets — Long-lived assets are reviewed as facts and circumstances indicate that the carrying amount may be impaired. FASB ASC 360, *Property, Plant, and Equipment*, requires the evaluation of impairment by comparing 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 future cash flows were not sufficient to recover the carrying value of the asset, 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 net margin.

(h) Inventory — Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

(i) Restricted Investments — Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see note 9).

(j) 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.

(k) Income Taxes — Big Rivers was formed as a tax-exempt cooperative organization as 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 will not be eligible for tax exempt status and will be treated as a taxable cooperative.

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-patronage sourced operations are taxable to Big Rivers. Big Rivers files a federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *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. 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. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

(l) 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.

(m) Derivatives — Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. 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.

(n) Fair Value Measurements — FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

2. LG&E LEASE AGREEMENT

Big Rivers, LG&E and KU, Western Kentucky Energy Corporation (WKEC), and LG&E Energy Marketing (LEM), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the Unwind Transaction or Unwind). LG&E and KU, WKEC, and LEM are collectively referred to in the notes as "LG&E and KU Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of $537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the Unwind Transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

	Unwind Gain
Assets received:	
Cash	$506,675
Coleman scrubber	98,500
Inventory	55,000
Construction in progress	23,074
Utility plant assets	19,679
SO2 allowances	980
Liabilities (assumed) forgiven:	
Economic Reserve	(157,000)
Rural Economic Reserve	(60,856)
Post-retirement benefits liability	(8,768)
Residual value payments obligation	145,251
LEM Settlement Note	15,440
Recognition of (expenses) income:	
Deferred lease income	7,187
Deferred loss from termination of sale/leaseback	(73,829)
Deferred loss from LEM Marketing Payment/Settlement Note	(14,520)
Unwind transaction costs	(18,991)
Other	156
Gain on unwind transaction	$537,978

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

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 and KU. Pursuant to the Lease Agreement, WKEC operated the generating facilities and maintained title to all energy produced. Throughout the lease term, in order for Big Rivers to fulfill it obligation to supply power to its members, the Company purchased substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of LG&E and KU, pursuant to a power purchase agreement.

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

a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.

b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.

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

d. 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 FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.

e. Big Rivers continued 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 obtained 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 was served by LEM and other third party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.

f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, 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).

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was 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. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs—20% prior to termination of the lease) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

h. 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, with an interest rate 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 was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed 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 was to receive a credit of $2,611 and for the years 2012 through 2023, the Company was to receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did 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 (currently the RUS Series A Note) and the RUS ARVP Note (currently the RUS Series B Note), the benefit, net of tax, as defined, derived from Arbitrage had to be divided as follows: one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

3. UTILITY PLANT

At December 31, 2011 and 2010, utility plant is summarized as follows:

	2011	2010
Classified plant in service:		
Production plant	$1,706,243	$1,689,024
Transmission plant	238,738	237,689
General plant	33,744	18,937
Other	543	543
	1,979,268	1,946,193
Less accumulated depreciation	936,355	909,501
	1,042,913	1,036,692
Construction in progress	49,150	54,874
Utility plant — net	$1,092,063	$1,091,566

Interest capitalized for the years ended December 31, 2011, 2010, and 2009, was $548, $684, and $133, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *Asset Retirement and Environmental 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, 2011 and 2010, the Company had approximately $41,449 and $38,000, respectively, related to nonlegal removal costs included in accumulated depreciation.

4. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2011 and 2010 is as follows:

	2011	2010
RUS Series A Promissory Note, stated amount of $523,192, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$521,250	$558,731
RUS Series B Promissory Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	123,049	116,165
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.30% and 3.27% in 2011 and 2010, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	786,399	816,996
Current maturities	72,145	7,373
Total long-term debt — net of current maturities	$714,254	$809,623

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

Year	Amount
2012	$ 72,145
2013	79,260
2014	21,661
2015	22,955
2016	231,882
Thereafter	358,496
Total	$786,399

(a) *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 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of $140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009 Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(b) *Pollution Control Bonds* — In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), 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 fixed rate of 6.00% and mature in July 2031.

The County of Ohio, Kentucky, issued $58,800 of Pollution Control Variable Rate Demand Bonds, Series 1983 (Series 1983 Bonds), 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. In addition, the Series 1983 Bonds are supported by a municipal bond insurance and surety policy issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policy or the surety policy. Both Series are secured by the Indenture dated July 1, 2009 between the company and U.S. Bank National Association.

The Series 1983 Bonds are subject to a maximum interest rate of 13.00%. The December 31, 2011 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) *Notes Payable* — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. In March 2011, Big Rivers paid down the $10,000 of borrowings outstanding on the CoBank line of credit at December 31, 2010. The Company had no borrowings outstanding on the lines of credit at December 31, 2011. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,375 and $5,928 at December 31, 2011 and 2010, respectively. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3 and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. On February 25, 2011, a $2,500 CFC line of credit, available to the Company to finance storm emergency repairs and expenses related to electric utility operations, matured.

(d) *Covenants* — Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' lines of credit with CFC and CoBank require Equity to Asset ratios of 12% and 15%, respectively. Big Rivers' 2011 MFIR was 1.12, its DSCR was 1.47 and the Asset to Equity Ratio was 27%.

5. RATE MATTERS

The rates charged to Big Rivers' members consist of a demand charge per kilowatt (kW) and an energy charge per kilowatt hour (kWh) consumed as approved by the KPSC. The rates include specific demand and energy charges 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. Effective September 1, 2011, the Company received approval from the KPSC to base the member rural demand charge on its Maximum Adjusted Net Local Load (as defined in Big Rivers tariff).

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelters in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with an offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the company filed an application with the KPSC requesting, among other things, authority to adjust its rates for wholesale electric service. The KPSC entered an order on November 17, 2011, granting Big Rivers an annual revenue increase of $26,745. One of the intervenors in the case has filed an appeal seeking, among other things, an approximate $6,200 reduction in the revenue relief granted in the order, and will presumably ask that any relief obtained be retroactive to the effective date of the rates approved in the order (September 1, 2011). Big Rivers has also sought rehearing on certain matters raised in the order that could increase Big Rivers' annual revenue by $2,735.

The wholesale rates established for the members nonsmelter large direct-served industrial customers (the Large Industrial Rate) provide the basis for pricing the energy consumed by the Aluminum Smelters. The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per megawatt hour (MWh) determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of $0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

6. INCOME TAXES

At December 31, 2011, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $32,434 expiring at various times between 2011 and 2031, and an Alternative Minimum Tax Credit Carryforward of approximately $7,138, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2011, 2010 and 2009, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $3,613, $3,846, and $19,619 in current regular tax expense for the years ended December 31, 2011, 2010 and 2009, respectively.

The components of the net deferred tax assets as of December 31, 2011 and 2010, were as follows:

	2011	2010
Deferred tax assets:		
Net operating loss carryforward	$12,812	$16,730
Alternative minimum tax credit carryforwards	7,138	6,038
Member rate mitigation	10,326	10,326
Fixed asset basis difference	3,980	10,752
RUS Series B Note	19,689	14,767
Total deferred tax assets	53,945	58,613
Deferred tax liabilities:		
RUS Series B Note	–	–
Bond refunding costs	(9)	(8)
Total deferred tax liabilities	(9)	(8)
Net deferred tax asset (prevaluation allowance)	53,936	58,605
Valuation allowance	(53,936)	(58,605)
Net deferred tax asset	$ –	$ –

A reconciliation of the Company's effective tax rate for 2011, 2010 and 2009, follows:

	2011	2010	2009
Federal rate	35.0%	35.0%	35.0%
State rate — net of federal benefit	4.5	4.5	4.5
Permanent differences	0.9	0.5	–
Patronage allocation to members	(40.8)	(38.8)	(35.4)
Tax benefit of operating loss carryforwards and other	0.4	(1.2)	(4.1)
Alternative minimum tax	3.5	3.0	0.2
Effective tax rate	3.5%	3.0%	0.2%

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2007 through 2011 and 1996 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2004 through 2011 and years 2001 through 2003, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2011, 2010, or 2009.

7. POWER PURCHASED

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied 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 included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not 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 failed to take the minimum requirement during any hour or year, Big Rivers was 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 was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did 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 year ended December 31, 2009, was $51,592 and is included in power purchased and interchanged on the statement of operations.

8. PENSION PLANS

(a) *Defined Benefit Plans*— Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. 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 salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

The Company has adopted FASB ASC 715, *Compensation – Retirement Benefits*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see note 11 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2011 and 2010.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2011 and 2010, follows:

	2011	2010
Benefit obligation — beginning of period	$28,804	$25,493
Service cost — benefits earned during the period	1,279	1,289
Interest cost on projected benefit obligation	1,296	1,368
Benefits paid	(481)	(806)
Actuarial loss	845	1,460
Benefit obligation — end of period	$31,743	$28,804

The accumulated benefit obligation for all defined benefit pension plans was $25,482 and $21,977 at December 31, 2011 and 2010, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2011 and 2010, follows:

	2011	2010
Fair value of plan assets — beginning of period	$25,267	$22,270
Actual return on plan assets	324	2,707
Employer contributions	2,890	1,096
Benefits paid	(481)	(806)
Fair value of plan assets — end of period	$28,000	$25,267

The funded status of the Company's pension plans at December 31, 2011 and 2010, follows:

	2011	2010
Benefit obligation — end of period	$(31,743)	$(28,804)
Fair value of plan assets — end of period	28,000	25,267
Funded status	$ (3,743)	$ (3,537)

Components of net periodic pension costs for the years ended December 31, 2011, 2010, and 2009, were as follows:

	2011	2010	2009
Service cost	$1,279	$1,289	$1,241
Interest cost	1,296	1,368	1,466
Expected return on plan assets	(1,737)	(1,533)	(1,332)
Amortization of prior service cost	14	19	19
Amortization of actuarial loss	461	584	834
Settlement loss	–	–	1,690
Net periodic benefit cost	$1,313	$1,727	$3,918

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2011 and 2010, follows:

	2011	2010
Prior service cost	$ (26)	$ (40)
Unamortized actuarial (loss)	(11,151)	(9,354)
Accumulated other comprehensive income	$(11,177)	$(9,394)

In 2012, $14 of prior service cost and $696 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income (loss) at December 31, 2011 and 2010, follows:

	2011	2010
Prior service cost	$ 14	$ 19
Unamortized actuarial (loss)	(1,797)	297
Other comprehensive income	$(1,783)	$ 316

At December 31, 2011 and 2010, amounts recognized in the balance sheets were as follows:

	2011	2010
Deferred credits and other	$(3,743)	$(3,537)

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2011	2010	2009
Discount rate — projected benefit obligation	4.26%	4.95%	5.59%
Discount rate — net periodic benefit cost	4.95	5.59	6.38
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

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%.

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45%-55%), 15% International Equities (an acceptable range of 10%-20%), and 35% fixed income (an acceptable range of 30%-40%). As of December 31, 2011 and 2010, the investment allocation was 56% and 58%, respectively, in U.S. Equities, 8% and 9%, respectively, in International Equities, and 36% and 33%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi-annually.

At December 31, 2011 and 2010, the fair value of Big Rivers' defined benefit pension plan assets by asset category are as follows:

	Level 1	Level 2	December 31, 2011
Cash and money market	$ 2,129	$ –	$ 2,129
Equity Securities:			
U.S. large-cap stocks	10,178	–	10,178
U.S. mid-cap stock mutual funds	3,365	–	3,365
U,S. small-cap stock mutual funds	1,666	–	1,666
International stock mutual funds	2,168	–	2,168
Preferred stock	493	–	493
Fixed:			
TIPS Bond Fund	723	–	723
U.S. Government Agency Bonds	–	1,085	1,085
Taxable U.S. Municipal Bonds	–	3,258	3,258
U.S. Corporate Bonds	–	2,630	2,630
Global bond fund	–	305	305
	$20,722	$7,278	$ 28,000

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	$ –	$ 1,517
Equity Securities:			
U.S. large-cap stocks	9,731	–	9,731
U.S. mid-cap stock mutual funds	2,926	–	2,926
U,S. small-cap stock mutual funds	1,448	–	1,448
International stock mutual funds	2,194	–	2,194
Preferred stock	490	–	490
Fixed:			
TIPS bond fund	161	–	161
U.S. Government Agency Bonds	–	1,843	1,843
Taxable U.S. Municipal Bonds	–	2,635	2,635
U.S. Corporate Bonds	–	2,322	2,322
	$18,467	$ 6,800	$25,267

Expected retiree pension benefit payments projected to be required during the years following 2011 are as follows:

Years Ending December 31	Amount
2012	$ 2,330
2013	4,386
2014	1,799
2015	3,196
2016	3,265
2017 – 2020	10,986
Total	$25,962

In 2012, the Company expects to contribute $970 to its pension plan trusts.

(b) *Defined Contribution Plans* — Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $4,464 and $4,389 for the years ended December 31, 2011 and 2010, respectively.

c) *Deferred Compensation Plan* — Big Rivers sponsors a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2011 employer contribution was $58 and deferred compensation expense was $81. As of December 31, 2011, the trust asset was $283 and the deferred liability was $202.

9. RESTRICTED INVESTMENTS

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2011 and 2010 are as follows:

	2011		2010	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
Cash and money market	$ 12,765	$ 12,764	$ 12,812	$ 12,812
Debt Securities:				
U.S. Treasuries	62,073	63,917	60,941	62,582
U.S. Government Agency	88,324	88,485	143,809	143,922
Total	$163,162	$165,166	$217,562	$219,316

Gross unrealized gains and losses on restricted investments at December 31, 2011 and 2010 were as follows:

	2011		2010	
	Gains	Losses	Gains	Losses
Cash and money market	$ –	$ –	$ –	$ –
Debt Securities:				
U.S. Treasuries	1,843	–	1,641	–
U.S. Government Agency	161	–	331	217
Total	$ 2,004	$ –	$ 1,972	$ 217

Debt securities at December 31, 2011 and 2010 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2011		2010	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
In one year or less	$ 43,021	$ 43,092	$ 71,111	$ 71,193
After one year through five years	120,141	122,074	146,451	148,123
Total	$163,162	$165,166	$217,562	$219,316

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010, were:

	2011 Less Than 12 Months		2010 Less Than 12 Months	
	Losses	Fair Values	Losses	Fair Values
Debt securities:				
U.S. Treasuries	$ –	$ –	$ –	$ –
U.S. Government Agency	–	–	217	15,783
Total	$ –	$ –	$ 217	$ 15,783

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2011 and 2010 was zero and one, respectively. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

10. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

FASB ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320, *Investments – Debt and Equity Securities*, that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	2011	2010
Institutional money market government portfolio	$44,844	$44,774

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

Big Rivers' long-term debt at December 31, 2011 consists of RUS notes totaling $644,299, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see note 4). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2011, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $86,399.

11. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

The discount rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2011	2010	2009
Discount rate — projected benefit obligation	4.29%	4.96%	5.78%
Discount rate — net periodic benefit cost	4.96	5.78	6.32

The health care cost trend rate assumptions as of December 31, 2011 and 2010, were as follows:

	2011	2010
Initial trend rate	7.40%	7.60%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

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

	2011	2010
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (211)	$ (201)
Effect on year end benefit obligation	(1,056)	(1,131)
One-percentage-point increase:		
Effect on total service and interest cost components	254	236
Effect on year end benefit obligation	1,226	1,306

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2011 and 2010, follows:

	2011	2010
Benefit obligation — beginning of period	$ 15,864	$ 13,864
Service cost — benefits earned during the period	1,253	1,313
Interest cost on projected benefit obligation	754	743
Participant contributions	160	85
Benefits paid	(611)	(313)
Actuarial loss	620	172
Benefit obligation — end of period	$ 18,040	$ 15,864

A reconciliation of the Company's postretirement plan assets at December 31, 2011 and 2010, follows:

	2011	2010
Fair value of plan assets — beginning of period	$ –	$ –
Employer contributions	451	228
Participant contributions	160	85
Benefits paid	(611)	(313)
Fair value of plan assets — end of period	$ –	$ –

The funded status of the Company's postretirement plan at December 31, 2011 and 2010, follows:

	2011	2010
Benefit obligation — end of period	$(18,040)	$(15,864)
Fair value of plan assets — end of period	–	–
Funded status	$(18,040)	$(15,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2011, 2010, and 2009, were as follows:

	2011	2010	2009
Service cost	$1,253	$1,313	$ 878
Interest cost	754	743	464
Amortization of prior service cost	17	17	17
Amortization of actuarial (gain)	–	–	(17)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$2,055	$2,104	$1,373

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income (loss) at December 31, 2011 and 2010, follows:

	2011	2010
Prior service cost	$(130)	$(147)
Unamortized actuarial gain (loss)	(385)	235
Transition obligation	(31)	(62)
Accumulated other comprehensive income	$(546)	$ 26

In 2012, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive loss at December 31, 2011 and 2010, follows:

	2011	2010
Prior service cost	$ 17	$ 18
Unamortized actuarial gain	(620)	(172)
Transition obligation	31	30
Other comprehensive loss	$(572)	$(124)

At December 31, 2011 and 2010, amounts recognized in the balance sheets were as follows:

	2011	2010
Accounts payable	$ (762)	$ (600)
Deferred credits and other	(17,278)	(15,264)
Net amount recognized	$(18,040)	$(15,864)

Expected retiree benefit payments projected to be required during the years following 2011 are as follows:

Year	Amount
2012	$ 761
2013	963
2014	1,148
2015	1,277
2016	1,383
2017–2021	8,754
Total	$14,286

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 $579 and $391 at December 31, 2011 and 2010, respectively. The postretirement expense recorded was $191, $21, and $45 for 2011, 2010, and 2009, respectively, and the benefits paid were $3, $5, and $78 for 2011, 2010, and 2009, respectively.

12. RELATED PARTIES

For the years ended December 31, 2011, 2010, and 2009, Big Rivers had tariff sales to its members of $151,472, $151,001, and $125,826, respectively. In addition, for the years ended December 31, 2011, 2010, and 2009, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper loads of $306,420, $281,473 and $167,885, respectively.

At December 31, 2011 and 2010, Big Rivers had accounts receivable from its members of $40,314 and $36,636, respectively.

13. 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 plans to seek KPSC approval for its 2012 environmental compliance plan (ECP) in an April 2012 filing. This ECP will consist of $283,490 of capital projects, primarily for a new scrubber at the D.B. Wilson station and a new selective catalytic reduction facility at the R.D. Green station, and certain additional operations and maintenance costs. The purpose of the ECP is to allow Big Rivers to comply, in the most cost-effective manner, with the U.S. Environmental Protection Agency Cross-State Air Pollution Rule, and Mercury and Other Air Toxics Standards. Among other things, the ECP filing will seek to recover the costs of the ECP through an amendment to Big Rivers' existing environmental surcharge tariff rider, an automatic cost-recovery mechanism that is similar in function to the fuel adjustment clause. The regulatory process is expected to last six months after the filing date.


IR
COND

FIVE-YEAR REVIEW Years Ended December 31 — (Dollars in thousands)

SUMMARY OF OPERATIONS	2011	2010	2009	2008	2007
Operating Revenue:					
Power Contracts Revenue	$561,989	$527,324	$341,333	$214,758	$271,605
Lease Revenue	–	–	32,027	58,423	58,265
Total Operating Revenue	561,989	527,324	373,360	273,181	329,870
Operating Expenses:					
Fuel for Electric Generation	226,229	207,749	80,655	–	–
Power Purchased	112,262	99,421	116,883	114,643	169,768
Operations (Excluding Fuel), Maintenance, Other	137,213	134,660	87,645	32,858	31,436
Depreciation	35,407	34,242	32,485	31,041	30,632
Total Operating Expenses	511,111	476,072	317,668	178,542	231,836
Interest Expense and Other:					
Interest	45,226	46,570	59,898	72,710	70,851
Other – net	320	425	3,309	6,868	103
Total Interest Expense & Other	45,546	46,995	63,207	79,578	70,954
Operating Margin	5,332	4,257	(7,515)	15,061	27,080
Non-Operating Margin	268	2,734	538,845	12,755	20,097
NET MARGIN	$5,600	$6,991	$531,330	$27,816	$47,177
SUMMARY OF BALANCE SHEET					
Total Utility Plant	$2,028,418	$2,001,067	$1,986,373	$1,791,772	$1,764,924
Accumulted Depreciation	936,355	909,501	908,099	879,073	853,290
Net Utility Plant	1,092,063	1,091,566	1,078,274	912,699	911,634
Cash and Cash Equivalents	44,849	44,780	60,290	38,903	148,914
Reserve Account Investments[1]	164,399	218,955	244,641	–	–
Other Assets	116,611	116,884	122,278	122,834	253,610
TOTAL ASSETS	$1,417,922	$1,472,185	$1,505,483	$1,074,436	$1,314,158
Equities (deficit)	$389,820	$386,575	$ 379,392	$ (154,602)	$ (174,137)
Long-term Debt[2]	786,399	816,996	848,552	987,349	1,022,345
Regulatory Liability – Member Rate Mitigation	169,001	185,893	207,348	–	–
Other Liabilities and Deferred Credits	72,702	82,721	70,191	241,689	465,950
TOTAL LIABILITIES AND EQUITY	$1,417,922	$1,472,185	$1,505,483	$1,074,436	$1,314,158
ENERGY SALES (MWh)					
Member Rural	2,371,106	2,481,390	2,239,445	2,386,916	2,406,446
Member Large Industrial	973,093	930,168	919,587	925,793	921,359
Smelter Contracts	6,854,820	6,348,431	2,885,491	–	–
Other	3,056,106	2,209,431	1,746,438	1,844,677	2,835,789
Total Energy Sales	13,255,125	11,969,420	7,790,961	5,157,386	6,163,594
SOURCES OF ENERGY (MWh)					
Generated	10,284,350	9,895,512	3,715,544	–	–
Purchased	2,998,361	2,220,994	4,166,916	5,211,789	6,213,682
Losses and Net Interchange	(27,586)	(147,086)	(91,499)	(54,403)	(50,088)
Total Energy Available	13,255,125	11,969,420	7,790,961	5,157,386	6,163,594
NET CAPACITY (MW)					
Net Generating Capacity Owned	1,444	1,444	1,444	1,459	1,459
Rights to HMP&L Station Two	202	207	212	217	217
Other Net Capacity Available	178	178	178	178	178

[1]Includes investment income receivable.

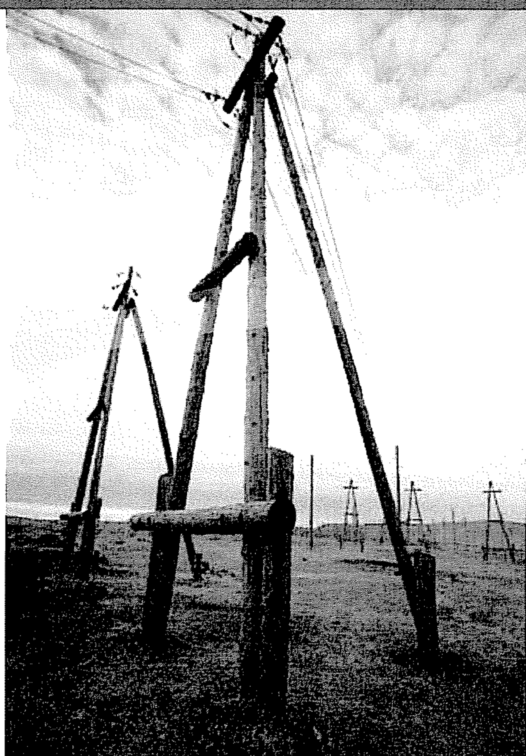
[2]Includes current maturities of long-term obligations.

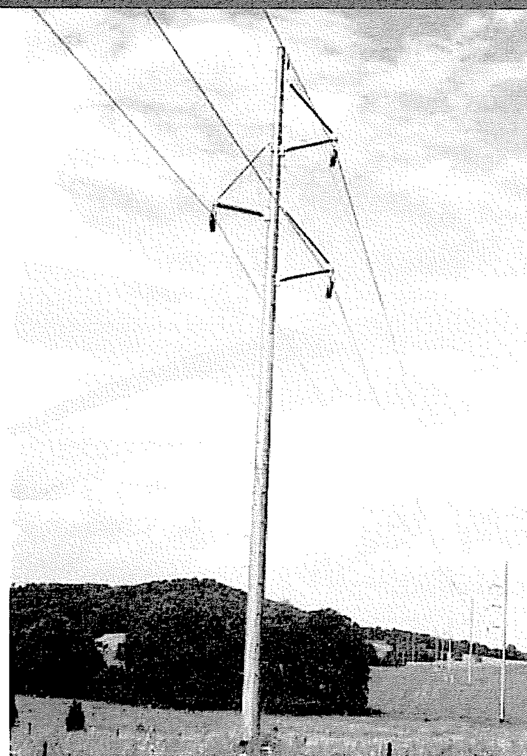
BIG RIVERS ELECTRIC CORPORATION

201 Third Street (42420)
PO Box 24 (42419-0024)
Henderson, KY

phone 270.827.2561
fax 270.827.2558
www.bigrivers.com

ANNUAL REPORT
2010





RETOOLING FOR THE FUTURE...

Big Rivers
ELECTRIC CORPORATION

Big Rivers
ELECTRIC CORPORATION

Our Mission

Big Rivers will safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members.

Our Vision

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the members desire in meeting future challenges.

Our Values

- Safety
- Integrity
- Excellence
- Member and Community Service
- Respect for the Employee
- Teamwork
- Environmentally Conscious

Financial Highlights

For the years ended December 31, 2010, 2009, 2008, 2007, and 2006 | (Dollars in thousands)

	2010	2009	2008	2007	2006
Margins	6,991	531,330	27,816	47,177	34,542
Equity	386,575	379,392	(154,602)	(174,137)	(217,371)
Capital Expenditures*	42,683	58,388	22,760	18,682	13,189
Cash & Investment Balance	44,780	60,290	38,903	148,914	96,143
RUS Series A Note Voluntary Prepayment Status	23,859	–	–	–	34,995
Times Interest Earned Ratio	1.15	9.85	1.37	1.64	1.47
Debt Service Coverage Ratio	1.47	2.44	1.17	2.04	1.86
Cost of Debt	5.73%	6.33%	6.33%	5.76%	5.83%
Cost of Capital	7.93%	8.39%	8.33%	7.75%	7.82%

** Big Rivers' share only*

RETOOLING FOR THE FUTURE...

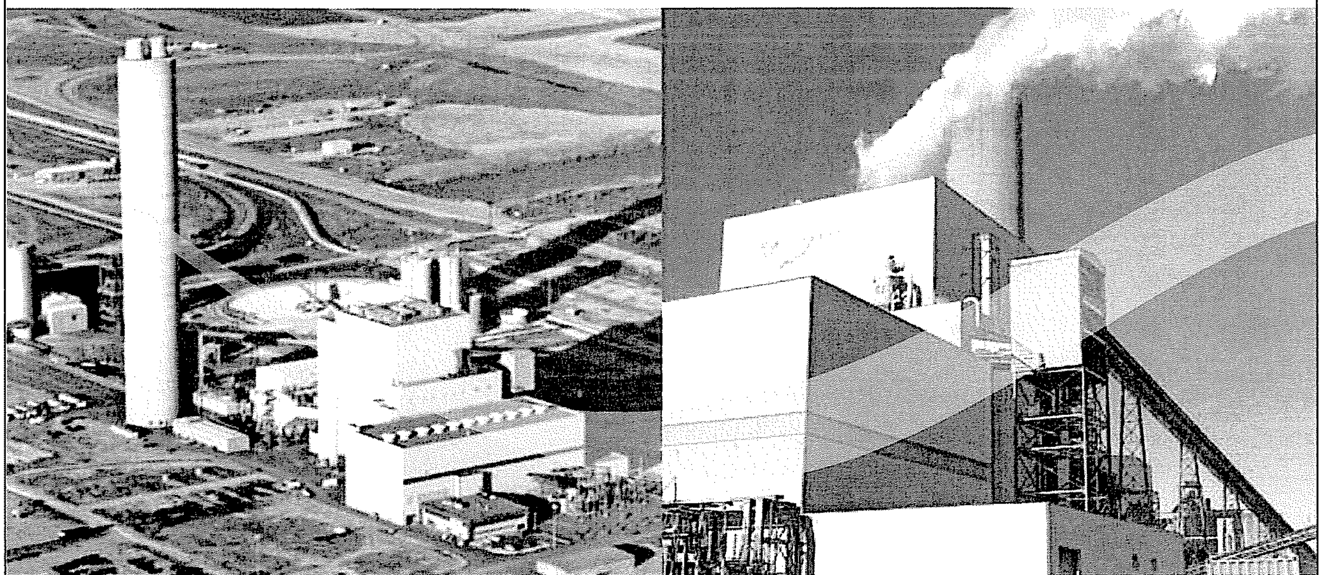


TABLE OF CONTENTS

About the Big Rivers System 2

Message from Board Chair and CEO 6

Year in Review: 2010 8

Financial Review: 2010 20

Financial Statements 26

Notes to Financial Statements 29

Five-Year Review 53

About the Big Rivers System

Big Rivers Electric Corporation ("Big Rivers") is a member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and services to three distribution cooperative members across 22 counties in western Kentucky.

The member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, they distribute retail electric power and provide other services to more than 112,000 homes, farms, businesses and industries.

Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members. Business operations revolve around seven core values: teamwork, integrity, excellence, safety, member and community service, environmental consciousness, and respect for the employee.

With headquarters in Henderson, Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity in four stations.

Kenneth C. Coleman	443 MW	Hawesville, Ky.
Robert A. Reid	130 MW	Robards, Ky.
Robert D. Green	454 MW	Robards, Ky.
D. B. Wilson	417 MW	Centertown, Ky.
Owned Generation	1,444 MW	

Total generation available is 1,829 MW, including rights to Henderson Municipal Power and Light ("HMP&L") Station Two and contracted capacity from Southeastern Power Administration ("SEPA").

Owned Generation	1,444 MW
HMP&L Station Two	207 MW
SEPA	178 MW
Total Generation	1,829 MW

THE MISSION OF BIG RIVERS IS TO SAFELY DELIVER LOW COST, RELIABLE WHOLESALE POWER AND SHARED SERVICES

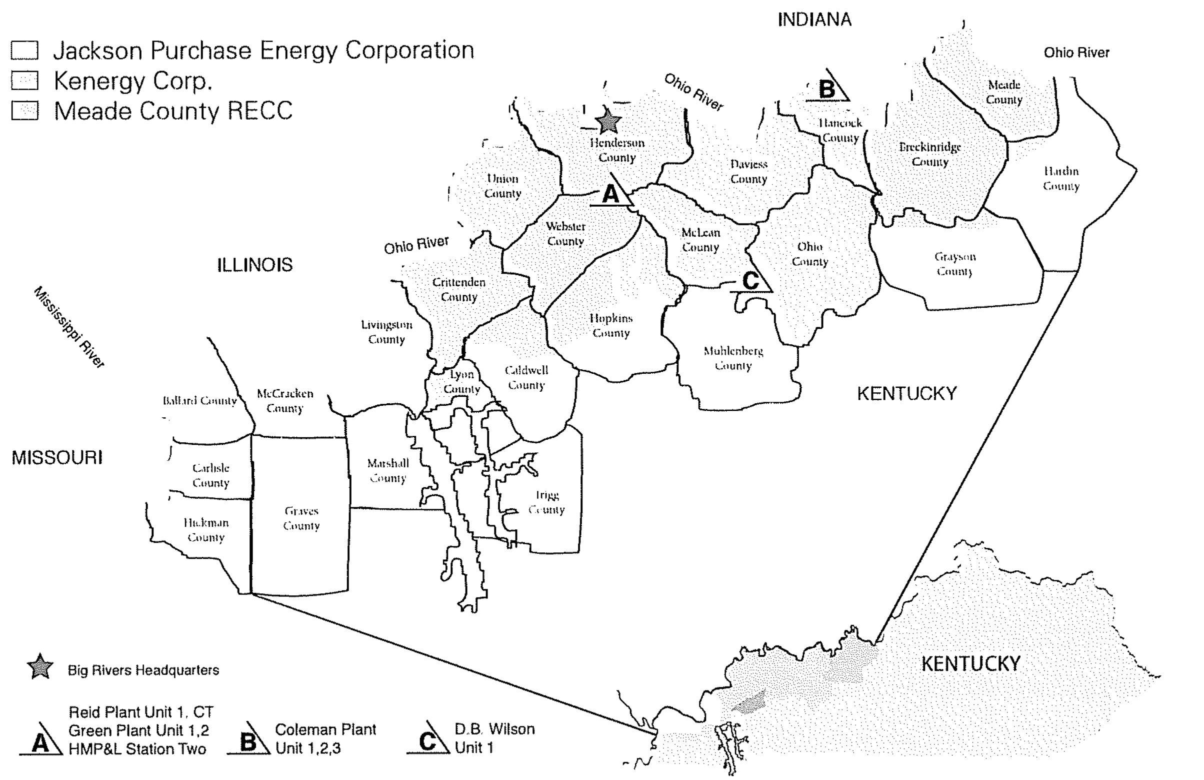
RETOOLING FOR THE FUTURE...

High voltage electric power is delivered to the member cooperatives over a system of 1,266 miles of transmission lines and 22 substations owned by Big Rivers. Twenty-two interconnects link our system with seven surrounding utilities.

Big Rivers is led by an experienced management team and is governed by a six-member board of directors. The board is comprised of two representatives from each distribution cooperative. We employ over 600 people at seven locations in Kentucky, who actively contribute to the communities we serve.

Constantly focused on the needs and local priorities of the member cooperatives, Big Rivers provides assistance in areas such as information technology, mapping and planning, safety programs and training, economic development, education and customer support services.

As long-standing members of Touchstone Energy®, Big Rivers and the member cooperatives pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Keeping the cost of electricity low and the reliability high has always been a priority.



MEMBER COOPERATIVES

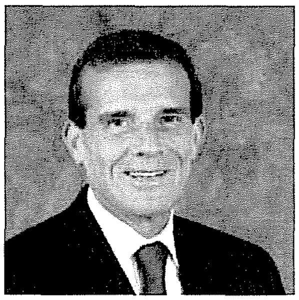

Kelly Nuckols, *President & CEO*
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

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

Headquartered:	Paducah, KY
Number of accounts:	29,152
Miles of line:	2,909

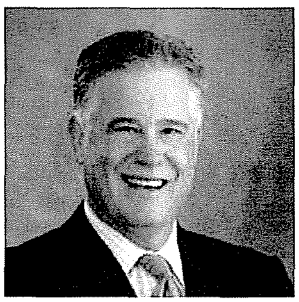

Sandy Novick, *President & CEO*
Kenergy Corp.

KENERGY CORP.

(800) 844-4832
www.kenergycorp.com

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

Headquartered:	Henderson, KY
Number of meters:	54,991
Miles of line:	7,023


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 meters:	28, 267
Miles of line:	2,977

BOARD OF DIRECTORS

Standing (left to right):

Dr. James Sills, Chair
Meade County RECC

Wayne Elliott, Vice-Chair
Jackson Purchase Energy Corporation

William Denton
Kenergy Corp.

Seated (left to right):

Lee Bearden
Jackson Purchase Energy Corporation

Paul Edd Butler
Meade County RECC

Larry Elder, Secretary-Treasurer
Kenergy Corp.

MANAGEMENT TEAM

Standing (left to right):

Marty Littrel, *Communications & Community Relations Manager*

Albert Yockey, *V.P. Governmental Relations & Enterprise Risk Management*

David Crockett, *V.P. System Operations*

James Haner, *V.P. Administrative Services*

James Miller, *Corporate Counsel*

Paula Mitchell, *Executive Assistant*

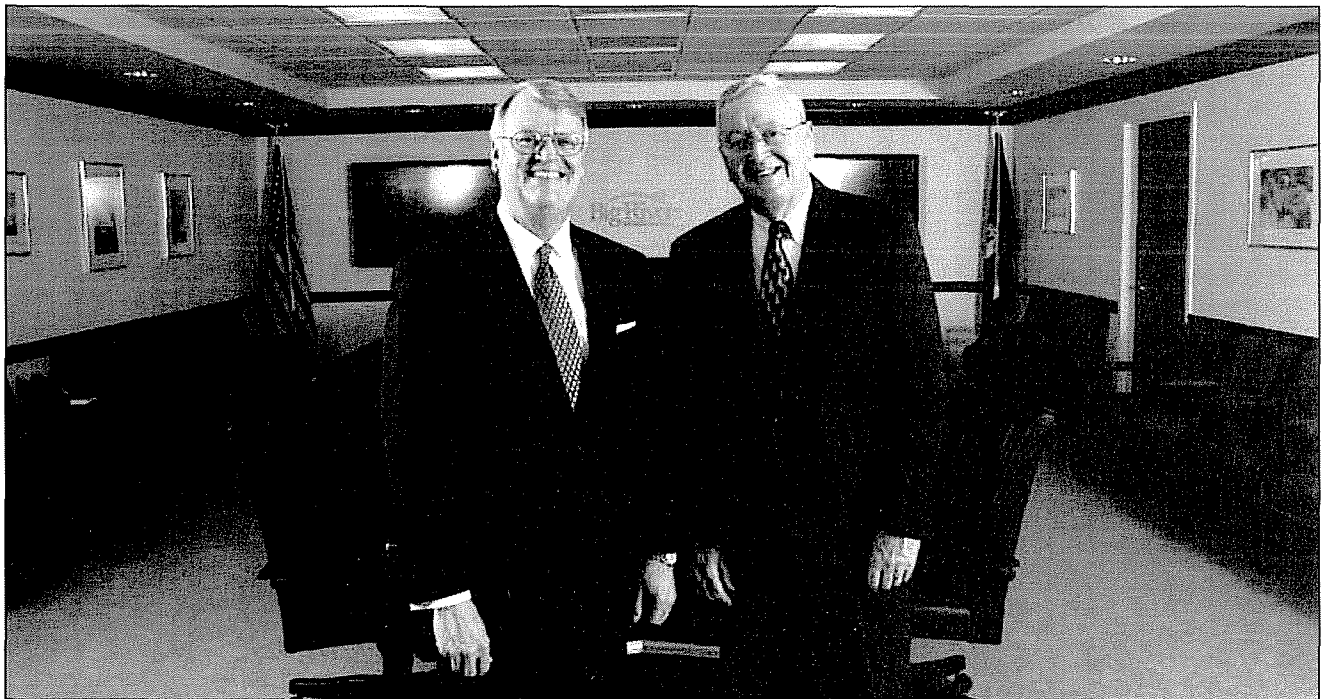
Seated (left to right):

Mark Hite, *V.P. Accounting*

C. William Blackburn, *Senior V.P. Financial & Energy Services & CFO*

Mark Bailey, *President & CEO*

Robert Berry, *V.P. Production*



Message from the Board Chair and CEO

The year 2010 marked transition and significant achievement for Big Rivers Electric Corporation. This was our first complete year operating as a full-fledged generation and transmission cooperative, since the Unwind closing in July 2009.

During 2010 many of the longer-term initiatives, planned to be finished following the Unwind closing, were successfully completed.

- Major renovation was completed in April at the central headquarters building to accommodate the additional employees returning to Big Rivers from the former Western Kentucky Energy central office following the Unwind consolidation.
- $83.3 million of pollution control bonds were refinanced in June.
- An energy efficiency study of the member systems was completed, with results to be implemented in 2011.
- An integrated resource plan was developed and filed with the Kentucky Public Service Commission.
- Implementation began on a workforce retirement transition plan in the power generation department.
- Information technology support was migrated from E.ON to Big Rivers' contracted HP/EDS and internal resources.
- The Oracle information systems business platform conversion was successfully completed in November.
- Kentucky Public Service Commission approval for Big Rivers to join the Midwest Independent Transmission System Operator (Midwest ISO) was sought and secured, and the company successfully integrated in December.
- Generation dispatch responsibility migrated

to ACES Power Marketing from E.ON upon our joining the Midwest ISO.

- System microwave expansion and internal communication ties with Big Rivers' generating stations were completed.

Undertaking these projects with a relatively small employee complement, while simultaneously embracing a newly integrated business, required strong organizational planning and a dedicated work force. That effort was most evident by our ability to complete these objectives while achieving several significant operational results within the same year.

- Employee safety targets were exceeded.
- Generating plants operated at new all-time record levels.
- Earning targets were achieved while keeping members' rates amongst the lowest in Kentucky and the rest of the nation.
- Transmission reliability was at a high level.
- Our strategic plan was updated.

In December the Big Rivers board of directors elected new officers. Dr. James Sills of Meade County Rural Electric Cooperative Corporation became the new board chair while Wayne Elliott of Jackson Purchase Energy Corporation was chosen vice-chair, and Larry Elder of Kenergy Corp. became the secretary-treasurer.

We at Big Rivers are grateful to the outgoing board chair, Bill Denton, for his 12 years of steadfast leadership that included six-plus years of tortuous deliberations that lead to the successful completion of the Unwind. His effort, support, and guidance helped lead Big Rivers to its best financial condition in its history following the termination of the lease agreement with E.ON U.S.

Looking ahead, we see a new set of challenges. There have been a number of significant rules proposed by the U.S. Environmental Protection Agency ("EPA") that could lead to a dramatic increase in the price of electricity and have a significant impact on how we run our business. A great deal of uncertainty exists around these proposed environmental regulations and their impacts on rates, reliability, our operations and the economy.

Both the board of directors and our staff are committed to examining the potential impacts of these regulations and to communicate what they mean to regulators, legislatures, and our members. Clearly, we must retool our approach to successfully meet these as well as other challenges ahead.

One constant that will remain as this effort progresses will be our dedicated and loyal workforce who will continue to help us successfully navigate the uncertain waters ahead.

We are certain that through good communications and teamwork, we will continue to achieve our mission of safely providing low cost and reliable electricity and attain our vision to be viewed as one of the top generation and transmission cooperatives in the country.

Dr. James Sills *Chair, Board of Directors*	Mark A. Bailey *President and CEO*

Big Rivers
ELECTRIC CORPORATION

At Big Rivers Electric Corporation, our board of directors and senior leadership team believe corporate values are instrumental in our quest to continue to meet our mission and attain our vision of being viewed as one of the top generation and transmission cooperatives (G&Ts) in the country.

These values: teamwork, integrity, excellence, safety, member and community service, environmentally conscience and respect for the employee form the basis of the framework of the remainder of this report.

TEAMWORK

As a power supplier owned by the distribution cooperatives it serves, Big Rivers' mission is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by our members. In order to achieve this target, Big Rivers relies on a dedicated workforce composed of employees committed to the company's success. Teamwork is a core value for Big Rivers since it is one of the key factors necessary for the company to achieve its mission.

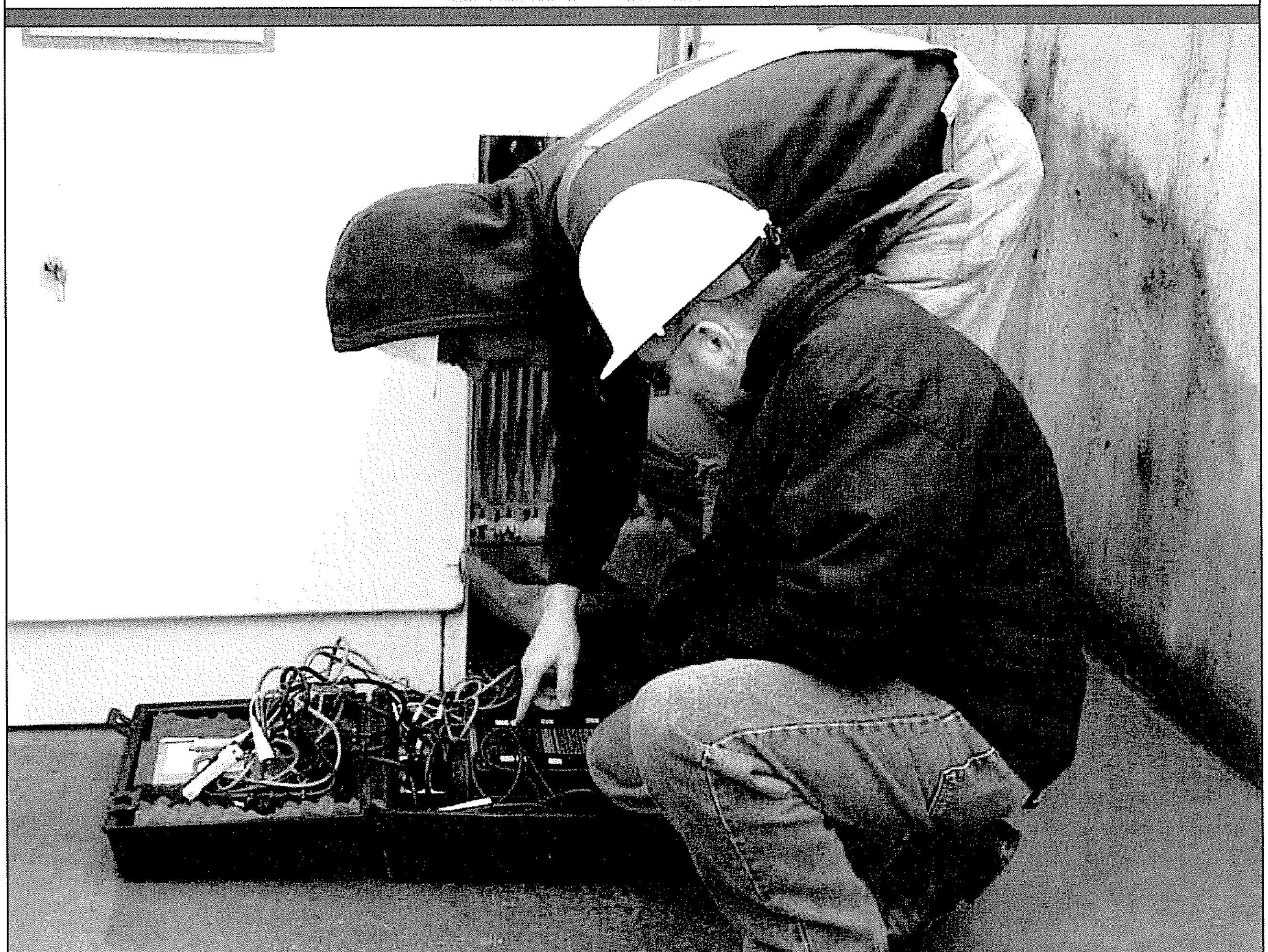
Big Rivers continued its partnership with HP Enterprise Services to install new Oracle business platform software, which went live in November 2010. Since then all locations and departments run on the integrated system. The new system was designed, built and tested during most of 2010. The entire staff worked diligently to get the new system up and running, while simultaneously continuing to perform regular business duties. This cutting-edge technology should improve the performance, quality and reliability of our computer applications.

Big Rivers became the thirty-fifth transmission-owning member of the Midwest Independent Transmission System Operator ("Midwest ISO") in December 2010 and the fifth new member since November 2009. The Midwest ISO is a non-profit and revenue-neutral transmission organization that provides electricity at the lowest price while managing one of the largest energy markets in the world, involving nearly $23 billion in energy transactions per year. Midwest ISO has a reliability footprint that covers all or parts of 13 states, plus the Canadian province of Manitoba. Big Rivers integration brings the Midwest ISO's total market generation to more than 145,000 megawatts. Membership provides Big Rivers market access to 57,453 miles of interconnected transmission lines and up to 347 market participants.

Big Rivers worked much of 2010 to file and secure approval from the Kentucky Public Service Commission ("KPSC") to join the Midwest ISO. After nearly a year of work, Big Rivers reached a settlement with the Kentucky Attorney General and the Kentucky Industrial Utilities Customers, which led to final KPSC approval for full integration into the Midwest energy markets.

Teaming with the Midwest ISO is important to Big Rivers because the relationship allows the company to meet its North American Electric Reliability Corporation's mandated emergency reserve requirements. Our membership into the Midwest ISO provides market services for energy, operating reserves, and transmission service as well as serving as Big Rivers' regional balancing authority. This arrangement ensures reliable operation of our generation and transmission system while increasing our access to wholesale power markets. Working with the Midwest ISO was the most cost-effective alternative for meeting these requirements, which helps Big Rivers fulfill its mission.

RETOOLING FOR THE FUTURE...



BIG RIVERS RELIES ON A
GREAT WORKFORCE
COMPOSED OF EMPLOYEES DEDICATED TO ITS
SUCCESS

INTEGRITY

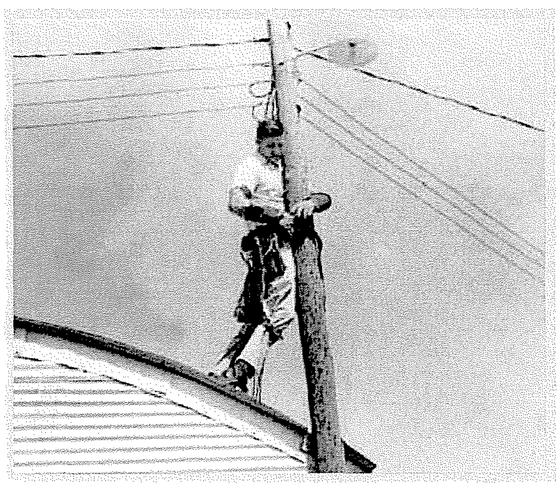
Big Rivers makes every effort to operate transparently in all aspects of its operations including environmental compliance, regulatory matters, procurement and risk management.

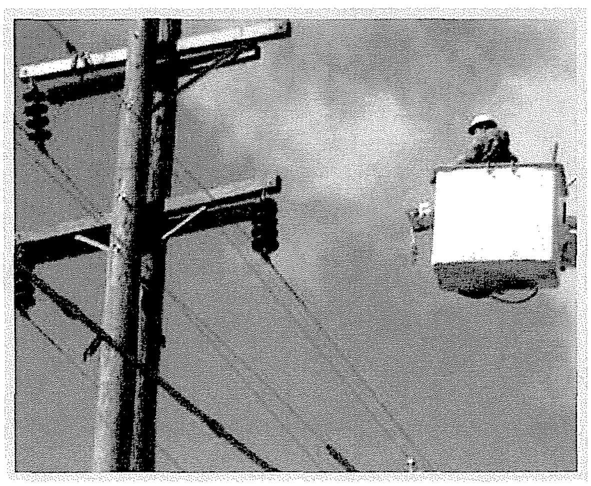
Energy production and development, and its effect on the environment, will continue to be a hot topic in the halls of Congress for quite some time. Because of new and proposed environmental regulations, compliance has been and will continue to be at the forefront of Big Rivers' generation and transmission operations.

The company currently meets all standards promulgated by the EPA. However, the impact of proposed EPA air, waste and water regulations are of major concern. Clean air transport rule, hazardous air pollutants, coal combustion residuals and water related issues are the top concerns associated with these aggressive regulations.

Big Rivers' wholesale rates are estimated to increase 39 percent due to required pollution control equipment additions that are estimated to cost $785 million by 2015. We further estimate, should the EPA classify coal ash as hazardous waste, that this would necessitate Big Rivers to reduce its use of approximately 3.7 million tons of Kentucky-mined coal annually.

Big Rivers refinanced $83.3 million of pollution control bonds over the past year. To do this, it was necessary for the company to have its investment-grade credit rating reaffirmed by each of the three leading agencies—Moody's Investors Service, Fitch Ratings Ltd. and Standard & Poor's.

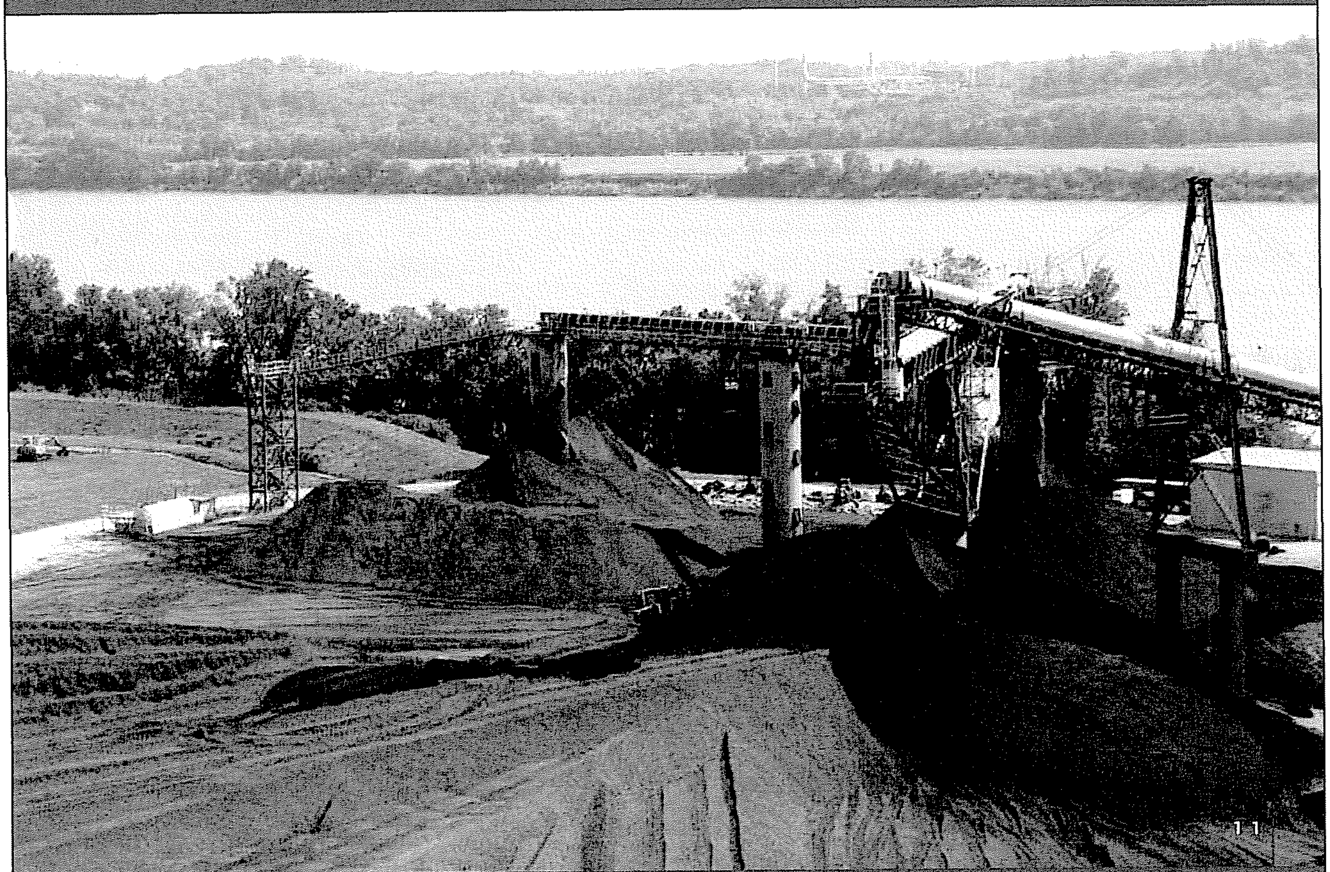




RETOOLING FOR THE FUTURE...

Over the past year, Big Rivers acquired coal to burn in its generating stations and satisfy the company's hedge policy, which is geared towards purchasing fuel over a rolling five-year portfolio. This fuel-hedge policy is designed to lower the risk of price unpredictability in the coal markets and to help assure Big Rivers has sufficient coal supply to meet our members' electricity requirements.

In order to make sure the company stays on track, Big Rivers formed an internal risk management committee to share strategic information among departments, identify potential risks of significance to the company and then manage those risks.



EXCELLENCE

Big Rivers continued its excellent performance in its generation, transmission, and engineering services.

On the generation side, in 2010 the power stations set new, all-time performance records in reliability and efficient use of materials and equipment.

One of these records involved the Equivalent Availability Factor (EAF), the percentage of time a generating unit is available for power production. The higher the percentage, the more efficiently and productive the generating system is running. EAF in 2010 reached 93.7 percent, which shattered 1982's single-year record high of 89.9 percent. This 2010 record for unit availability beat the past 20-year average by more than 7 percent.

Another generation record set over the past year occurred in the Equivalent Forced Outage Rate (EFOR), the percentage of time a generating unit is unexpectedly off-line. In 2010, Big Rivers' EFOR was only 3.6 percent, which not only set a new all-time record low, but also was 25 percent lower than the past 15-year average. Leading the way was Big Rivers' Green Station Unit 2, which at 230 days experienced the longest continuous run for any generating unit in the company's history.

Big Rivers also surpassed standards of excellence in several other areas of generation services. The net heat rate, which measures how efficiently the energy contained in the coal burned in our generating units is converted to electricity, greatly exceeded the company's 2010 targets, saving nearly $3.6 million in fuel costs. As noted elsewhere in this report, several significant safety milestones were also achieved while the generating stations were operating at record performance levels.

In 2010, Big Rivers also converted Sebree Station's combustion turbine from fuel oil to natural gas to improve its reliability and reduce its air emissions and production costs.

These strides in generation services would be meaningless if Big Rivers did not deliver electricity to the member cooperatives. That's where Big Rivers' excellence in transmission comes into play. The transmission system was highly reliable in 2010. Big Rivers' system average interruption duration index (SAIDI) was a 21 percent improvement over the past 20-year average.

In an effort to continue to strengthen the transmission system's performance, a number of improvements were made in 2010. A few of those included: installing new conductor on the Coleman Station extra high voltage line, completing a re-conductor project on the Paradise tap to the Paradise transmission line, constructing a 69-kilovolt transmission line from Falls of Rough to McDaniels, relocating transmission infrastructure

BIG RIVERS IS CONFIDENT IT WILL CONTINUE SERVING MEMBER CO-OPS WITH EXCELLENCE FOR YEARS TO COME.

at Havana Creek from Reid Station to Hopkins County to improve transmission reliability, modifying the National Aluminum substation to provide direct service to a Kenergy customer located in Hancock County, and completing repairs on a 50 megavolt-ampere transformer that was damaged in the 2009 ice storm.

Big Rivers also made excellent strides in engineering. Efforts included the development of a long-range engineering plan in cooperation with the member cooperatives' engineering staffs. In addition, communication technicians completed an expansion of the microwave digital network that connects Big Rivers' headquarters in Henderson to each of its generating stations. Efforts were also made over the past year to replace the Morganfield microwave radio network.

With strides made in generation, transmission and engineering, Big Rivers is confident it will continue serving our member cooperatives with reliable and low cost excellence for years to come.

SAFETY

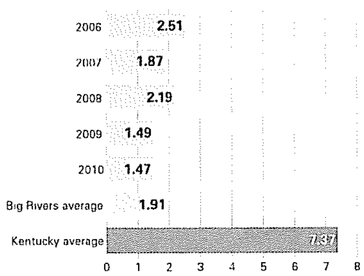
Big Rivers reached several substantial safety milestones in 2010 including:

- Achieving its lowest Occupational Safety and Health Administration (OSHA) recordable incident rate in five years;
- Experiencing only one lost-time incident, which matched the company's best performance in its history;
- Adding a safety component in 2010 within the Oracle R12 system that allows the company to monitor each employee's training history.

A number of individual locations also achieved safety milestones in 2010 including:

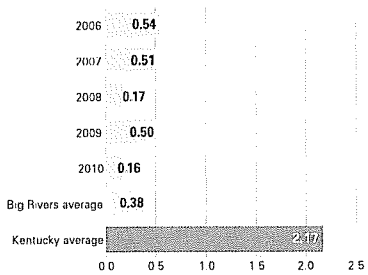
- Coleman Station employees reached four years with no lost-time incidents on January 6 and received the Governor's Safety Award

OSHA Recordable Incident Rate



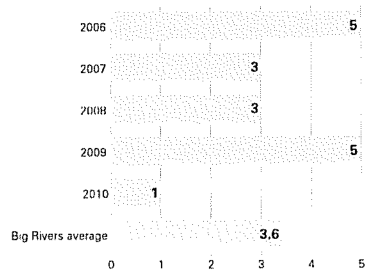
Incident Rate = # of incidents x 200,000 / # of hours worked

Lost-Time Incident Rate



Incident Rate = # of incidents x 200,000 / # of hours worked

Number of Vehicle Incidents



SAFETY IS THE FOUNDATION FOR ALL DECISIONS AND EXPECTATIONS OF BIG RIVERS' WORKFORCE.

for achieving over a million hours with no lost-time incidents.

- Coleman Station employees reached two years without a recordable incident on June 7.
- Sebree Station employees reached one year with no lost-time incidents on January 19.
- Sebree Station employees reached 500,000 man-hours worked without a lost-time incident in April.
- Wilson Station employees reached three years with no lost-time incidents on May 15.
- Headquarters employees reached one year with no lost-time incidents on September 29.

Member and Community Service

Promoting energy efficiency allows our member cooperatives' consumers to reduce their monthly power bills and to delay the need for additional expensive generating facilities. To help facilitate these energy-efficiency efforts, Big Rivers undertook a demand side management study in 2010 to identify efficiency opportunities for the members.

This study examined various cost-effective options to identify those projects with the most potential to succeed. A total of eight pilot projects were selected to be pursued:

- Manufactured home weatherization;
- Residential weatherization;
- HVAC and refrigeration tune up;
- Clothes washer replacement;
- Refrigerator replacement;
- LED and induction security lighting;
- Commercial high-efficiency lighting replacement; and
- Energy Star new home program.

These pilot projects include financial incentives, product evaluation, process development and marketing tests. Big Rivers and its members will develop the successful pilot projects into full fledged energy-efficiency programs that member cooperatives can offer to their consumers.

Big Rivers also continued working with its members to provide real-time outage monitoring equipment to their members. This allows the distribution cooperative consumers to report outages on the Web, which is extremely helpful in storm situations. It also allows customers to see outage locations on maps of the cooperative member system.

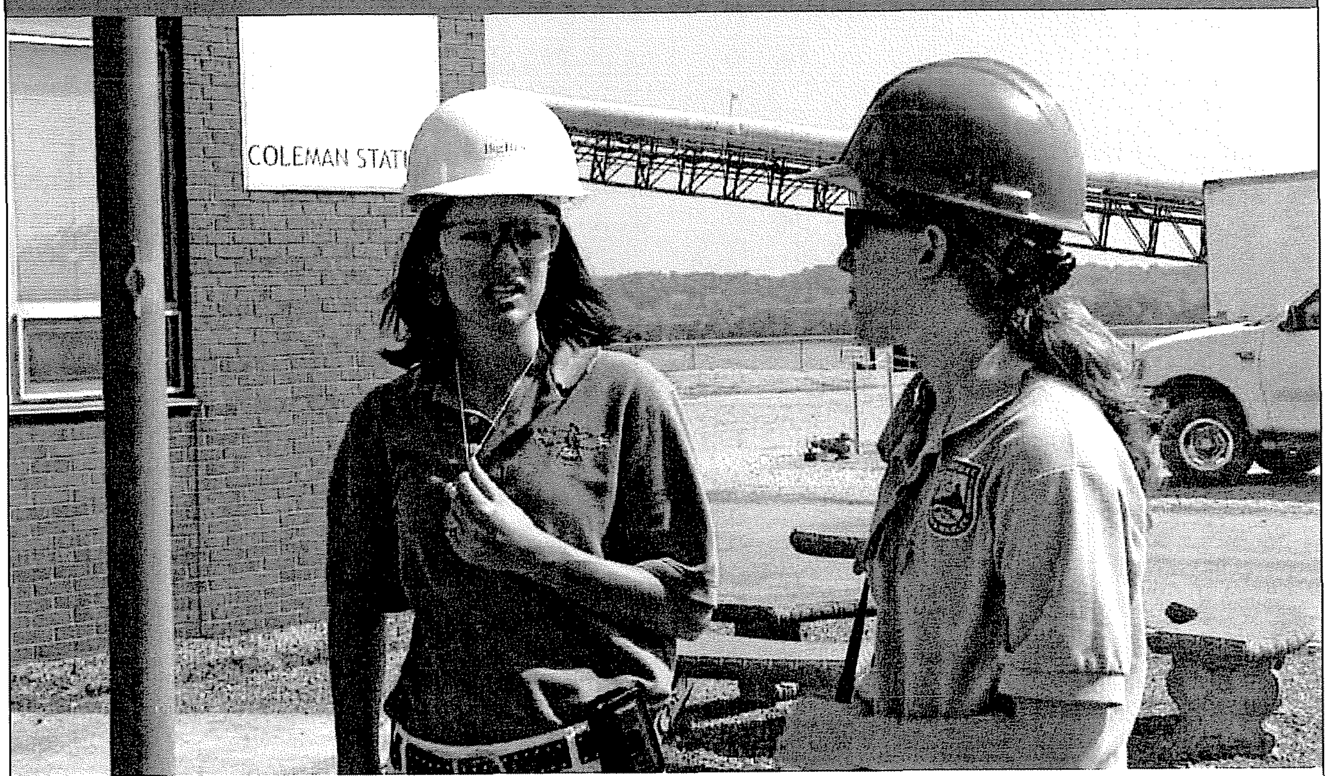
As a generation and transmission cooperative, Big Rivers' responsibility goes beyond simply generating and transmitting reliable electricity. The company also believes that energizing local charities is part of its mission. Big Rivers employees helped in several community fundraisers this past year, including United Way, Habitat for Humanity, March for Babies, Relay for Life and the WBKR Christmas Wish program. Additionally, Big Rivers employees served in advisory positions for chambers of commerce, regional economic development organizations, school boards, universities, Leadership Kentucky, and regional hospital boards.

Big Rivers encourages its employees to be involved in community and civic activities. Similar to previous years, United Way was the premier

PROMOTING ENERGY EFFICIENCY ALLOWS CONSUMERS TO REDUCE THEIR MONTHLY POWER BILLS.

non-profit organization supported by Big Rivers employees. Employees contributed $154,000 to United Way during the 2010 employee campaign, which was a 5 percent increase over 2009 record levels. Not only did employee contributions increase, but so did employee participation levels, with nearly 79 percent of our employees doing so. These significant efforts made Big Rivers one of the largest contributors in the region to United Way for the second straight year.

For over a decade, Big Rivers has continued to support the Philippine Project, which brings electric power and the accompanying economic benefits to remote regions of the Philippine Islands. Much as was done in the United States in the 1930s, this project brings electricity to individual localities to improve village development and further energize the region. In addition, low-interest loans are provided to develop house-wiring programs and to increase local business opportunities for the people of the Philippine Islands. Big Rivers is proud to be a part of this humanitarian project that has impacted the lives of several thousand people.



ENVIRONMENTALLY CONSCIOUS

Helping wildlife is important to Big Rivers. The company has teamed up with the Kentucky Department of Fish and Wildlife Resources ("KDFWR") to install a nesting box for falcons and to improve wildlife habitat.

After months of planning, the first peregrine falcon nesting box was installed at Coleman Station in Hawesville in August. Big Rivers offered KDFWR personnel the use of a crane to secure the nesting box, which rests on the eighth floor of one of the units. KDFWR and Big Rivers hope to entice a mated pair of falcons to use this new nesting box to raise their young during the upcoming spring mating season.

The Promoting Our Wildlife & Energy Resources (POWER) program continued its three-year test through 2010. The program works in partnership with KDFWR to improve wildlife habitat and also helps reduce right-of-way transmission line corridor maintenance costs. The POWER program offers free technical assistance and payments to landowners who complete pre-approved wildlife habitat projects in transmission line right-of-way areas. In turn, these practices reduce the need to manage vegetation.

In 2010, Big Rivers completed work to meet additional EPA spill prevention containment regulations. We embrace being good environmental stewards, which is evident by our effort to prevent pollutants from entering waterways.

RESPECT FOR THE EMPLOYEE

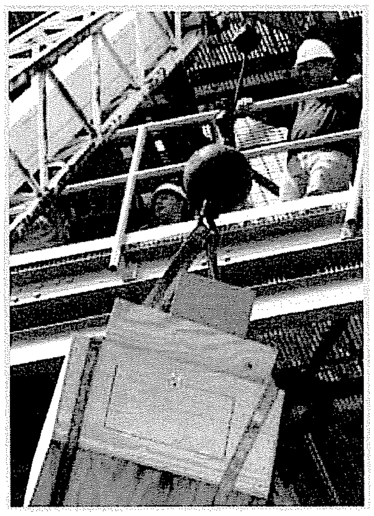
Employees are the backbone of any successful company. It is no different at Big Rivers. By keeping every employee safe, focused and motivated, we improve morale, instill employee confidence in their ability to achieve our mission and continue serving our member cooperatives with excellence.

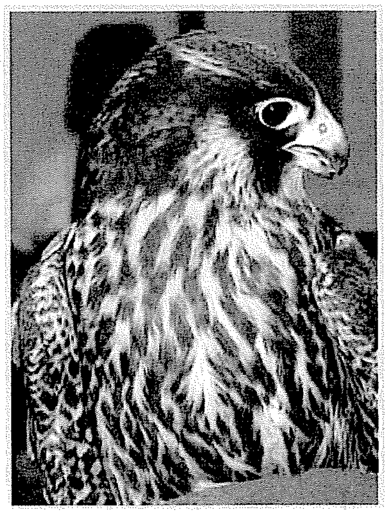
After completing the transition to incorporate operation of its generating units into its current management structure, employees began to look more closely at preparing for the future, all while keeping Big Rivers' day-to-day operations running smoothly.

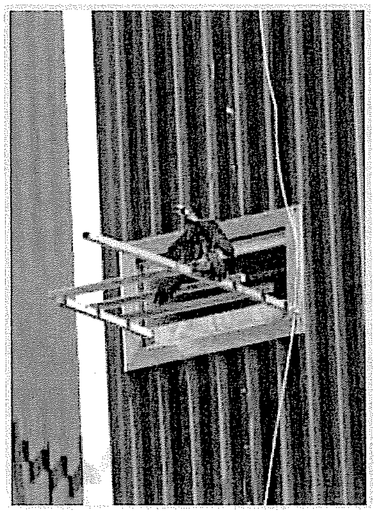
To help that occur, the company is continuing to refine its succession plan. Ensuring new employees carry the same level of passion, knowledge, and work ethic that retiring employees have is a top priority. By identifying and developing talent who will succeed retiring employees, Big Rivers will have skilled staff ready to face the challenges ahead. The company is very thankful for all the hard work its employees have done over the years.

Corporate-wide employee meetings are held on a regular basis to assist with two-way communication between front line staff and senior management. These meetings cover key topics like the company's strategic and safety plans. Keeping an open line of communication is key to making sure all employees are on the same page, while working to move Big Rivers towards a successful future.

Left: Big Rivers Environmental Scientist, Samantha Howard, discussed possible sites for the nesting box with Kate Heyden, an avian biologist with KDFWR. Several factors had to be considered when choosing a location, including how much foot traffic that particular area received. Careful selection was taken to find a spot where the birds would feel at ease.





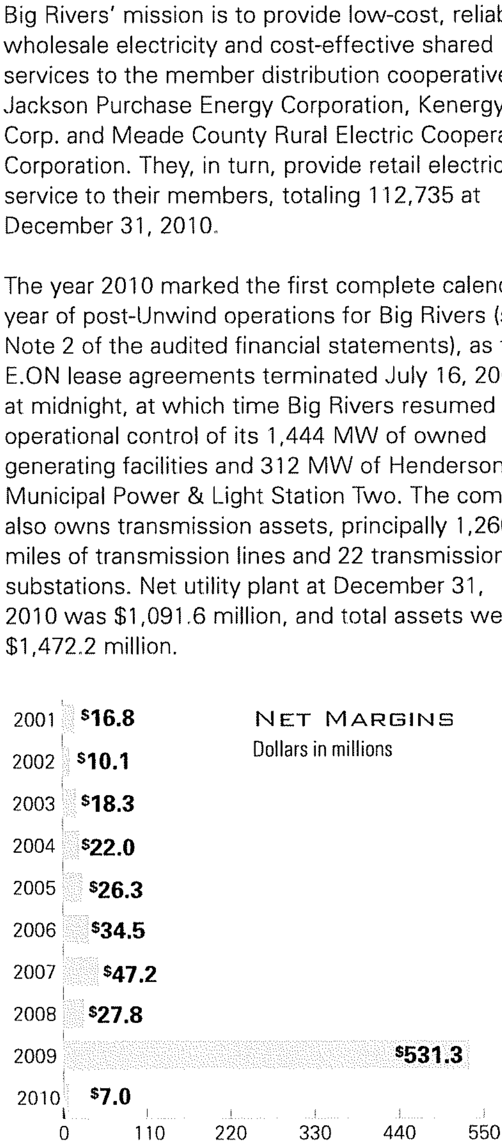


Financial Review: 2010

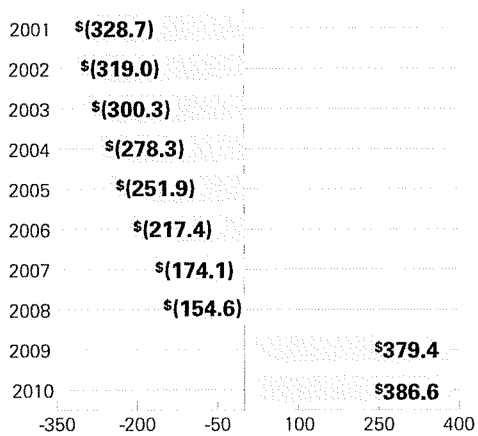
Big Rivers' mission is to provide low-cost, reliable wholesale electricity and cost-effective shared services to the member distribution cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp. and Meade County Rural Electric Cooperative Corporation. They, in turn, provide retail electric service to their members, totaling 112,735 at December 31, 2010.

The year 2010 marked the first complete calendar year of post-Unwind operations for Big Rivers (see Note 2 of the audited financial statements), as the E.ON lease agreements terminated July 16, 2009 at midnight, at which time Big Rivers resumed operational control of its 1,444 MW of owned generating facilities and 312 MW of Henderson Municipal Power & Light Station Two. The company also owns transmission assets, principally 1,266 miles of transmission lines and 22 transmission substations. Net utility plant at December 31, 2010 was $1,091.6 million, and total assets were $1,472.2 million.

NET MARGINS
Dollars in millions



EQUITY (DEFICIT)
Dollars in millions



During 2010, Big Rivers continued its transformational return to a fully operating generation and transmission cooperative; its mode of operation prior to July 17, 1998, when the E.ON lease agreements became effective. Financially, 2010 was a successful year for Big Rivers, as the company completed the year with a favorable set of key financial metrics, discussed below.

Net Margins and Equities

The 2010 net margin was $7 million, resulting in a 1.15 times interest earned ratio (TIER) and margins for interest ratio (MFIR), and a 1.47 debt service coverage ratio (DSCR). Equities to total assets were 26.26 percent at December 31, 2010, and equities to total capitalization were 32.32 percent.

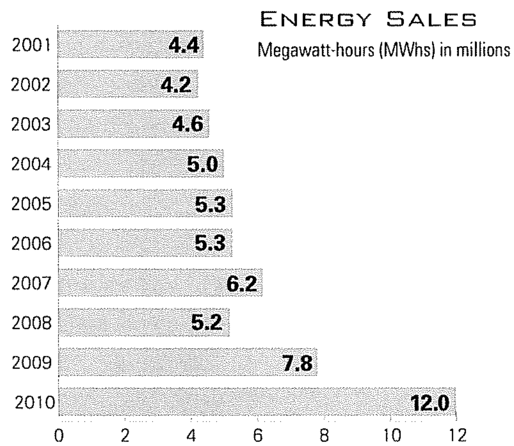
While the 2009 net margin was $531.3 million, when the one-time $538 million Unwind gain is excluded, 2009 reflected a loss of $6.6 million. There are three items that explain the majority of the $13.6 million net improvement in the 2010 net margin (2010 net margin of $7 million plus 2009 net loss, as adjusted, of $6.6 million). First, electric operating margin reflects a $4.4 million unfavorable variance for the first full year of post-Unwind operations, principally due to a depressed market price for off-system sales, resulting from the continued weak economy. Second, interest expense and other reflects a $16.2 million favorable variance, primarily due to a $222.1 million reduction in long-term debt since 2008. Third, following a thorough analysis during 2010, the balance of the reserve for obsolescence that was established for certain materials and supplies inventory upon the Unwind closing was written off, resulting in a non-operating margin of $1.9 million.

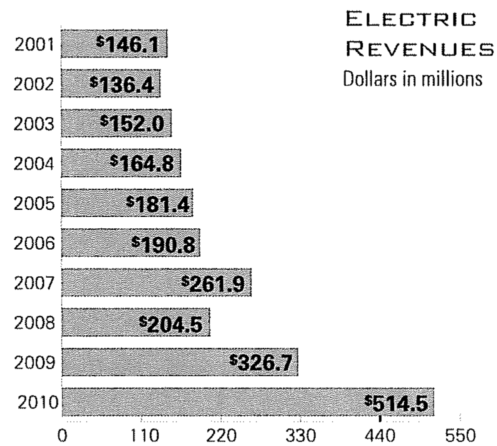
Energy Sales and Electric Revenues

Because a full year of Unwind operations is reflected, MWh sales increased to 11,969,420 MWh in 2010, up from 7,790,961 MWh in 2009, a 53.63 percent increase. The primary reason for the MWh sales increase is the additional 2,887,541 MWh sold to the aluminum smelters, an 83.43 percent increase over 2009, reflecting a full year of post-Unwind sales to the aluminum smelters.

Non-smelter member sales increased 233,963 MWh in 2010, or 7.28 percent, mostly due to hot summer weather. Sales of surplus energy to non-members (off-system sales) increased 1,056,955 MWh in 2010, or 94.61 percent, also reflective of full year of post-Unwind operations.

Electric energy revenue increased to $514.5 million in 2010, up from $326.7 million in 2009.

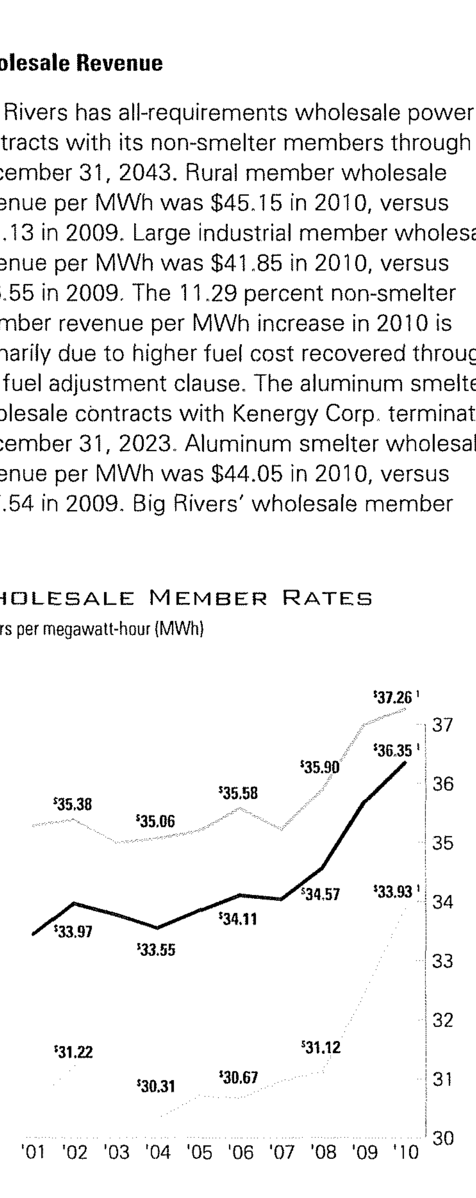




Wholesale Revenue

Big Rivers has all-requirements wholesale power contracts with its non-smelter members through December 31, 2043. Rural member wholesale revenue per MWh was $45.15 in 2010, versus $41.13 in 2009. Large industrial member wholesale revenue per MWh was $41.85 in 2010, versus $36.55 in 2009. The 11.29 percent non-smelter member revenue per MWh increase in 2010 is primarily due to higher fuel cost recovered through the fuel adjustment clause. The aluminum smelter wholesale contracts with Kenergy Corp. terminate December 31, 2023. Aluminum smelter wholesale revenue per MWh was $44.05 in 2010, versus $47.54 in 2009. Big Rivers' wholesale member tariff rates and the aluminum smelter contracts are regulated by the Kentucky Public Service Commission ("KPSC") and the Rural Utilities Service ("RUS").

WHOLESALE MEMBER RATES
Dollars per megawatt-hour (MWh)



[1] Reflects a reduction due to the Member Rate Stability Mechanism

Wholesale power market prices continue to be depressed, as has been the case since 2008. The revenue per MWh received by Big Rivers for its off-system sales was $37.90 in 2010, up from $30.91 received in 2009, but significantly below the off-system sales rate of $48.03 received in 2007.

Lines of Credit and Letters of Credit

Big Rivers has two $50 million lines of credit available to it, one with CoBank, ACB ("CoBank"), expiring July 16, 2012, and the other with National Rural Utilities Cooperative Finance Corporation ("CFC") that expires July 16, 2014. The CFC line of credit contains a $10 million embedded letter of credit facility. At December 31, 2010, $10 million is outstanding under the CoBank line of credit, and letters of credit totaling $5.9 million are outstanding with CFC.

Long-Term Debt

At December 31, 2010, debt to total assets is 55.50 percent. Big Rivers significantly reduced its long-term debt by $222.1 million over the past two years to $817 million at December 31, 2010, down from $1,039.1 million at December 31, 2008. The effective interest rate thereon, at December 31, 2010, is 5.70 percent. The company must refinance $60 million of the 5.75 percent RUS Series A Note by October 1, 2012 and another $200 million thereof by January 1, 2016. The RUS Series A Note, having a December 31, 2010 fair value of $558.7 million and a stated value of $561 million, has a final maturity of July 1, 2021. The non-interest bearing RUS Series B Note, having a December 31, 2010 fair value of $116.2 million and a stated value of

$245.5 million, has no payment due until maturity on December 31, 2023.

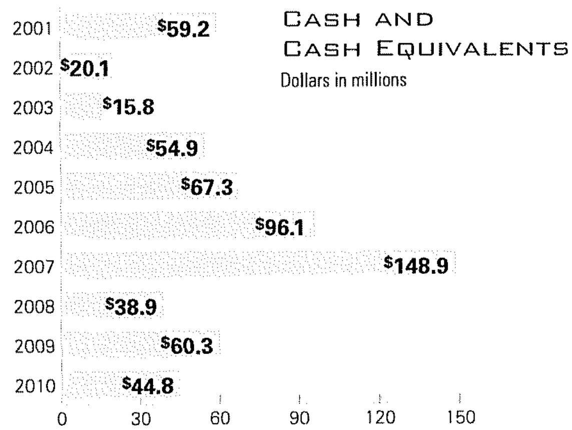
Big Rivers has two issues of tax-exempt pollution control bonds outstanding, totaling $142.1 million. The larger of the two issues was refinanced June 8, 2010—the $83.3 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 2010A. These Series 2010A Bonds now bear interest at a 6 percent fixed rate, with a maturity date of July 15, 2031. The second issue—the $58.8 million County of Ohio, Kentucky, Pollution Control Revenue Bonds, Series 1983—are variable rate demand bonds currently being held by the liquidity provider, bearing an interest rate of 3.25 percent.

Liquidity

Liquidity is good, as cash and cash equivalents total $44.8 million at December 31, 2010. Additionally, the company has the two lines of credit totaling $100 million discussed earlier. Also of significance, at December 31, 2010, Big Rivers had voluntarily prepaid $23.9 million on its 5.75 percent RUS Series A Note, which the company may claw back by avoiding future quarterly debt service payments. Big Rivers funded all of its operating expenses and capital expenditures in 2010 without any new borrowing. Capital expenditures totaled $42.7 million in 2010, versus $58.4 million in 2009.

Depreciation Study and Cost-of-Service Study

The March 6, 2009 order of the Kentucky Public Service Commission in the Unwind case mandated that Big Rivers file for a general review of its financial operations and wholesale member tariff rates, including a depreciation study and a cost-of-service study, by July 16, 2012. Big Rivers has not had a wholesale tariff rate increase in twenty years, and the existing depreciation study has been in effect since July 1998. Accordingly, the company filed an application with the KPSC on March 1, 2011, seeking to increase its member wholesale tariff rates. Per the application, the member revenue increase is stated at $29.6 million, a 6.85 percent increase in total member revenue. Big Rivers anticipates the KPSC will order the rate increase request effective as of September 1, 2011.



KPMG
KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors and Members
Big Rivers Electric Corporation:

We have audited the accompanying balance sheet of Big Rivers Electric Corporation (the Company) as of December 31, 2010 and the related statements of operations, equities, and cash flows for the year then ended. 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 audit. The accompanying financial statements of the Company as of December 31, 2009 and for the years ended December 31, 2009 and 2008 were audited by other auditors whose report thereon dated March 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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 Big Rivers Electric Corporation as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2011, on our consideration of Big Rivers Electric Corporation'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.

KPMG LLP

March 25, 2011

Balance Sheets

As of December 31, 2010 and 2009 — (Dollars in thousands)

Assets

	2010	2009
UTILITY PLANT – Net	$ 1,091,566	$ 1,078,274
RESTRICTED INVESTMENTS – Member rate mitigation	217,562	243,225
OTHER DEPOSITS AND INVESTMENTS – At cost	5,473	5,342
CURRENT ASSETS:		
Cash and cash equivalents	44,780	60,290
Accounts receivable	45,905	47,493
Fuel inventory	37,328	37,830
Non-fuel inventory	23,218	20,412
Prepaid expenses	2,502	3,233
Total current assets	153,733	169,258
DEFERRED CHARGES AND OTHER	3,851	9,384
TOTAL	$ 1,472,185	$ 1,505,483

Equities and Liabilities

	2010	2009
CAPITALIZATION:		
Equities	$ 386,575	$ 379,392
Long-term debt	809,623	834,367
Total capitalization	1,196,198	1,213,759
CURRENT LIABILITIES:		
Current maturities of long-term obligations	7,373	14,185
Notes payable	10,000	–
Purchased power payable	1,516	3,362
Accounts payable	29,782	30,657
Accrued expenses	10,627	9,864
Accrued interest	11,134	9,097
Total current liabilities	70,432	67,165
DEFERRED CREDITS AND OTHER:		
Regulatory liabilities – Member rate mitigation	185,893	207,348
Other	19,662	17,211
Total deferred credits and other	205,555	224,559
COMMITMENTS AND CONTINGENCIES (see Note 14)		
TOTAL	$ 1,472,185	$ 1,505,483

See accompanying notes to financial statements.

Statements of Operations

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	2010	2009	2008
OPERATING REVENUE	$ 527,324	$ 341,333	$ 214,758
LEASE REVENUE	–	32,027	58,423
Total operating revenue	527,324	373,360	273,181
OPERATING EXPENSES:			
Operations:			
Fuel for electric generation	207,749	80,655	–
Power purchased and interchanged	99,421	116,883	114,643
Production, excluding fuel	52,507	22,381	–
Transmission and other	35,273	35,444	28,600
Maintenance	46,880	29,820	4,258
Depreciation and amortization	34,242	32,485	31,041
Total operating expenses	476,072	317,668	178,542
ELECTRIC OPERATING MARGIN	51,252	55,692	94,639
INTEREST EXPENSE AND OTHER:			
Interest	46,570	59,898	65,719
Interest on obligations related to long-term lease	–	–	6,991
Amortization of loss from termination of long-term lease	–	2,172	811
Income tax expense	259	1,025	5,934
Other – net	166	112	123
Total interest expense and other	46,995	63,207	79,578
OPERATING MARGIN	4,257	(7,515)	15,061
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	–	–	8,742
Gain on Unwind transaction (see Note 2)	–	537,978	–
Interest income and other	2,734	867	4,013
Total non-operating margin	2,734	538,845	12,755
NET MARGIN	$ 6,991	$ 531,330	$ 27,816

See accompanying notes to financial statements.

STATEMENTS OF EQUITIES (DEFICIT)

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Margin (Deficit)	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
BALANCE – December 31, 2007	$ (174,137)	$ (174,639)	$ 764	$ 3,681	$ (3,943)
Comprehensive income:					
Net margin	27,816	27,816	–	–	–
Defined benefit plans	(8,281)	–	–	–	(8,281)
Total comprehensive income	19,535	27,816	–	–	(8,281)
BALANCE – December 31, 2008	(154,602)	(146,823)	764	3,681	(12,224)
Comprehensive income:					
Net margin	531,330	531,330	–	–	–
Defined benefit plans	2,664	–	–	–	2,664
Total comprehensive income	533,994	531,330	–	–	2,664
BALANCE – December 31, 2009	379,392	384,507	764	3,681	(9,560)
Comprehensive income:					
Net margin	6,991	6,991	–	–	–
Defined benefit plans	192	–	–	–	192
Total comprehensive income	7,183	6,991	–	–	192
BALANCE – December 31, 2010	$ 386,575	$ 391,498	$ 764	$ 3,681	$ (9,368)

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010, 2009 and 2008 — (Dollars in thousands)

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 6,991	$ 531,330	$ 27,816
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,650	37,084	34,320
Increase in restricted investments under long-term lease	–	–	(2,502)
Decrease in deferred AMT Income Taxes	–	–	5,035
Amortization of deferred loss (gain) on sale-leaseback – net	–	2,172	(1,187)
Deferred lease revenue	–	(3,768)	(4,582)
Residual value payments obligation gain	–	(3,881)	(6,748)
Interest compounded - RUS Series B Note	6,499	6,136	5,841
Increase in obligations under long-term lease	–	–	2,749
Noncash gain on Unwind transaction	–	(269,441)	–
Cash received for member rate mitigation	–	217,856	–
Noncash member rate mitigation revenue	(23,953)	(12,033)	–
Changes in certain assets and liabilities:			
Accounts receivable	1,588	(26,049)	6,218
Inventories	(2,304)	(3,497)	12
Prepaid expenses	731	(2,783)	(319)
Deferred charges	1,251	(1,538)	1,871
Purchased power payable	(1,846)	(5,973)	(3,702)
Accounts payable	(875)	24,825	899
Accrued expenses	2,800	7,881	327
Other – net	555	6,852	(4,940)
Net cash provided by operating activities	29,087	505,173	61,108
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(42,683)	(58,388)	(22,760)
Proceeds from disposition of investments related to sale-leaseback	–	–	222,739
Proceeds from restricted investments	28,143	8,982	–
Purchases of restricted investments and other deposits & investments	–	(252,798)	(401)
Net cash provided by (used in) investing activities	(14,540)	(302,204)	199,578
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(121,355)	(168,956)	(40,838)
Proceeds from long-term obligations	83,300	–	–
Principal payments on short-term notes payable	–	(12,380)	–
Proceeds from short-term notes payable	10,000	–	–
Payments upon termination of sale-leaseback	–	–	(329,859)
Debt issuance cost on bond refunding	(2,002)	(246)	–
Net cash used in financing activities	(30,057)	(181,582)	(370,697)
Net increase (decrease) in cash and cash equivalents	(15,510)	21,387	(110,011)
CASH AND CASH EQUIVALENTS—Beginning of year	$ 60,290	$ 38,903	$ 148,914
CASH AND CASH EQUIVALENTS—End of year	$ 44,780	$ 60,290	$ 38,903
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 37,268	$ 51,078	$ 74,819
Cash paid for income taxes	260	626	1,220

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010 and 2009 (Dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) ***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"). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for 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 remain in effect until December 31, 2043. 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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

In 1999, Big Rivers Leasing Corporation (BRLC) was formed as a wholly owned subsidiary of Big Rivers. BRLC's principal assets were the restricted investments acquired in connection with the 2000 sale leaseback transaction discussed in Note 4. The sale leaseback transaction was terminated on September 30, 2008 and BRLC was dissolved on July 7, 2009, in conjunction with the Unwind Transaction (See Note 2).

Management evaluated subsequent events up to and including March 25, 2011, the date the financial statements were available to be issued.

(b) ***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.

(c) ***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.

(d) ***System of Accounts*** — Big Rivers' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

(e) ***Revenue Recognition*** — Revenues generated from the Company's wholesale power contracts are based on month end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, Leases, Big Rivers' revenue from the Lease Agreement was 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).

(f) ***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.

Prior to July 17, 2009, the Effective Date of the Unwind Transaction (see Note 2), and in accordance with the terms of the Lease Agreement, the Company generally recorded capital additions for Incremental Capital Costs and Nonincremental Capital Costs expenditures funded by LG&E and KU Energy LLC (formerly E.ON U.S. LLC) as utility plant to which the Company maintained title. A corresponding obligation to LG&E and KU Energy LLC (LG&E and KU) was recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation was amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2010 and 2009, the Company recorded $0 and $5,557, respectively, for such additions in utility plant. The Company recorded $0, $3,881, and $6,748 in 2010, 2009, and 2008, respectively, as related lease revenue in the accompanying financial statements. All amounts recorded for 2009 reflect the period prior to the Effective Date of the Unwind Transaction. Under the terms of the Unwind Transaction, LG&E and KU waived their right to the Residual Value Payment, and the Company recognized a gain.

In accordance with the Lease Agreement, and in addition to the capital costs funded by LG&E and KU (see Note 2) that were recorded by the Company as utility plant and lease revenue, LG&E and KU also incurred certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they waived rights to a Residual Value Payment by Big Rivers upon lease termination. Such amounts were not recorded as utility plant or lease revenue by the Company during the lease. In connection with the Unwind Transaction the Company recognized a gain of $19,679 for the Nonincremental Capital assets for which LG&E and KU had waived rights to.

LG&E and KU constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The Company acquired the Coleman scrubber at no cost under the terms of the Unwind Transaction, recognizing a gain of $98,500 in 2009.

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	1.60%–2.47%
Transmission plant	1.76%–3.24%
General plant	1.11%–5.62%

For 2010, 2009, and 2008, the average composite depreciation rates were 1.86%, 1.85%, and 1.85%, 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.

(g) ***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 FASB ASC 360, *Property, Plant,* and *Equipment* as it relates to impairment of long lived assets. FASB ASC 360 establishes one accounting model for all impaired long lived assets and long lived assets to be disposed of by sale or otherwise. FASB ASC 360 requires the evaluation of impairment by comparing 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.

(h) ***Inventory*** — Inventories are carried at average cost and include coal, petroleum coke, lime, limestone, oil and gas used for electric generation, and materials and supplies used for utility operations. Emission allowances are carried in inventory at a weighted average cost by each vintage year. Issuances of allowances are accounted for on a vintage basis using a monthly weighted average cost.

(i) ***Restricted Investments*** — Investments are restricted under KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see Note 10).

(j) ***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.

(k) ***Income Taxes*** — 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 will not be eligible for tax exempt status and will be treated as a taxable cooperative.

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 files a Federal income tax return and certain state income tax returns.

Under the provisions of FASB ASC 740, *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. 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. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely-than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement.

(l) ***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.

(m) ***Derivatives*** — Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that certain contracts the Company is party to may meet the definition of a derivative under FASB ASC 815. 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.

(n) ***Fair Value Measurements*** — The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-Level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 — quoted prices in active markets for identical assets or liabilities
- Level 2 — observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 — unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

2. LG&E LEASE AGREEMENT

Big Rivers, LG&E and KU, Western Kentucky Energy Corporation (WKEC), and LG&E Energy Marketing (LEM), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the "Unwind Transaction" or "Unwind"). LG&E and KU, WKEC, and LEM are collectively referred to in the Notes as "LG&E and KU Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of $537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the unwind transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

	Unwind Gain
Assets received:	
Cash	$506,675
Coleman scrubber	98,500
Inventory	55,000
Construction in progress	23,074
Utility plant assets	19,679
SO2 allowances	980
Liabilities (assumed) forgiven:	
Economic Reserve	(157,000)
Rural Economic Reserve	(60,856)
Post-retirement benefits liability	(8,768)
Residual value payments obligation	145,251
LEM Settlement Note	15,440
Recognition of (expenses) income:	
Deferred lease income	7,187
Deferred loss from termination of sale/leaseback	(73,829)
Deferred loss from LEM Marketing Payment/Settlement Note	(14,520)
Unwind transaction costs	(18,991)
Other	156
Gain on unwind transaction	$537,978

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

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 and KU. Pursuant to the Lease Agreement, WKEC operated the generating facilities and maintained 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 purchased substantially all of its power requirements from LG&E Energy Marketing Corporation (LEM), a wholly owned subsidiary of LG&E and KU, pursuant to a power purchase agreement.

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

a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.

b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.

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

d. 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 FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.

e. Big Rivers continued 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 obtained 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 was served by LEM and other third-party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.

f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, 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").

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was 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. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to LG&E and KU for such capital additions during the lease (see Note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or a changes to existing laws (Incremental Capital Costs) over the lease life (the Company was partially responsible for such costs: 20% through 2010) and the Company was required to submit another Residual Value Payment to LG&E and KU for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

h. 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, with an interest rate 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 was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed 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 was to receive a credit of $2,611 and for the years 2012 through 2023, the Company was to receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did 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 (currently the RUS Series A Note) and the RUS ARVP Note (currently the RUS Series B Note), the benefit, net of tax, as defined, derived from Arbitrage had to be divided as follows: one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

3. UTILITY PLANT

At December 31, 2010 and 2009, utility plant is summarized as follows:

	2010	2009
Classified plant in service:		
Production plant	$1,689,024	$1,675,733
Transmission plant	237,689	236,639
General plant	18,937	18,201
Other	543	543
	1,946,193	1,931,116
Less accumulated depreciation	909,501	908,099
	1,036,692	1,023,017
Construction in progress	54,874	55,257
Utility plant — net	$1,091,566	$1,078,274

Interest capitalized for the years ended December 31, 2010, 2009, and 2008, was $684, $133, and $492, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *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, 2010 and 2009, the Company had approximately $38,000 and $35,835, 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 provided 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, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were $222,739 and $329,559, respectively, reflecting a net cash payment of $107,120. To meet its remaining obligations Big Rivers' entered into a $12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of $77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and was amortized up to the Effective Date of the Unwind Transaction, with the balance of the regulatory asset reflected as an offset to the gain recognized from the Unwind Transaction.

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, 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. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 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 was amortized up to the date of lease termination, with the Company recognizing $1,998 in 2008.

The unamortized balance of the deferred loss was recognized in 2009 in conjunction with the unwind transaction described in Note 2 based on agreement with the KPSC.

Amounts recognized in the statement of operations related to the sale-leaseback for the year ended December 31, 2008, were as follows:

	2008
Power contracts revenue (revenue discount adjustment — see Note 6)	$(2,453)
Interest on obligations related to long-term lease:	
Interest expense	$ 8,989
Amortize gain on sale-leaseback	(1,998)
Net interest on obligations related to long-term lease	$6,991
Interest income on restricted investments under long-term lease	$8,742
Interest income and other	$779

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2010 and 2009, is as follows:

	2010	2009
RUS Series A Promissory Note, stated amount of, $561,061, stated interest rate of 5.75%, with an imputed interest rate of 5.84% maturing July 2021	$558,731	$596,786
RUS Series B Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	116,165	109,666
County of Ohio, Kentucky, promissory note, fixed interest rate of 6.00%, maturing in July 2031	83,300	–
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.56% and 10.50% in 2010 and 2009, respectively), maturing in October 2022	–	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.27% and 3.22% in 2010 and 2009, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	816,996	848,552
Current maturities	7,373	14,185
Total long-term debt — net of current maturities	$809,623	$834,367

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

Year	Amount
2011	7,373
2012	76,078
2013	79,275
2014	21,676
2015	22,968
Thereafter	609,626
Total	$816,996

(a) ***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 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of $140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009 Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

(b) ***Pollution Control Bonds*** — In June 2010, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Revenue Bonds, Series 2010A (Series 2010A Bonds), 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 fixed rate of 6.00% and mature in July 2031. Proceeds from the Series 2010A Bonds were used to refund the $83,300, County of Ohio, Kentucky, Periodic Auction Rate Securities, Series 2001A.

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. In addition, the Series 1983 bonds are supported by a municipal bond insurance and surety policy issued by Ambac Assurance Corporation. Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policy or the surety policy. Both Series are secured by the Indenture dated July 1, 2009 between the company and U.S. Bank National Association.

The Series 1983 are subject to a maximum interest rate of 13%. The December 31, 2010 interest rate on the Series 1983 Pollution Control Bonds was 3.25%.

(c) ***LEM Settlement Note*** — On July 15, 1998 Big Rivers executed the Settlement Note with LEM. The Settlement Note required Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment was approximately $1,822 annually. On the Unwind Closing Date, in connection with the Unwind Transaction the remaining balance on the Settlement Note in the amount of $15,440 was forgiven.

(d) ***Notes Payable*** — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. Big Rivers had $10,000 of borrowings outstanding, at an interest rate of 2.46%, on the CoBank line of credit at December 31, 2010. Letters of credit issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity on the CFC line of credit by $5,928. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. The CFC variable rate is equal to the CFC Line of Credit Rate, which is defined as "the rate published by CFC from time to time, by electronic or other means, for similarly classified lines of credit, but if not published, then the rate determined for such lines of credit by CFC from time to time." Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012. The CoBank variable rate is a fixed rate per annum (for interest periods of 1, 2, 3 and 6 months) equal to LIBOR plus the Applicable Margin as determined by the Company's credit rating. At December 31, 2010 the Company had available to it a $2,500 line of credit with CFC to finance storm emergency repairs and expenses related to electric utility operations with a February 25, 2011 maturity date.

(e) ***Covenants*** — Big Rivers is in compliance with all debt covenants associated with both long-term and short-term debt. The Company's Indenture and its line of credit with CFC require that a Margins for Interest Ratio (MFIR) of at least 1.10 be maintained for each fiscal year. The CoBank line of credit agreement requires that at the end of each fiscal year the Company have a Debt Service Coverage Ratio (DSCR) of not less than 1.20. Big Rivers' 2010 MFIR was 1.15 and its DSCR was 1.47.

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 demand and energy charges 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. Each members rural demand charge is based upon the maximum coincident demand of their rural delivery points.

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders; including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelter in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with an offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts.

In its order approving the Unwind Transaction, the KPSC stipulated that Big Rivers file a rate case within three years of the Unwind Closing Date or by July 2012. On March 1, 2011, the Company filed an application with the KPSC requesting authority to adjust its rates for wholesale electric service.

Effective since September 1, 2000, and continuing through August 31, 2008, the KPSC approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see note 4) to them. On September 1, 2008, Big Rivers' discontinued the revenue discount adjustment to its members in conjunction with the sale-leaseback termination.

The wholesale rates established for the members non-smelter large direct-served industrial customers (the "Large Industrial Rate") provide the basis for pricing the energy consumed by the Aluminum Smelters. The primary component of the pricing used for the Aluminum Smelters is an energy charge in dollars per MWh determined by applying the Large Industrial Rate to a load with a 98% load factor, and adding an additional charge of $0.25 per MWh. The other components reflected in the pricing of the Aluminum Smelters' energy usage are certain charges and credits as provided for under the terms of the Aluminum Smelters' wholesale electric service agreements between Big Rivers and Kenergy Corp. (Kenergy Corp. is the retail provider for the Aluminum Smelters load).

7. INCOME TAXES

As a result of the sale-leaseback terminations in 2008 (see Note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted of Net Operating Loss (NOL) Carryforwards, Alternative Minimum Tax (AMT) Credit Carryforwards, Fixed Asset Book to Tax Differences, Economic Reserve Book to Tax Differences, and RUS Series B Note Book to Tax Differences). An income statement charge of $5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of $900 relating to the 2008 AMT obligation were recorded in the Statement of Operations for 2008. AMT charges were recorded in the Statement of Operations for 2010 and 2009 in the amount of $259 and $1,025, respectively.

At December 31, 2010, Big Rivers had a Nonpatron Net Operating Loss Carryforward of approximately $42,354 expiring at various times between 2010 and 2030, and an Alternative Minimum Tax Credit Carryforward of approximately $6,038, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2010, 2009 and 2008, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $3,846, $19,619, and $20,363 in current regular tax expense for the years ended December 31, 2010, 2009 and 2008, respectively.

The components of the net deferred tax assets as of December 31, 2010 and 2009, were as follows:

	2010	2009
Deferred tax assets:		
Net operating loss carryforward	$16,730	$20,990
Alternative minimum tax credit carryforwards	6,038	7,052
Member rate mitigation	10,326	10,326
Fixed asset basis difference	10,752	11,420
RUS Series B Note	14,767	–
Total deferred tax assets	58,613	49,788
Deferred tax liabilities:		
RUS Series B Note	–	(23,793)
Bond refunding costs	(8)	–
Total deferred tax liabilities	(8)	(23,793)
Net deferred tax asset (prevaluation allowance)	58,605	25,995
Valuation allowance	(58,605)	(25,995)
Net deferred tax asset	$ –	$ –

A reconciliation of the Company's effective tax rate for 2010, 2009 and 2008, follows:

	2010	2009	2008
Federal rate	35.0%	35.0%	35.0%
State rate — net of federal benefit	4.5	4.5	4.5
Permanent differences	0.5	–	–
Patronage allocation to members	(38.8)	(35.4)	(31.3)
Tax benefit of operating loss carryforwards and other	(1.2)	(4.1)	(8.2)
Alternative minimum tax	3.0	0.2	18.0
Effective tax rate	3.0%	0.2%	18.0%

The Company files a federal income tax return, as well as certain state income tax returns. The years currently open for federal tax examination are 2006 through 2010 and 1995 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2003 through 2010 and years 2001 through 2002, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No material interest or penalties have been recorded during 2010, 2009, or 2008.

8. POWER PURCHASED

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied 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 included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not 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 failed to take the minimum requirement during any hour or year, Big Rivers was 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 was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did 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, 2009 and 2008, were $51,592 and $99,700, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

(a) ***Defined Benefit Plans***— Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. 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 salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

The Company has adopted FASB ASC 715, *Defined Benefit Plans*, including the requirement to recognize the funded status of its pension plans and other postretirement plans (see Note 12 – Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2010 and 2009.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — beginning of period	$25,493	$24,253
Service cost — benefits earned during the period	1,289	1,241
Interest cost on projected benefit obligation	1,368	1,466
Participant contributions (lump sum repayment)	–	40
Plan settlements	–	262
Benefits paid	(806)	(3,945)
Actuarial loss	1,460	2,176
Benefit obligation — end of period	$28,804	$25,493

The accumulated benefit obligation for all defined benefit pension plans was $21,977 and $18,630 at December 31, 2010 and 2009, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2010 and 2009, follows:

	2010	2009
Fair value of plan assets — beginning of period	$22,270	$20,295
Actual return on plan assets	2,707	4,820
Employer contributions	1,096	1,060
Participant contributions (lump sum repayment)	–	40
Benefits paid	(806)	(3,945)
Fair value of plan assets — end of period	$25,267	$22,270

The funded status of the Company's pension plans at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — end of period	$(28,804)	$(25,493)
Fair value of plan assets — end of period	25,267	22,270
Funded status	$ (3,537)	$ (3,223)

Components of net periodic pension costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Service cost	$1,289	$1,241	$1,072
Interest cost	1,368	1,466	1,220
Expected return on plan assets	(1,533)	(1,332)	(1,516)
Amortization of prior service cost	19	19	19
Amortization of actuarial loss	584	834	247
Settlement loss	–	1,690	–
Net periodic benefit cost	$1,727	$3,918	$1,042

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ (40)	(59)
Unamortized actuarial (loss)	(9,354)	(9,651)
Accumulated other comprehensive income	$(9,394)	$(9,710)

In 2011, $19 of prior service cost and $560 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ 19	$ 19
Unamortized actuarial (loss)	297	3,575
Other comprehensive income	$ 316	$ 3,594

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

	2010	2009
Deferred credits and other	$(3,537)	$(3,223)

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2010	*2009*	*2008*
Discount rate — projected benefit obligation	4.95%	5.59%	6.38%
Discount rate — net periodic benefit cost	5.59	6.38	6.25
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.25	7.25	7.25

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%.

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45-55%), 15% International Equities (an acceptable range of 10-20%), and 35% fixed income (an acceptable range of 30-40%). As of December 31, 2010 and 2009, the investment allocation was 58% and 55%, respectively, in U.S. Equities, 9% and 11%, respectively, in International Equities, and 33% and 34%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The Equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi annually.

At December 31, 2010 and 2009, the fair value of Big Rivers' defined benefit pension plan assets by asset category, as required by FASB ASC 320 (see Note 1), are as follows:

	Level 1	Level 2	December 31, 2010
Cash and money market	$ 1,517	$ –	$ 1,517
Equity Securities:			
U.S. large-cap stocks	9,731	–	9,731
U.S. mid-cap stock mutual funds	2,926	–	2,926
U,S. small-cap stock mutual funds	1,448	–	1,448
International stock mutual funds	2,194	–	2,194
Preferred stock	490	–	490
Fixed:			
TIPS Bond Fund	161	–	161
U.S. Government Agency Bonds	–	1,843	1,843
Taxable U.S. Municipal Bonds	–	2,635	2,635
U.S. Corporate Bonds	–	2,322	2,322
	$18,467	$6,800	$25,267

	Level 1	Level 2	December 31, 2009
Cash and money market	$ 815	$ –	$ 815
Equity Securities:			
U.S. large-cap stocks	8,580	–	8,580
U.S. mid-cap stock mutual funds	2,064	–	2,064
U,S. small-cap stock mutual funds	1,282	–	1,282
International stock mutual funds	2,328	–	2,328
Preferred stock	404	–	404
Fixed:			
U.S. Government Agency Bonds	–	2,139	2,139
Taxable U.S. Municipal Bonds	–	2,282	2,282
U.S. Corporate Bonds	–	2,376	2,376
	$15,473	$ 6,797	$22,270

Expected retiree pension benefit payments projected to be required during the years following 2010 are as follows:

Years Ending December 31	Amount
2011	$ 1,788
2012	2,115
2013	3,939
2014	1,787
2015	3,139
2016–2020	12,017
Total	$24,785

In 2011, the Company expects to contribute $949 to its pension plan trusts.

(b) Defined Contribution Plans — Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax-basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $4,389 and $355 for the years ended December 31, 2010 and 2009, respectively.

(c) Deferred Compensation Plan — Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2010 employer contribution was $61 and deferred compensation expense was $108. As of December 31, 2010, the trust asset was $205 and the deferred liability was $165.

10. RESTRICTED INVESTMENTS

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2010 and 2009 are as follows:

	2010		2009	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
Cash and money market	$ 12,812	$ 12,812	$ 25,186	$ 25,186
Debt Securities:				
U.S. Treasuries	60,941	62,582	67,895	67,474
U.S. Government Agency	143,809	143,922	150,144	150,181
Total	$217,562	$219,316	$243,225	$242,841

Gross unrealized gains and losses on restricted investments at December 31, 2010 and 2009 were as follows:

	2010		2009	
	Gains	Losses	Gains	Losses
Cash and money market	$ –	$ –	$ –	$ –
Debt Securities:				
U.S. Treasuries	1,641	–	12	434
U.S. Government Agency	331	217	79	41
Total	$ 1,972	$ 217	$ 91	$ 475

Debt securities at December 31, 2010 and 2009 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	2010		2009	
	Amortized Costs	Fair Values	Amortized Costs	Fair Values
In one year or less	$ 71,111	$ 71,193	$ 46,102	$ 46,112
After one year through five years	146,451	148,123	197,123	196,729
Total	$217,562	$219,316	$243,225	$242,841

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009, were:

	2010 Less Than 12 Months		2009 Less Than 12 Months	
	Losses	Fair Values	Losses	Fair Values
Debt securities:				
U.S. Treasuries	$ –	$ –	$ 434	$ 59,872
U.S. Government Agency	217	15,783	41	45,026
Total	$ 217	$ 15,783	$ 475	$104,898

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2010 and 2009 was one and eight, respectively. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

11. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320 that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows:

	2010	2009
Institutional money market government portfolio	$44,774	$59,887

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

Big Rivers' long-term debt at December 31, 2010 consists of RUS notes totaling $674,896, variable rate pollution control bonds in the amount of $58,800, and fixed rate pollution control bonds in the amount of $83,300 (see Note 5). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market. At December 31, 2010, the fair value of Big Rivers' fixed rate pollution control debt was determined based on quoted prices in active markets of identical liabilities (Level 1 measure) and totaled $82,099.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after January 1, 2012). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

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 rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2010	2009	2008
Discount rate — projected benefit obligation	4.96%	5.78%	6.32%
Discount rate — net periodic benefit cost	5.78	6.32	5.85

The health care cost trend rate assumptions as of December 31, 2010 and 2009, were as follows:

	2010	2009
Initial trend rate	7.60%	7.70%
Ultimate trend rate	4.50	4.50
Year ultimate trend is reached	2028	2028

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

	2010	2009
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (201)	$ (138)
Effect on year end benefit obligation	(1,131)	(989)
One-percentage-point increase:		
Effect on total service and interest cost components	236	162
Effect on year end benefit obligation	1,306	1,134

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — beginning of period	$ 13,864	$ 2,948
Service cost — benefits earned during the period	1,313	878
Interest cost on projected benefit obligation	743	464
Transaction benefit obligation assumed in the unwind	–	8,768
Participant contributions	85	48
Plan amendments	–	175
Benefits paid	(313)	(203)
Actuarial loss	172	786
Benefit obligation — end of period	$ 15,864	$13,864

A reconciliation of the Company's postretirement plan assets at December 31, 2010 and 2009, follows:

	2010	2009
Fair value of plan assets — beginning of period	$ –	$ –
Employer contributions	228	155
Participant contributions	85	48
Benefits paid	(313)	(203)
Fair value of plan assets — end of period	$ –	$ –

The funded status of the Company's postretirement plan at December 31, 2010 and 2009, follows:

	2010	2009
Benefit obligation — end of period	$(15,864)	$(13,864)
Fair value of plan assets — end of period	–	–
Funded status	$(15,864)	$(13,864)

The components of net periodic postretirement benefit costs for the years ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Service cost	$1,313	$ 878	$ 129
Interest cost	743	464	167
Amortization of prior service cost	17	17	2
Amortization of actuarial (gain)	–	(17)	(60)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$2,104	$1,373	$ 269

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$(147)	$(165)
Unamortized actuarial gain	235	407
Transition obligation	(62)	(92)
Accumulated other comprehensive income	$ 26	$ 150

In 2011, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2010 and 2009, follows:

	2010	2009
Prior service cost	$ 18	$(157)
Unamortized actuarial gain	(172)	(803)
Transition obligation	30	30
Other comprehensive loss	$(124)	$(930)

At December 31, 2010 and 2009, amounts recognized in the statement of financial position were as follows:

	2010	2009
Accounts payable	$ (600)	$ (424)
Deferred credits and other	(15,264)	(13,440)
Net amount recognized	$(15,864)	$(13,864)

Expected retiree benefit payments projected to be required during the years following 2010 are as follows:

Year	Amount
2011	$ 600
2012	813
2013	995
2014	1,201
2015	1,355
2016–2020	8,685
Total	$13,649

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 $391 and $375 at December 31, 2010 and 2009, respectively. The postretirement expense recorded was $21, $45, and $62 for 2010, 2009, and 2008, respectively, and the benefits paid were $5, $78, and $0 for 2010, 2009, and 2008, respectively.

13. RELATED PARTIES

For the years ended December 31, 2010, 2009, and 2008, Big Rivers had tariff sales to its members of $151,001, $125,826, and $114,514, respectively. In addition, for the years ended December 31, 2010, 2009, and 2008, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $281,473, $167,885, and $55,124, respectively.

At December 31, 2010 and 2009, Big Rivers had accounts receivable from its members of $36,636 and $35,524, respectively.

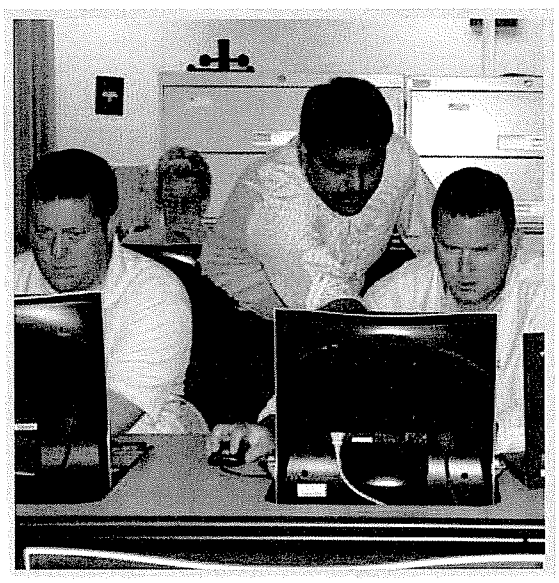
Revenue and offsetting expense amounts related to Big Rivers' energy services department reservation of the Company's transmission (in accordance with its Open Access Transmission Tariff) for third party sales in 2010 and 2009, were $12,129, and $10,099, respectively.

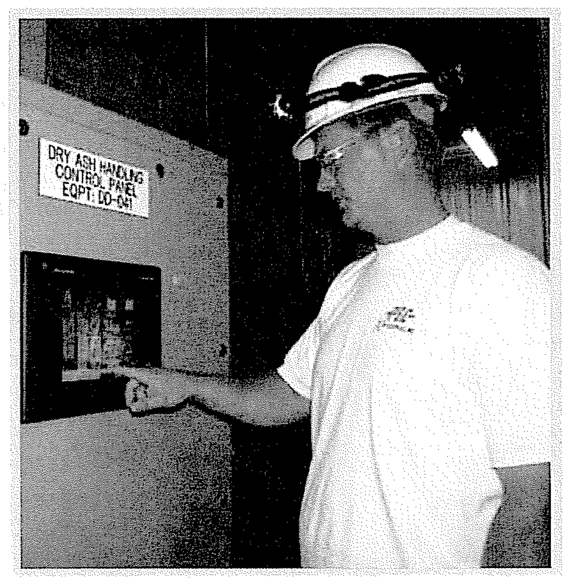
14. COMMITMENTS AND CONTINGENCIES

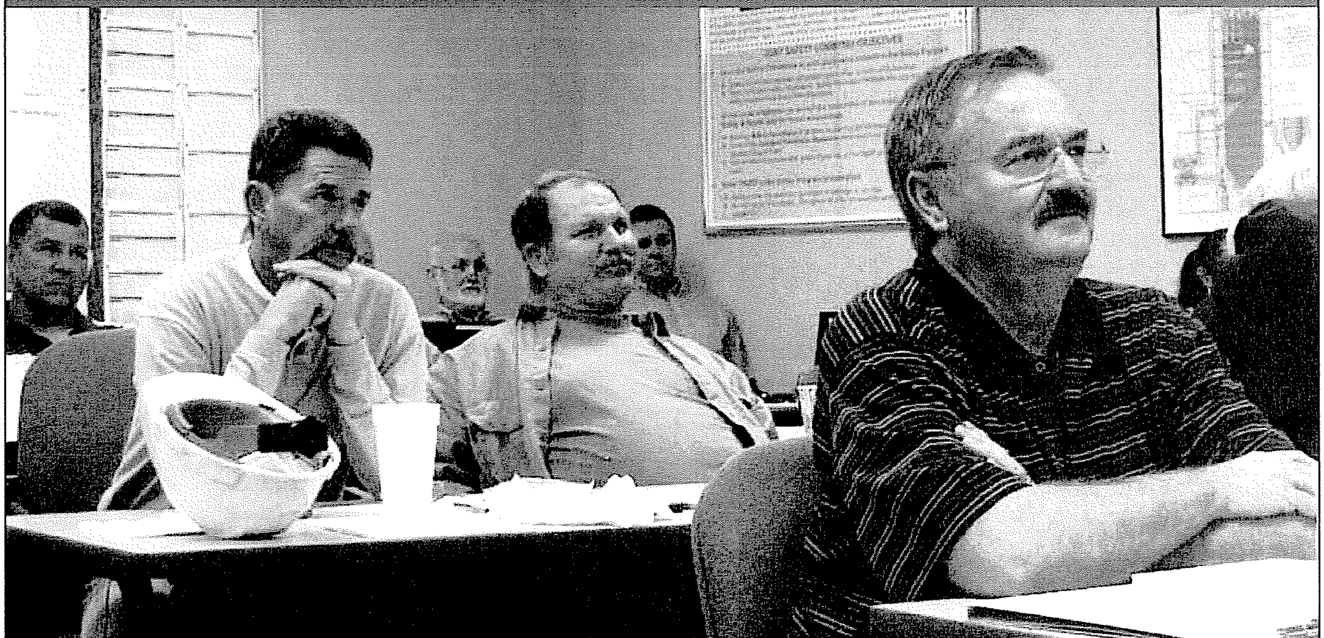
Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

OUR MISSION:

BIG RIVERS WILL SAFELY DELIVER
LOW COST,
RELIABLE WHOLESALE POWER
AND COST-EFFECTIVE
SHARED SERVICES
DESIRED BY THE MEMBERS.







Our Vision:

Big Rivers will be viewed as one of the
TOP G&Ts in the country
and will PROVIDE SERVICES
the MEMBERS DESIRE
in meeting future challenges

OUR VALUES:

SAFETY

INTEGRITY

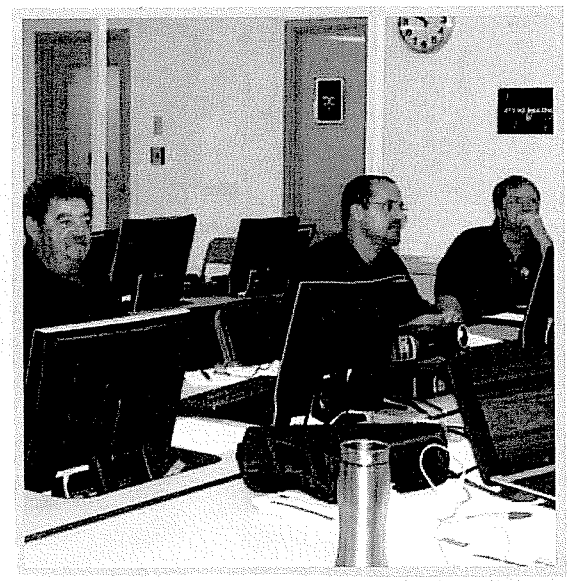
EXCELLENCE

MEMBER AND COMMUNITY SERVICE

RESPECT FOR THE EMPLOYEE

TEAMWORK

ENVIRONMENTALLY CONSCIOUS



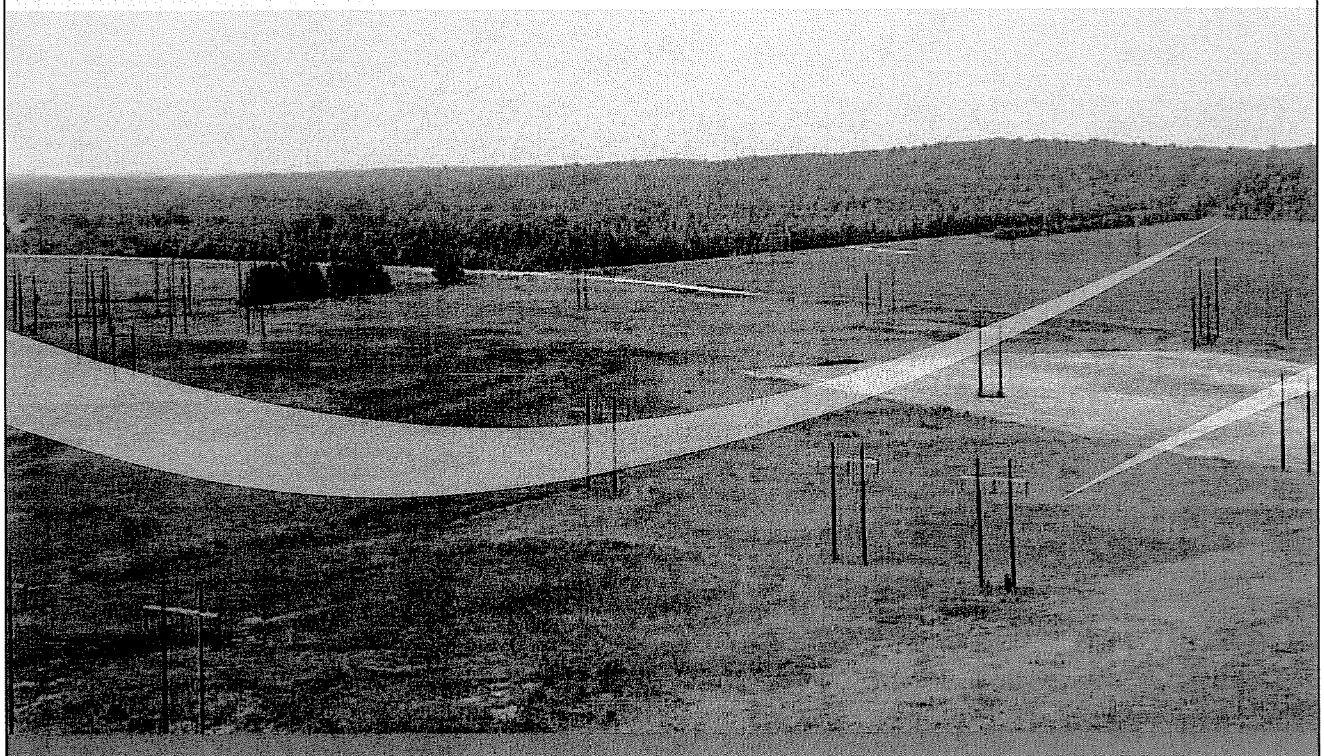
Big Rivers
ELECTRIC CORPORATION

FIVE-YEAR REVIEW Years Ended December 31 — (Dollars in thousands)

SUMMARY OF OPERATIONS	2010	2009	2008	2007	2006
Operating Revenue:					
Power Contracts Revenue	$527,324	$341,333	$214,758	$271,605	$200,692
Lease Revenue	-	32,027	58,423	58,265	57,896
Total Operating Revenue	527,324	373,360	273,181	329,870	258,588
Operating Expenses:					
Fuel for Electric Generation	207,749	80,655	–	–	–
Power Purchased	99,421	116,883	114,643	169,768	114,516
Operations (Excluding Fuel), Maintenance, Other	134,660	87,645	32,858	31,436	25,336
Depreciation	34,242	32,485	31,041	30,632	30,408
Total Operating Expenses	476,072	317,668	178,542	231,836	170,260
Interest Expense and Other:					
Interest	46,570	59,898	72,710	70,851	70,259
Other – net	425	3,309	6,868	103	111
Total Interest Expense & Other	46,995	63,207	79,578	70,954	70,370
Operating Margin	4,257	(7,515)	15,061	27,080	17,958
Non-Operating Margin	2,734	538,845	12,755	20,097	16,584
NET MARGIN	$6,991	$531,330	$27,816	$47,177	$34,542
SUMMARY OF BALANCE SHEET					
Total Utility Plant	$2,001,067	$1,986,373	$1,791,772	$1,764,924	$1,744,315
Accumulted Depreciation	909,501	908,099	879,073	853,290	826,647
Net Utility Plant	1,091,566	1,078,274	912,699	911,634	917,668
Cash and Cash Equivalents	44,780	60,290	38,903	148,914	96,143
Reserve Account Investments[1]	218,955	244,641	–	–	–
Other Assets	116,884	122,278	122,834	253,610	240,578
TOTAL ASSETS	$1,472,185	$1,505,483	$1,074,436	$1,314,158	$1,254,389
Equities (deficit)	$386,575	$ 379,392	$ (154,602)	$ (174,137)	$ (217,371)
Long-term Debt[2]	816,996	848,552	987,349	1,022,345	1,041,075
Regulatory Liability – Member Rate Mitigation	185,893	207,348	–	–	–
Other Liabilities and Deferred Credits	82,721	70,191	241,689	465,950	430,685
TOTAL LIABILITIES AND EQUITY	$1,472,185	$1,505,483	$1,074,436	$1,314,158	$1,254,389
ENERGY SALES - MWhs					
Member Rural	2,481,390	2,239,445	2,386,916	2,406,446	2,231,554
Member Large Industrial	930,168	919,587	925,793	921,359	956,502
Smelter Contracts	6,348,431	2,885,491	–	–	–
Other	2,209,431	1,746,438	1,844,677	2,835,789	2,062,286
Total Energy Sales	11,969,420	7,790,961	5,157,386	6,163,594	5,250,342
SOURCES OF ENERGY - MWhs					
Generated	9,895,512	3,715,544	–	–	–
Purchased	2,220,994	4,166,916	5,211,789	6,213,682	5,294,138
Losses and Net Interchange	(147,086)	(91,499)	(54,403)	(50,088)	(43,796)
Total Energy Available	11,969,420	7,790,961	5,157,386	6,163,594	5,250,342
NET CAPACITY - MWs					
Net Generating Capacity Owned	1,444	1,444	1,459	1,459	1,459
Rights to HMP&L Station Two	207	212	217	217	217
Other Net Capacity Available	178	178	178	178	178

[1]Includes investment income receivable.

[2]Includes current maturities of long-term obligations.



Big Rivers
ELECTRIC CORPORATION

BIG RIVERS ELECTRIC CORPORATION

201 Third Street (42420)
PO Box 24 (42419-0024)
Henderson, KY

phone 270.827.2561
fax 270.827.2558
www.bigrivers.com

It's a new day ...

Annual Report for 2009

Big Rivers
ELECTRIC CORPORATION

Big Rivers
ELECTRIC CORPORATION

Our Mission

Big Rivers will safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the Members.

Our Vision

Big Rivers will be viewed as one of the top G&Ts in the country and will provide services the Members desire in meeting future challenges.

Our Values

- Teamwork
- Integrity
- Excellence
- Safety
- Member and Community Service
- Environmental Consciousness
- Respect for the Employee

Financial Highlights

For the years ended December 31, 2009, 2008, 2007, 2006, and 2005 — (Dollars in thousands)

	2009	2008	2007	2006	2005
Margins	531,330	27,816	47,177	34,542	26,343
Equity	379,392	(154,602)	(174,137)	(217,371)	(251,913)
Capital Expenditures*	58,388	22,760	18,682	13,189	12,904
Cash & Investment Balance	60,290	38,903	148,914	96,143	67,264
Times Interest Earned Ratio	9.85	1.37	1.64	1.47	1.37
Debt Service Coverage Ratio	2.44	1.17	2.04	1.86	1.79
Cost of Debt	6.33%	6.33%	5.76%	5.83%	5.57%
Cost of Capital	8.39%	8.33%	7.75%	7.82%	7.58%

** Big Rivers' share only*

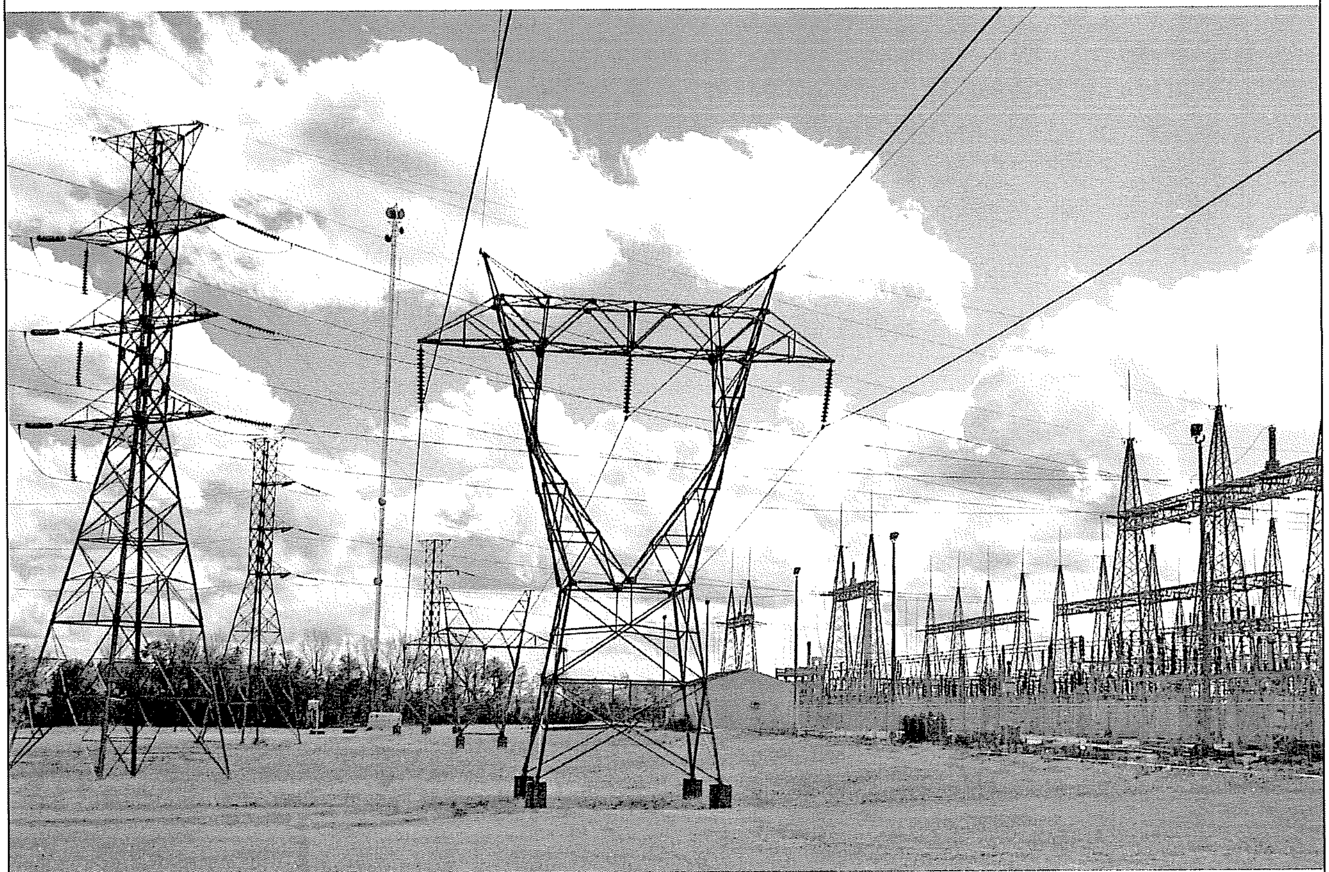


Table of Contents

About the Big Rivers System 2

Message from Board Chair and CEO 6

Year in Review: 2009 7

Financial Review: 2009 20

Financial Statements 25

Notes to Financial Statements 29

Five-Year Review 51

About the Big Rivers System

Big Rivers Electric Corporation is a member-owned, not-for-profit, generation and transmission cooperative (G&T). We provide wholesale electric power and services to three distribution cooperative members across 22 counties in western Kentucky.

The member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Together, they distribute retail electric power and provide other services to more than 111,000 homes, farms, businesses and industries.

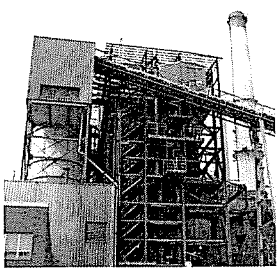
Incorporated in June of 1961, the mission of Big Rivers is to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by the members. Business operations revolve around seven core values: teamwork, integrity, excellence, safety, member and community service, environmental consciousness, and respect for the employee.

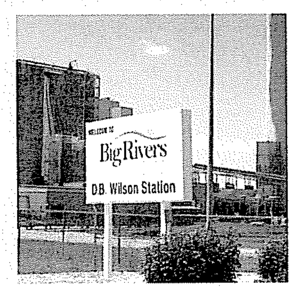
With headquarters in Henderson, Big Rivers owns and operates 1,444 megawatts (MW) of generating capacity in four stations.

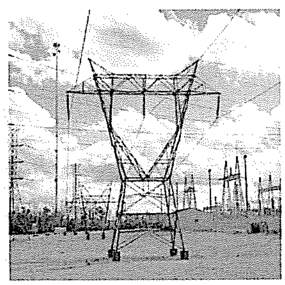
Kenneth C. Coleman	443 MW	Hawesville, Ky.
Robert A. Reid	130 MW	Robards, Ky.
Robert D. Green	454 MW	Robards, Ky.
D. B. Wilson	417 MW	Centertown, Ky.
Owned Generation	1,444 MW	

Total generation available is 1,834 MW, including rights to Henderson Municipal Power and Light ("HMP&L") Station Two and contracted capacity from Southeastern Power Administration ("SEPA").

Owned Generation	1,444 MW
HMP&L Station Two	212 MW
SEPA	178 MW
Total Generation	1,834 MW







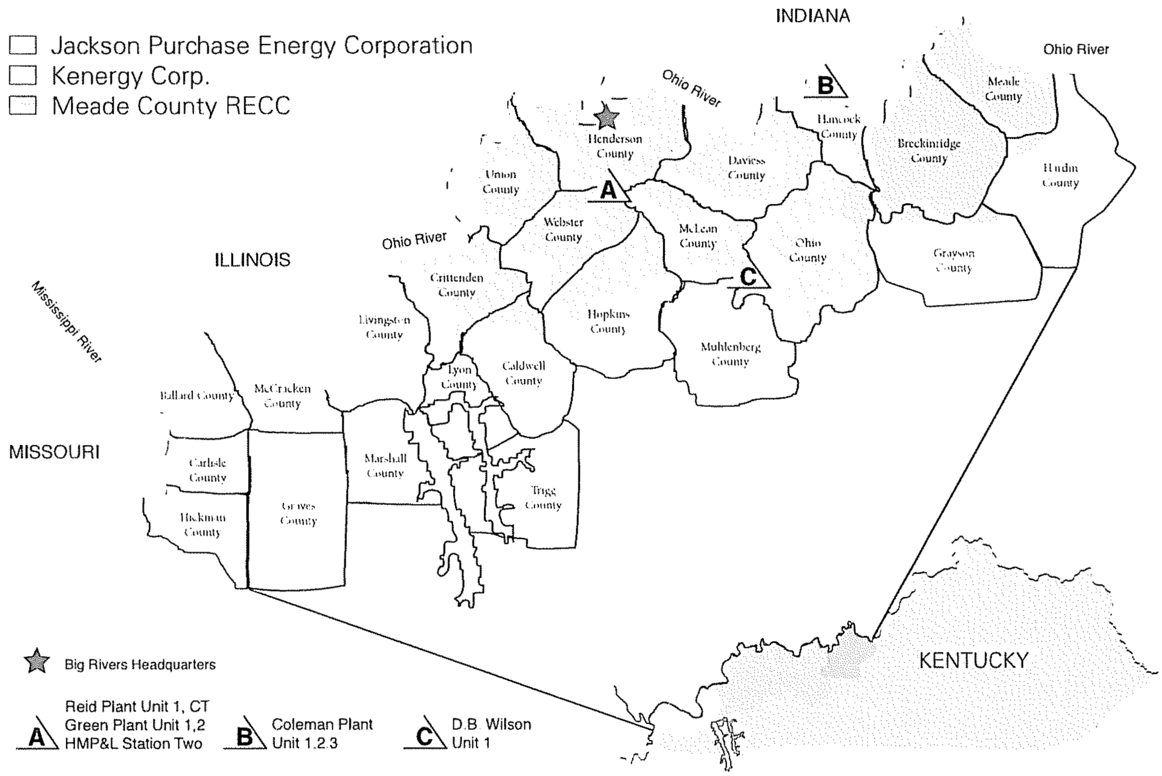
It's a new day ...

High voltage electric power is delivered to the member cooperatives over a system of 1,262 miles of transmission lines and 80 substations owned by Big Rivers or the distribution members. Twenty-two interconnects link our system with seven surrounding utilities.

Big Rivers is led by an experienced management team and is governed by a six-member board of directors. The board is comprised of two representatives from each distribution cooperative. We employ approximately 600 people at seven locations in Kentucky, who actively contribute to the communities we serve.

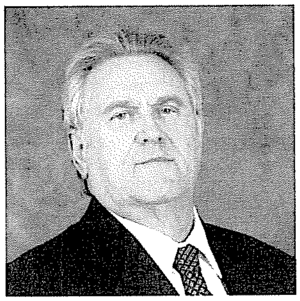
Constantly focused on the needs and local priorities of the member cooperatives, Big Rivers provides assistance in areas such as information technology, mapping and planning, safety programs and training, economic development, education and customer support services.

As long-standing members of Touchstone Energy®, Big Rivers and the member cooperatives pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Keeping the cost of electricity low and the reliability high has always been a priority.



Big Rivers
ELECTRIC CORPORATION

Member Cooperatives

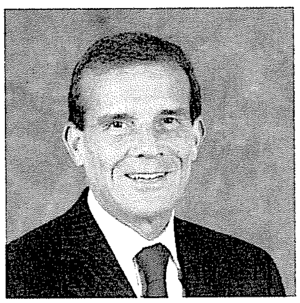

Kelly Nuckols, *President & CEO*
Jackson Purchase Energy Corporation

JACKSON PURCHASE ENERGY CORPORATION

(270) 442-7321
www.JPEnergy.com

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

Headquartered:	Paducah, KY
Number of meters:	29,147
Miles of line:	2,901

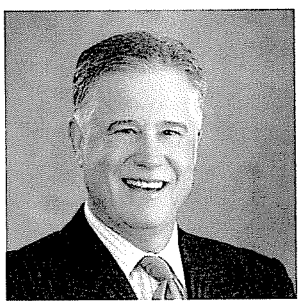

Sandy Novick, *President & CEO*
Kenergy Corp.

KENERGY CORP.

(800) 844-4832
www.kenergycorp.com

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

Headquartered:	Henderson, KY
Number of meters:	54,844
Miles of line:	7,009


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 meters:	28,005
Miles of line:	2,978

Board of Directors

Back row (left to right):

Dr. James Sills, *Vice-Chair*
Meade County RECC

Wayne Elliott
Jackson Purchase Energy Corporation

William Denton, *Chair*
Kenergy Corp.

Front row (left to right):

Lee Bearden, *Secretary-Treasurer*
Jackson Purchase Energy Corporation

Paul Edd Butler
Meade County RECC

Larry Elder
Kenergy Corp.

Management Team

Back row (left to right):

Albert Yockey, *V.P. Governmental Relations & Enterprise Risk Management*

David Crockett, *V.P. System Operations*

Paula Mitchell, *Executive Assistant*

Jennifer Keach, *Community Relations Manager*

James Miller, *Corporate Counsel*

James Haner, *V.P. Administrative Services*

Front row (left to right):

Robert Berry, *V.P. Production*

C. William Blackburn, *Senior V.P. Financial & Energy Services & Chief Financial Officer*

Mark Bailey, *President & CEO*

Mark Hite, *V.P. Accounting*

Message from the Board Chair and CEO

We will remember 2009 as one of important achievement for Big Rivers and our member cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County RECC. It was a year of challenge and celebration as many obstacles were overcome to reinvent ourselves as a financially strong electric generation and transmission cooperative.

Following years of work and intense negotiations, the much anticipated Unwind came to fruition in July of 2009. As a result of the lease termination agreement with E.ON U.S., Big Rivers' equities to total capitalization improved to 31 percent as of December 31, 2009, the strongest in the history of the company.

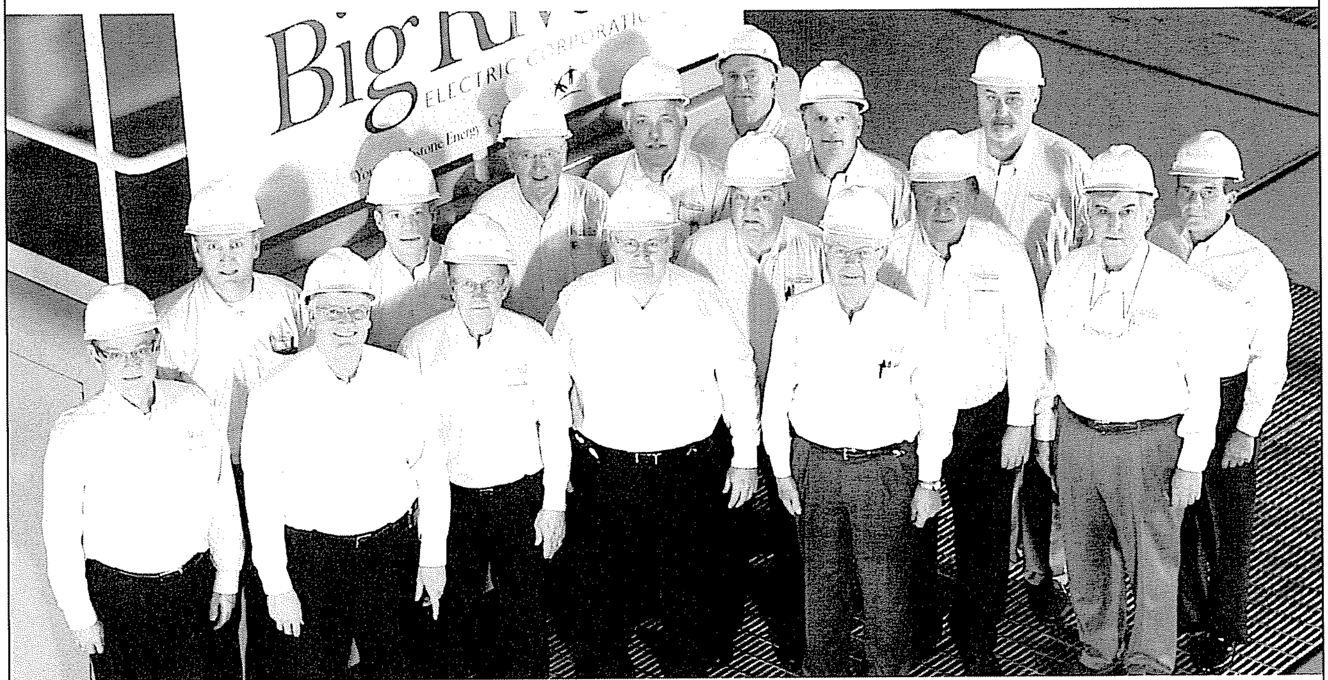
While the positive financial impact to our business was an important element of the Unwind, we had the task of resuming operation and maintenance responsibility for our generating stations as well as integrating employees, systems, and processes. Our strategic plan was developed to address those challenges. Big Rivers' corporate values will remain at the forefront as the company fulfills its mission to safely deliver low cost, reliable wholesale power and cost-effective shared services desired by our members. These values—teamwork, integrity, excellence, safety, member and community service, environmental consciousness, and respect for the employee—are the basis for much of the remainder of this report. Beyond our business strategy, Big Rivers will continue to thrive because of our culture, values and the dedication of our employees.

It is a new day at Big Rivers. We are proud to be part of this new company and look forward to serving our members and our communities in 2010 and beyond.

Bill Denton
William Denton
Chair, Board of Directors

Mark A. Bailey
Mark A. Bailey
President and CEO

Year in Review: 2009

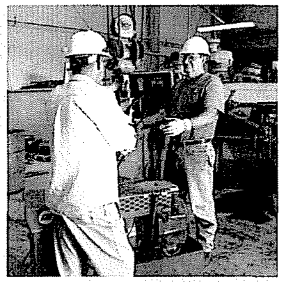


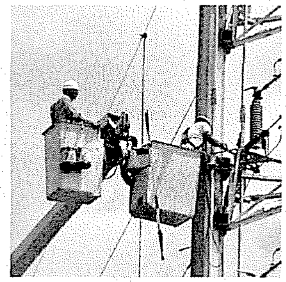
It's a new day at Big Rivers Electric Corporation, and we are looking forward with confidence and optimism. The increasing impact of government regulation, renewable energy, and increased power demand are all on the horizon. We are laying a foundation today, so we can continue to provide reliable, affordable electricity well into the future.

The Unwind

The Unwind was the term used for the transaction that ended the agreements under which E.ON U.S. subsidiary Western Kentucky Energy Corp. ("WKEC") had been operating the generating stations owned by Big Rivers.

Those agreements, originally signed in 1998, were set to run through 2023. However, both companies had been working for several years to "unwind" the arrangement. The transaction went through a meticulous review process and was completed in July 2009—after careful study by the Kentucky Public Service Commission, Big Rivers' creditors, member cooperatives, Henderson Municipal Power & Light and others.





Teamwork

To proactively enhance Big Rivers' reputation and build trust with members and other key stakeholders, we must maintain a well-trained, engaged workforce dedicated to the success of the member cooperatives. In the past year, teamwork has been a fundamental building block in our organizational transition.

When the Unwind transaction was completed, and the generating stations returned to Big Rivers' operational control, there was still much to be accomplished. Bringing systems, policies, procedures and employees together required organizational planning and a strong commitment to work together.

Some 468 employees of WKEC, many of whom worked for Big Rivers prior to the 1998 lease agreement, came back under the Big Rivers umbrella, many with new jobs and new responsibilities.

The transition went smoothly, and Big Rivers emerged as a financially strong electric generation and transmission cooperative. Immediate rate hikes were avoided that would have been otherwise necessary, and Big Rivers and the member cooperatives can now participate more competitively in economic development efforts throughout the western Kentucky region.

In addition to returning operation of the generating stations back to Big Rivers, the complex transaction included new long-term power contracts with Century Aluminum and Rio Tinto Alcan aluminum smelters.

The smelters' power contracts with sources outside of Big Rivers were set to expire in 2010/2011, leaving them with no long-term source of affordable energy. Without the closing of the Unwind transaction, the cost of power to the smelters would have likely risen to market rates, which could have potentially driven them out of business causing a loss of 1,200 local jobs.

Instead, long-term smelter contracts were tied to the successful closing of the Unwind. To help retain those jobs, Big Rivers and Kenergy Corp. now provide power to the smelters at affordable rates.

To efficiently manage the growing business, stabilize costs and provide better service, Big Rivers signed an eight-year contract with EDS, an HP Enterprise Services company, in 2009. EDS is installing Oracle software to improve the performance, quality and reliability of computer applications, and will also manage Big Rivers' workplace devices for approximately 600 employees, including PCs, notebooks and handheld devices.

The use of Oracle software affects all departments at Big Rivers, and successful implementation requires teamwork. However, the benefits will be many, including simplified business processes, consolidated records, lower maintenance costs, online tracking, reduced paper flow and streamlined approval processes. We will have this new Oracle Business Suite installed and operating by fall 2010.

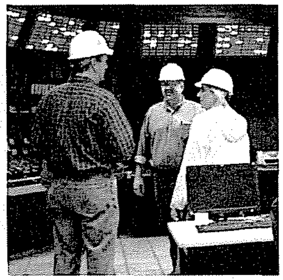
Integrity

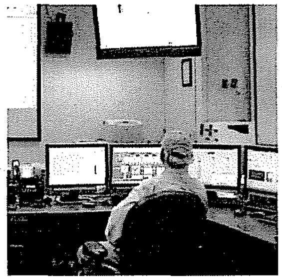
In today's marketplace, more than ever, transparency is critical to the procurement process. After Big Rivers regained operational control of our power generating facilities, it was important to find the best price to meet solid fuel requirements, while at the same time optimizing portfolio options.

For the first time in 12 years, Big Rivers went into the open market to procure solid fuel. Risk management is a vital factor in procurement. Processes and policies were designed to ensure cross-departmental participation, oversight, evaluation, review and concurrence of action.

Big Rivers' internal risk management committee, comprised of senior management, instituted solid fuel transaction authorization and hedge policies. Each month, this committee and the board of directors review and assess the solid fuel supply portfolio and inventory relative to the generation forecast to meet member load and marketplace opportunities.

Enterprise risk management strengthens corporate integrity, while enhancing corporate decision making. Big Rivers periodically reviews and updates policies and key performance indicators throughout the organization.





Excellence

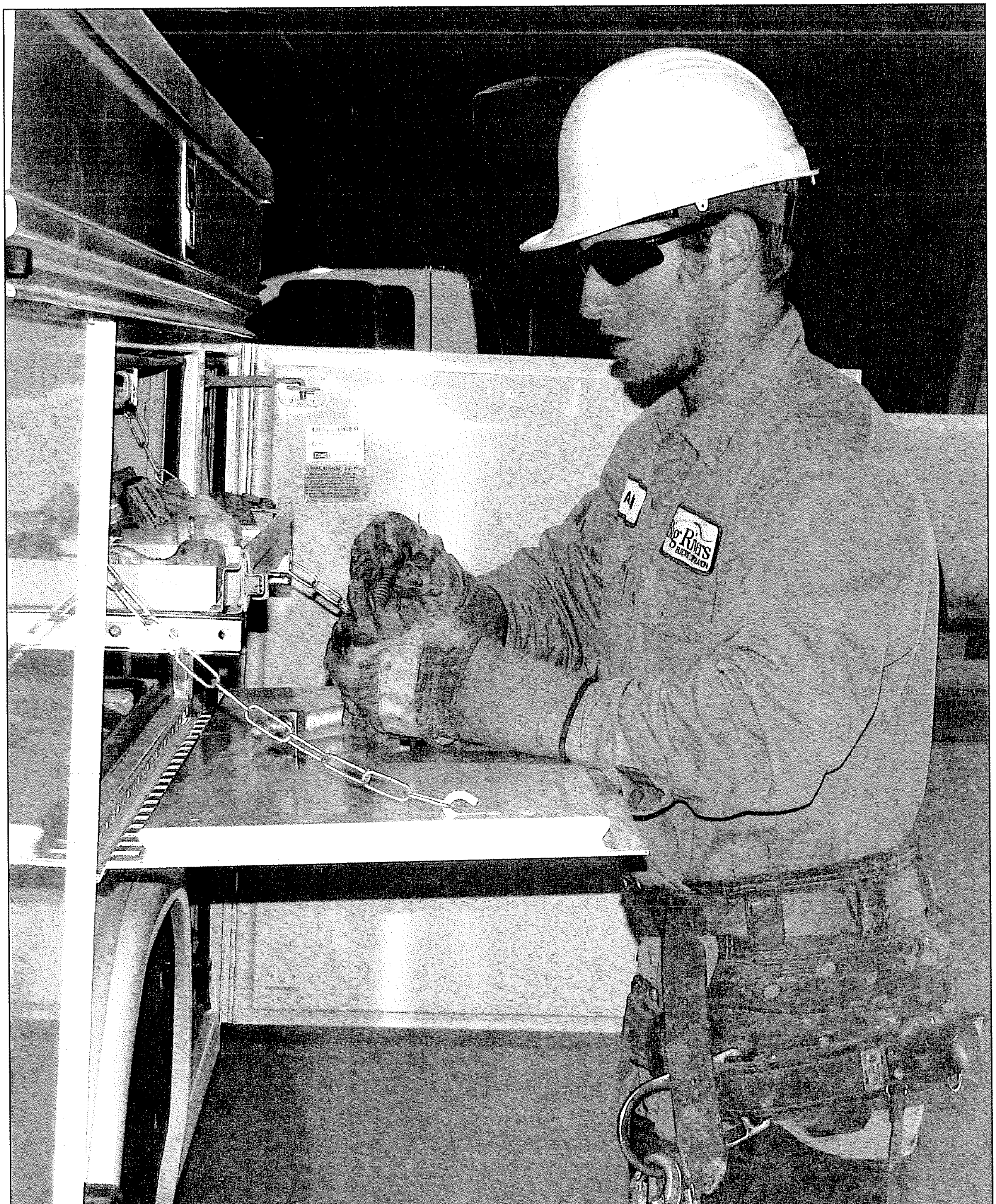
As a generation and transmission cooperative, it is our job to safely provide members with reliable, affordable electricity. To do this, we must proactively manage our assets and business growth to benefit all members and their member-consumers.

One measure of excellence in the electric industry is reliability. Big Rivers' Equivalent Forced Outage Rate, the percentage of time a generating unit is off-line unexpectedly, was 3.7 percent for 2009. This is better than the North American Electric Reliability Corporation ("NERC") industry average for comparable units, which is 6.9 percent.

To improve reliability at our D. B. Wilson facility, the station underwent the largest and most expensive planned maintenance outage in the history of the company, at a total cost of approximately $36 million. At the peak of the planned outage, more than 850 contract workers were on site and worked 413,026 hours. Big Rivers employees worked 108,444 hours during this outage with no recordable safety incidents.

Excellence means going above and beyond, even in times of disaster. In late January 2009, an ice storm described as Kentucky's "worst-ever natural disaster" struck with such breadth and force that all but two of the state's 24 electric cooperatives reported damage from the storm.

The storm rendered many roads impassable because of downed trees and, in some cases, downed utility lines. Big Rivers employees


Big Rivers

worked tirelessly in adverse conditions to restore the transmission system from the effects of the ice storm. Through teamwork and help from member cooperatives and contractors, all transmission service was restored in approximately eight days.

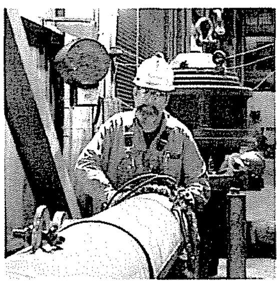
Reliability also depends on maintenance. In maintaining the Big Rivers system, especially substation equipment and transmission lines, we work to minimize outage risks. As part of an ongoing maintenance program, transmission employees inspected and treated 4,220 poles and replaced 125. They treated 367 miles of right-of-way land with herbicide and performed a full-width cut on 108 miles. Employees also tested 29 circuit breakers and 24 transformers, as well as 72 substation and transmission line switches. An aerial inspection of our transmission system was completed four times.

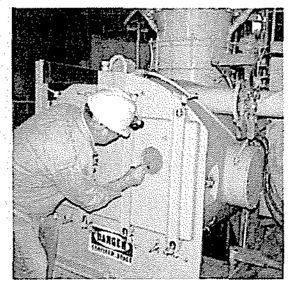
Several construction projects were also completed in 2009. Upgrades were made to secondary containment at the Hardinsburg and Meade County substations, in accordance with the Spill, Prevention, Control, and Countermeasure rule from the EPA. Two transmission lines were relocated at the request of the Kentucky Department of Transportation, and a 69kV line and terminal were added in McCracken County.

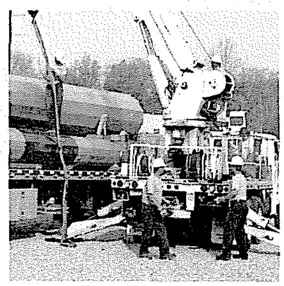
Utilities must maintain contingency reserve to meet compliance requirements of NERC and the Federal Energy Regulatory Commission ("FERC"). Big Rivers had met the reserve requirement through membership in the Midwest Contingency Reserve Sharing Group. This group, composed of Midwest Independent System Operator ("Midwest ISO") members and eleven other utilities, dissolved at the end of 2009, and Big Rivers needed to find an alternative.

In December 2009, Big Rivers agreed to pursue integration with the Midwest ISO as a transmission-owning member. The Midwest ISO has agreed to provide all required contingency reserve during the integration process. Big Rivers continues to actively evaluate other options.

In order to ensure the future integrity of power supply, the framework for tomorrow has to be designed today. That is why preparation is underway for a new integrated resource plan, which defines how we will meet the future energy needs of the member cooperatives. This includes evaluation of demand control, energy efficiency and energy conservation, as well as generation and transmission capital projects.







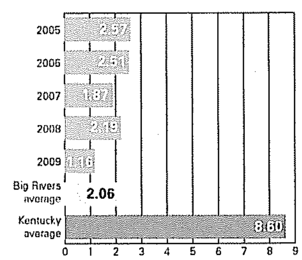
Safety

Safety is a way of life; therefore, no operating condition or urgency of service can ever justify putting employees or the public in harm's way. When the workday is over, we want every employee to return home in as good a condition as he or she arrived.

To ensure Big Rivers' safety goals are met, we developed a new comprehensive program that includes revised policy guidelines and emergency action plans and procedures. In addition, the program provides a process for reviewing the safety credentials of Big Rivers' contractors.

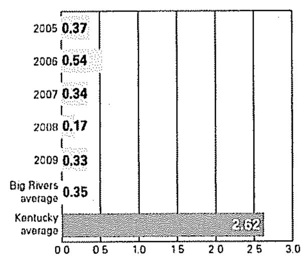
Safety practices benefit our collective well-being and financial strength. Employee injuries cause countless hours of pain and impact the organization's efficiency. By investing in safety training, we will save money by minimizing time lost to injury and reduce the company's

OSHA Recordable Incident Rate



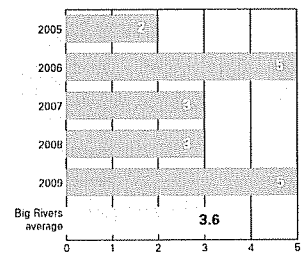
Incident Rate = # of incidents x 200,000 / # of hours worked

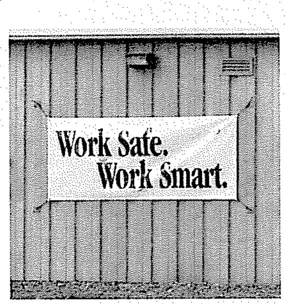
Lost-Time Incident Rate

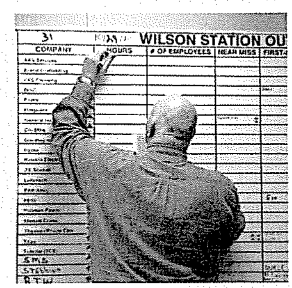


Incident Rate = # of incidents x 200,000 / # of hours worked

Number of Vehicle Incidents





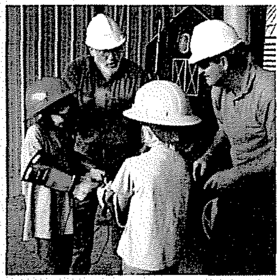


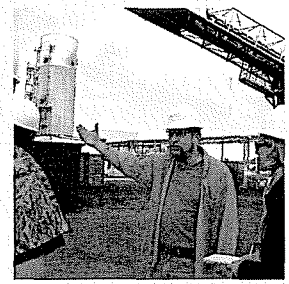
liability. The morale gained by employees as a result of training is another bonus that cannot be measured in dollars and cents.

To measure the effectiveness of our safety practices, our program includes the use of key performance indicators, goals and milestones, which quantify our progress.

The Kenneth C. Coleman Station in Hawesville is a shining example of how Big Rivers meets its safety goals. In January 2009, Coleman employees completed three years without a lost-time injury, and by the end of the year, posted an impressive 1,449 days with no lost-time injuries. During 2009, the Coleman Station received its eighth Governor's Safety Award for working 750,000 hours without a lost-time injury.

As Big Rivers continues to grow, our safety practices will evolve. We will continue to evaluate our safety initiatives and update them yearly. We do this because we believe that no matter where we stand, there is always room for improvement.





Member and Community Service

Big Rivers exists to serve three distribution cooperative members and their member-consumers. One way we do this is by assisting with the members' safety programs—ranging from topics such as OSHA required training to defensive driving programs through the National Safety Council. In addition, we provide public safety training for schools, fire departments and industries.

We also provide energy audits, power quality audits, power factor correction, operational assessments and on-site education for commercial and industrial member-consumers. Other programs offered by Big Rivers include energy efficiency initiatives for member-consumers, a sports role model program and additional youth outreach. Communication services include education, bill inserts, economic development, market research, training and web site development.

Big Rivers provides a significant portion of the members' information technology support, both hardware and software, including program development and maintenance in the areas of accounting and customer information. We support a geospatial information system and digital microwave system for the shared benefit of our operation and that of the member cooperatives. We continue to pursue development of a shared two-way radio communication system with some mobile data transfer capabilities.

By sharing governmental relations outreach with East Kentucky Power Cooperative and Kentucky Association of Electric Cooperatives, we have been able to establish effective procedures for monitoring legislative bills of interest to Big Rivers and the members.

We take pride in our reputation as an outstanding corporate citizen and contribute to many worthwhile organizations throughout the communities we serve. Employee involvement is key to our success as a community leader. Big Rivers employees volunteer countless hours to nonprofit and civic organizations where we work and live. Last year, our employees participated in a number of community fundraisers and efforts, including the March for Babies, Relay for Life,

Habitat for Humanity, chambers of commerce, food banks and blood drives.

The generosity of employees was most evident during the 2009 record-breaking United Way campaign. Big Rivers posted its largest employee contribution ever, donating nearly $150,000 to the cause. Working together, Big Rivers employees at Sebree Station (comprised of Robert A. Reid, Robert D. Green and HMP&L Station Two) achieved an 80 percent employee participation rate in the United Way campaign. More than 50 percent of Sebree Station employees contributed one hour of pay per month.

This outpouring of support is an example of Big Rivers exemplifying the cooperative principle of "concern for community."

Environmental Consciousness

Respect for the land, its inhabitants and its natural resources is important to Big Rivers. After all, we are named after the peaceful rivers that flow through our region.

The Promoting Our Wildlife & Energy Resources (POWER) program improves wildlife habitat and also helps control maintenance costs for transmission line corridors. The program involves offering free technical assistance and payments to landowners who complete pre-approved wildlife habitat practices in utility rights-of-way areas. In turn, these practices reduce utilities' need to manage vegetation. This program, conducted in partnership with the Kentucky Department of Fish and Wildlife Resources, is being tested as a pilot project in designated areas of the Big Rivers system.

The central laboratory located in Henderson, and the laboratories located at each generating station, excelled in annual evaluations conducted by Environmental Resource Associates. Each year, the industry-leading group provides unknown samples for laboratories to evaluate as a condition of the Kentucky Pollutant Discharge Elimination System permits. Test reports are sent to state and federal environmental protection agencies for their review. All Big Rivers laboratories scored excellent marks on all samples tested.

Respect For The Employee

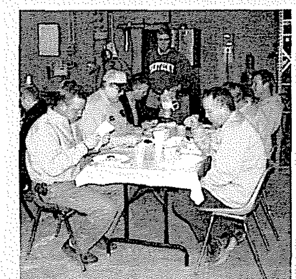
Big Rivers' success depends on the well-being of our employees. By keeping everyone safe and focused, we improve company morale and instill confidence in our mission.

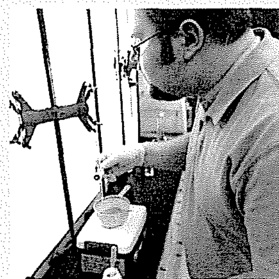
To ensure smooth management transitions through the future, we continue to refine our succession plan. Identifying and developing talent will help meet current and future staffing needs as our workforce ages.

Since the Unwind, we have improved our communication efforts through several avenues. To reflect a changing corporate culture, we involved employees in revamping our employee newsletter and intranet home page, which provides them a vested interest in the communication process. Timely updates are sent throughout the company, keeping internal stakeholders informed of events and items of interest affecting Big Rivers.

Corporate-wide employee meetings are held on a regular basis to provide two-way communication between employees and senior management on key areas, such as our strategic and safety plans. This open communication is essential to the success of our changing organization.

Big Rivers
ELECTRIC CORPORATION



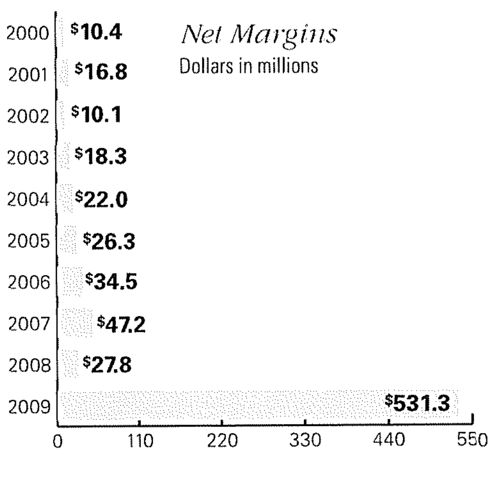


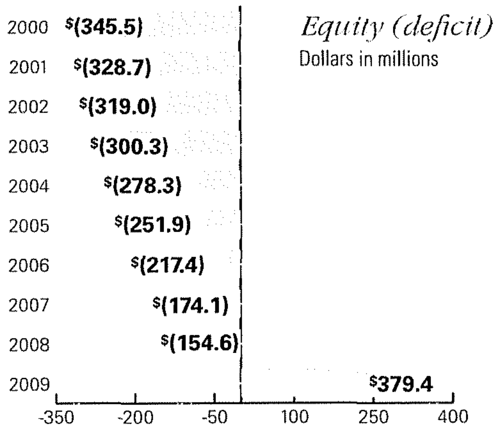
The completion of the Unwind was undoubtedly the major milestone of 2009, and the advantages gained by the transaction have left us in a stronger financial position than ever before. Though it took years to complete, the difference was felt overnight. We are prepared to use our resources and skills to adapt, innovate and serve as a model for excellence. As the world changes, Big Rivers looks forward to tomorrow and beyond.

Financial Review: 2009

After several years of activity, 2009 was the year of "unwinding" the 1998 agreements with certain subsidiaries of E.ON U.S.—including the lease and operating agreement whereby Western Kentucky Energy Corp. ("WKEC") operated Big Rivers' owned generating stations and HMP&L Station Two, and a power purchase agreement under which Big Rivers purchased the majority of its power needs from Louisville Gas and Electric Energy Marketing ("LEM").

Following conditional approval by the Kentucky Public Service Commission ("KPSC") on March 6, 2009, the Unwind transaction became effective at midnight on July 16, 2009. As a result, Big Rivers recorded a $538.0 million Unwind gain in the 2009 Statement of Operations for agreeing to terminate early the 1998 agreements, which were originally set to expire in 2023.





Net Margins and Equities

While the Unwind gain reported in the 2009 Statement of Operations was $538.0 million, an additional $217.9 million was reflected only in the Balance Sheet. This $217.9 million was deposited into two reserve accounts—the economic reserve and the rural economic reserve—to be used for member rate mitigation. These reserve accounts will serve to offset future non-smelter member fuel and environmental costs.

At close of the Unwind, Big Rivers resumed operation of its 1,444 MW owned generation and the 312 MW HMP&L Station Two. Big Rivers currently has rights to 212 MW of HMP&L Station Two that is surplus to the needs of Henderson Municipal Power & Light. Big Rivers also assumed the power supply obligation for Kenergy's two large aluminum smelter loads, whose full capacity is 850 MW; however, due to economic conditions, one of the smelters currently has one of their pot lines shut down.

Primarily due to the Unwind in 2009, net margins were $531.3 million versus $27.8 million in 2008—resulting in a dramatic improvement in Big Rivers' financial condition, with year end 2009 equities of $379.4 million and 25.2 percent equities to total assets.

See Note #2 on page 32 for a table that summarizes the $538.0 million Unwind gain shown in the Statement of Operations. The Unwind makes comparability of 2009 net margins to prior years difficult. The key differences between 2009 and 2008 are briefly described in the following paragraph.

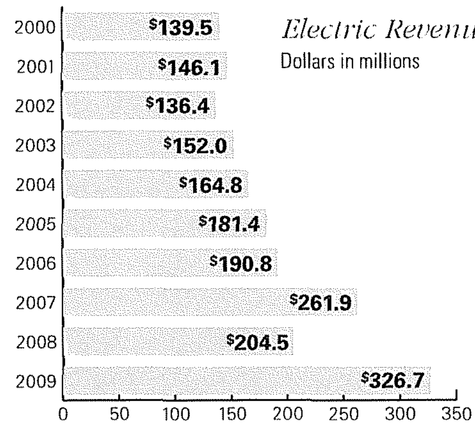
There are five significant items comprising the 2009 net margins variance versus 2008, which are tied to events that occured with the close of the Unwind transaction. First, power contracts revenue increased $126.6 million—primarily due to the increase in smelter power supply obligation that became effective with the Unwind—offset by an $83.2 million increase in variable power supply cost. Second, lease revenue was down $26.4 million, as it stopped accruing in July 2009 when the 1998 agreements terminated. Third, fixed operations and maintenance expenses increased $58.8 million—primarily because Big Rivers now funds the operation of its generating stations and its cost-share of HMP&L Station Two. Fourth, interest expense decreased $12.8 million—due to termination of the sale-leaseback that occurred during 2008 and the pay down of $140.2 million Rural Utilities Service ("RUS") debt on the Unwind closing date. Fifth, interest income decreased $11.9 million—due to termination of the sale-leaseback and lower interest rates. All other Statement of Operations items net to a $6.4 million favorable variance.

Electric Revenues

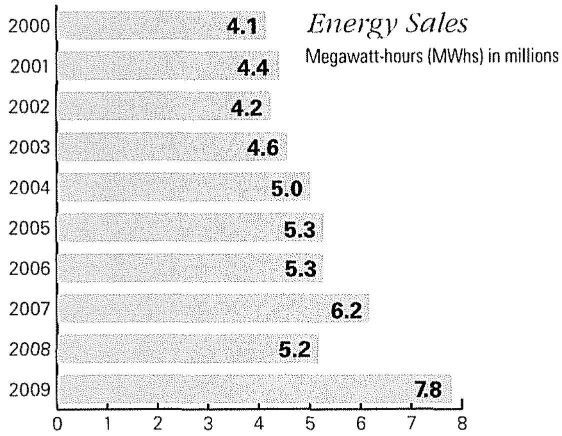
As a result of the Unwind, MWh sales increased to 7.8 million in 2009, up from 5.2 million MWh in 2008, and will increase significantly post-Unwind, when a full year of Unwind operations is reflected. The key difference for 2009 is the 2.9 million MWh sold to the smelters under their new contracts during the last 5.5 months, resulting in $133.4 million revenue.

Principally due to mild weather and a depressed economy, non-smelter member sales declined 153,677 MWh, or 4.64 percent, in 2009 from 2008. The mild weather resulted in unusually low load factors for the non-smelter member load, serving to increase the revenue per kWh sold. An element of the Unwind, noted earlier, is the use of certain Unwind proceeds, termed the economic reserve, to offset the prospective non-smelter member rate impact of fuel and environmental cost. That rate impact, reduced by the Unwind rate benefit, while reflected in revenue, is being withdrawn from the economic reserve rather than being invoiced to the non-smelter members. Overall, non-smelter member revenue increased $11.3 million or 9.88 percent from 2008.

Also, due to the mild weather and economy, the sale of Big Rivers' surplus energy, above the needs of the members, was down 98,238 MWh, or 5.33 percent, versus 2008. In addition to decline in volume, the surplus energy rate per MWh sold was 20.77 percent lower than in 2008. These two factors combined to cause this category of electric sales revenue to decline 24.99 percent.



Electric Revenues
Dollars in millions

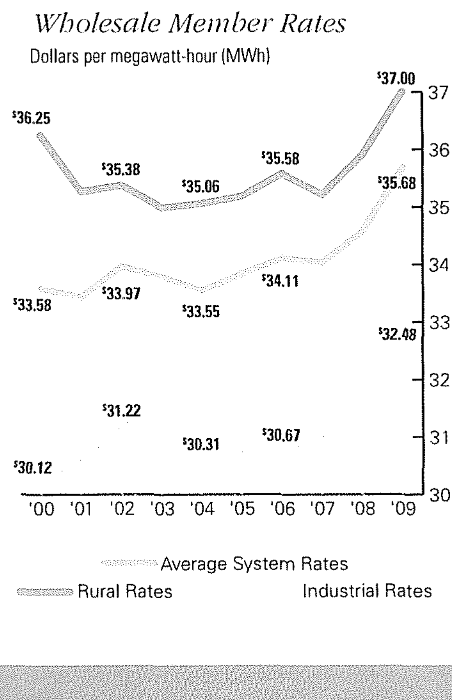


Wholesale Rates

Big Rivers' non-smelter member wholesale rates remain among the lowest in the nation. As Big Rivers' wholesale member rates have both a demand and an energy component, an individual member's rate is a function of its load factor. The mild weather and economy experienced during 2009 resulted in an average monthly rural load factor of 60.82 percent. Similarly, the average monthly large industrial load factor for 2009 was 74.10 percent. The rural rate per MWh sold and invoiced to the members in 2009 was $37.00, versus $35.90 in 2008. The large industrial rate in 2009 was $32.48, versus $31.12 in 2008. In comparing the 2009 rates to the 2008 rates, also note that—in addition to the lower load factor experienced in 2009—the 3.3 percent member rate discount adjustment, associated with the sale-leaseback, was terminated August 31, 2008. Big Rivers' all-requirements wholesale power contracts with the members were extended during 2009 and now terminate December 31, 2043. The new smelter wholesale power contracts with Kenergy terminate December 31, 2023. Big Rivers' wholesale member tariff rates are regulated by the KPSC.

Due to certain contractual provisions of the new smelter contracts that became effective July 16, 2009, Big Rivers' wholesale rate to Kenergy for its two large aluminum smelter loads—together comprising 850 MW at a 98 percent load factor when at full capacity—averaged $46.22 per MWh.

As noted earlier, Big Rivers markets its available capacity and energy—surplus to the needs of the members—to non-member utilities. Big Rivers is a member-owner of ACES Power Marketing and utilizes its services to market surplus power. During 2009, the continuing downturn in the economy that began in 2008, the drop in the price of natural gas, and a further decline in the wholesale power market, both volume and price, combined to adversely impact these other sales of electricity. Big Rivers sold its surplus capacity and energy at an average rate of $38.66 per MWh in 2009, versus $48.79 in 2008.



Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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, 2009 and 2008, and the related statements of operations, equities (deficit), and cash flows for each of the three years in the period ended December 31, 2009. 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 Big Rivers Electric Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, 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 26, 2010, on our consideration of Big Rivers Electric Corporation'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

March 26, 2010

Member of
Deloitte Touche Tohmatsu

Balance Sheets

As of December 31, 2009 and 2008 — (Dollars in thousands)

Assets

	2009	2008
UTILITY PLANT – Net	$ 1,078,274	$ 912,699
RESTRICTED INVESTMENTS – Member rate mitigation	243,225	–
OTHER DEPOSITS AND INVESTMENTS – At cost	5,342	4,693
CURRENT ASSETS:		
Cash and cash equivalents	60,290	38,903
Accounts receivable	47,493	20,464
Fuel inventory	37,830	–
Non-fuel inventory	20,412	756
Prepaid expenses	3,233	450
Total current assets	169,258	60,573
DEFERRED LOSS FROM TERMINATION OF SALE-LEASEBACK	–	76,001
DEFERRED CHARGES AND OTHER	9,384	20,470
TOTAL	$ 1,505,483	$ 1,074,436

Equities (Deficit) and Liabilities

	2009	2008
CAPITALIZATION:		
Equities (deficit)	$ 379,392	$ (154,602)
Long-term debt	834,367	987,349
Total capitalization	1,213,759	832,747
CURRENT LIABILITIES:		
Current maturities of long-term obligations	14,185	51,771
Purchased power payable	3,362	9,336
Accounts payable	30,657	5,832
Accrued expenses	9,864	3,134
Accrued interest	9,097	8,018
Total current liabilities	67,165	78,091
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	–	10,955
Residual value payments obligation	–	145,145
Regulatory liabilities – Member rate mitigation	207,348	–
Other	17,211	7,498
Total deferred credits and other	224,559	163,598
COMMITMENTS AND CONTINGENCIES (see note 14)		
TOTAL	$ 1,505,483	$ 1,074,436

See notes to financial statements.

Statements of Operations

For the years ended December 31, 2009, 2008 and 2007 — (Dollars in thousands)

	2009	2008	2007
POWER CONTRACTS REVENUE	$ 341,333	$ 214,758	$ 271,605
LEASE REVENUE	32,027	58,423	58,265
Total operating revenue	373,360	273,181	329,870
OPERATING EXPENSES:			
Operations:			
Fuel for electric generation	80,655	–	–
Power purchased and interchanged	116,883	114,643	169,768
Production, excluding fuel	22,381	–	–
Transmission and other	35,444	28,600	27,196
Maintenance	29,820	4,258	4,240
Depreciation and amortization	32,485	31,041	30,632
Total operating expenses	317,668	178,542	231,836
ELECTRIC OPERATING MARGIN	55,692	94,639	98,034
INTEREST EXPENSE AND OTHER:			
Interest	59,898	65,719	60,932
Interest on obligations related to long-term lease	–	6,991	9,919
Amortization of loss from termination of long-term lease	2,172	811	–
Income tax expense	1,025	5,934	–
Other – net	112	123	103
Total interest expense and other	63,207	79,578	70,954
OPERATING MARGIN	(7,515)	15,061	27,080
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	–	8,742	12,481
Gain on Unwind transaction (see Note 2)	537,978	–	–
Interest income and other	867	4,013	7,616
Total non-operating margin	538,845	12,755	20,097
NET MARGIN	$ 531,330	$ 27,816	$ 47,177

See notes to financial statements.

Statements of Equities (Deficit)

For the years ended December 31, 2009, 2008 and 2007 — (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Margin (Deficit)	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
BALANCE – December 31, 2006	$ (217,371)	$ (221,816)	$ 764	$ 3,681	$ –
Net margin/ total comprehensive income	47,177	47,177	–	–	–
FAS 158 adoption	(3,943)	–	–	–	(3,943)
BALANCE – December 31, 2007	(174,137)	(174,639)	764	3,681	(3,943)
Comprehensive income:					
Net margin	27,816	27,816	–	–	–
FAS 158 funded status adjustment	(8,281)				(8,281)
Total comprehensive income	19,535				
BALANCE – December 31, 2008	(154,602)	(146,823)	764	3,681	(12,224)
Comprehensive income:					
Net margin	531,330	531,330	–	–	–
FAS 158 funded status adjustment	2,664				2,664
Total comprehensive income	533,994				
BALANCE – December 31, 2009	$ 379,392	$ 384,507	$ 764	$ 3,681	$ (9,560)

See notes to financial statements.

Statements of Cash Flows

For the years ended December 31, 2009, 2008 and 2007 — (Dollars in thousands)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 531,330	$ 27,816	$ 47,177
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	37,084	34,320	33,866
Increase in restricted investments under long-term lease	–	(2,502)	(6,242)
Decrease in deferred AMT Income Taxes	–	5,035	–
Amortization of deferred loss (gain) on sale-leaseback – net	2,172	(1,187)	(2,900)
Deferred lease revenue	(3,768)	(4,582)	(1,779)
Residual value payments obligation gain	(3,881)	(6,748)	(6,591)
Increase in RUS Series B Note	6,136	5,841	5,572
Increase in RUS Series A Note	–	–	15,761
Increase in obligations under long-term lease	–	2,749	6,580
Noncash gain on Unwind transaction	(269,441)	–	–
Cash received for Member Rate Mitigation	217,856	–	–
Noncash Member Rate Mitigation revenue	(12,033)	–	–
Changes in certain assets and liabilities:			
Accounts receivable	(26,049)	6,218	(8,934)
Inventories	(3,497)	12	43
Prepaid expenses	(2,783)	(319)	3,477
Deferred charges	(1,538)	1,871	(2,429)
Purchased power payable	(5,973)	(3,702)	3,818
Accounts payable	24,825	899	1,566
Accrued expenses	7,881	327	1,033
Other – net	6,852	(4,940)	(5,465)
Net cash provided by operating activities	505,173	61,108	84,553
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(58,388)	(22,760)	(18,682)
Proceeds from disposition of investments related to sale-leaseback	–	222,739	–
Proceeds from restricted investments	8,982	–	–
Purchases of restricted investments and other deposits & investments	(252,798)	(401)	(424)
Net cash provided by (used in) investing activities	(302,204)	199,578	(19,106)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(168,956)	(40,838)	(12,676)
Principal payments on short-term notes payable	(12,380)	–	–
Payments upon termination of sale-leaseback	–	(329,859)	–
Debt issuance cost on bond refunding	(246)	–	–
Net cash used in financing activities	(181,582)	(370,697)	(12,676)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,387	(110,011)	52,771
CASH AND CASH EQUIVALENTS—Beginning of year	38,903	148,914	96,143
CASH AND CASH EQUIVALENTS—End of year	$ 60,290	$ 38,903	$ 148,914
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 51,078	$ 74,819	$ 45,600
Cash paid for income taxes	$ 626	$ 1,220	$ 420

See notes to financial statements.

Notes to Financial Statements

As of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009 — (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"). Additionally, Big Rivers sells power under separate contracts to Kenergy Corp. for 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 remain in effect until December 31, 2043. 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 FASB ASC 980, *Certain Types of Regulation*, which was adopted by the Company in 2003, and gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

In 1999, Big Rivers Leasing Corporation (BRLC) was formed as a wholly owned subsidiary of Big Rivers. BRLC's principal assets were the restricted investments acquired in connection with the 2000 sale-leaseback transaction discussed in Note 4. The sale-leaseback transaction was terminated on September 30, 2008 and BRLC was dissolved on July 16, 2009, in conjunction with the Unwind Transaction.

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' maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These regulatory agencies retain authority and periodically issue orders on various accounting and ratemaking matters. Adjustments to RUS accounting have been made to make the financial statements consistent with generally accepted accounting principles in the United States of America.

Revenue Recognition — Revenues generated from the Company's wholesale power contracts are based on month-end meter readings and are recognized as earned. Prior to its termination, in accordance with FASB ASC 840, *Leases*, Big Rivers' revenue from the Lease Agreement was 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).

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.

Prior to July 17, 2009, the Effective Date of the Unwind Transaction (see Note 2), and in accordance with the terms of the Lease Agreement, the Company generally recorded 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 maintained title. A corresponding obligation to E.ON U.S. was recorded for the estimated portion of these additions attributable to the Residual Value Payments (see Note 2). A portion of this obligation was amortized to lease revenue over the useful life of those assets during the remaining lease term. For the years ended December 31, 2009 and 2008, the Company recorded $5,557 and $10,728, respectively, for such additions in utility plant. The Company recorded $3,881, $6,748, and $6,591 in 2009, 2008, and 2007, respectively, as related lease revenue in the accompanying financial statements. All amounts recorded for 2009 reflect the period prior to the Effective Date of the Unwind Transaction. Under the terms of the Unwind Transaction, E.ON U.S. waived their right to the Residual Value Payment, and the Company recognized a gain.

In accordance with the Lease Agreement, and in addition to the capital costs funded by E.ON U.S. (see Note 2) that were recorded by the Company as utility plant and lease revenue, E.ON U.S also incurred certain Nonincremental Capital Costs and Major Capital Improvements (as defined in the Lease Agreement) for which they waived rights to a Residual Value Payment by Big Rivers upon lease termination. Such amounts were not recorded as utility plant or lease revenue by the Company during the lease. In connection with the Unwind Transaction the Company recognized a gain of $19,679 for the Nonincremental Capital assets for which E.ON had waived rights to.

E.ON U.S. constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The Company acquired the Coleman scrubber at no cost under the terms of the Unwind Transaction, recognizing a gain of $98,500 in 2009.

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 2009, 2008, and 2007, the average composite depreciation rates were 1.85%, 1.85%, and 1.85%, 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 FASB ASC 360, *Property, Plant, and Equipment* as it relates to impairment of long-lived assets. FASB ASC 360 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. FASB ASC 360 requires the evaluation of impairment by comparing 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 KPSC order to establish certain reserve funds for member rate mitigation in conjunction with the Unwind Transaction. These investments have been classified as held-to-maturity and are carried at amortized cost (see Note 10).

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 files a Federal income tax return and a 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.

Derivatives — Management has reviewed the requirements of FASB ASC 815, *Derivatives and Hedging*, and has determined that all contracts meeting the definition of a derivative also qualify for the normal purchases and sales exception under FASB ASC 815. 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.

Fair value measurements —The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-Level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

- Level 1 — quoted prices in active markets for identical assets or liabilities

- Level 2 — observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data; and

- Level 3 — unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

New Accounting Pronouncements — FASB ASC 815, *Derivatives and Hedging,* issued in March 2008, establishes enhanced disclosure requirements concerning derivative instruments and hedging activities. This enhanced disclosure standard requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation in order to better convey the purpose of derivative use in terms of the risks that the entity is intending to manage. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB ASC 815 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This standard of FASB ASC 815 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company adopted this standard of FASB ASC 815 on January 1, 2009, with no impact to the Company's financial statements.

FASB ASC 855, *Subsequent Events,* establishes a standard for disclosure of events that occur during the period between the balance sheet date and the date on which the financial statements are issued. This standard of FASB ASC 855 is effective for interim or annual financial periods ending after June 15, 2009. The Company has adopted the disclosure requirements for subsequent events as outlined in ASC 855 and management evaluated subsequent events up to and including March 26, 2010, the date the financial statements were available to be issued.

FASB ASC 105, *Generally Accepted Accounting Principles,* provides a Codification of accounting standards that supersedes all previously existing non-SEC accounting and reporting standards and becomes the authoritative source of U.S. generally accepted accounting principles (GAAP). This standard of FASB ASC 105 is effective for annual financial statements issued after September 15, 2009. The Company has adopted the Accounting Standard Codification (ASC) established by FASB ASC 105.

2. LG&E LEASE AGREEMENT

Big Rivers, E.ON U.S. LLC ("E.ON"), Western Kentucky Energy Corporation ("WKEC"), and LG&E Energy Marketing ("LEM"), closed effective July 17, 2009, a transaction resulting in a mutually acceptable early termination of the 1998 LG&E Lease Agreement (referred herein as the "Unwind Transaction" or "Unwind"). E.ON, WKEC, and LEM are collectively referred to in the Notes as "E.ON Entities." This transaction was approved by the KPSC and the RUS. The Unwind Transaction resulted in Big Rivers recognizing a net gain of $537,978. This transaction resulted in the acquisition of assets, the assumption of liabilities, the forgiveness of liabilities, and the establishment of a regulatory reserve prescribed by the KPSC in their approval of the transaction. Assets and liabilities in the unwind transaction were accounted for at fair value or recorded value, as appropriate. The gain from the Unwind Transaction is summarized as follows:

	Unwind Gain
Assets received:	
Cash	$506,675
Coleman scrubber	98,500
Inventory	55,000
Construction in progress	23,074
Utility plant assets	19,679
SO2 allowances	980
Liabilities (assumed) forgiven:	
Economic Reserve	(157,000)
Rural Economic Reserve	(60,856)
Post-retirement benefits liability	(8,768)
Residual value payments obligation	145,251
LEM Settlement Note	15,440
Recognition of (expenses) income:	
Deferred lease income	7,187
Deferred loss from termination of sale/leaseback	(73,829)
Deferred loss from LEM Marketing Payment/Settlement Note	(14,520)
Unwind transaction costs	(18,991)
Other	156
Gain on unwind transaction	$537,978

The terms of the LG&E Lease Agreement as originally structured are outlined in the following text.

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 operated the generating facilities and maintained 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 purchased 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 continued to operate its transmission facilities and charged LEM tariff rates for delivery of the energy produced by WKEC and consumed by LEM's customers. The significant terms of the Lease Agreement were as follows:

a. WKEC was to lease and operate Big Rivers' generation facilities through 2023.

b. Big Rivers retained ownership of the generation facilities both during and at the end of the lease term.

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

d. 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 FASB ASC 840, *Leases*, the Company amortized these payments to revenue on a straight-line basis over the life of the lease.

e. Big Rivers continued 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 obtained 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 was served by LEM and other third-party providers that included Big Rivers. To the extent the power purchased from LEM did not reach pre-determined minimums, the Company was required to pay certain penalties. Also, to the extent additional power was available to Big Rivers under the LEM contract, Big Rivers made sales to nonmembers.

f. LEM reimbursed Big Rivers the margins expected from the Aluminum Smelters, 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").

g. WKEC was responsible for the operating costs of the generation facilities; however, Big Rivers was 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. At the end of the lease term, Big Rivers was obligated to fund a "Residual Value Payment" to E.ON U.S. for such capital additions during the lease (see Note 1). Adjustments to the Residual Value Payment were made based upon actual capital expenditures. Additionally, WKEC made required capital improvements to the facilities to comply with new laws or a changes to existing laws ("Incremental Capital Costs") over the lease life (the Company was partially responsible for such costs: 20% through 2010) and the Company was required to submit another Residual Value Payment to E.ON U.S. for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease. The Company had title to these assets during the lease and upon lease termination.

h. 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, with an interest rate 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 was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

i. On the Effective Date, Big Rivers paid a nonrefundable marketing payment of $5,933 to LEM, which was recorded as a component of deferred charges. This amount was amortized on a straight-line basis up to the Effective Date of the Unwind Transaction.

j. During the lease term, Big Rivers was entitled to certain "billing credits" against amounts the Company owed 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 was to receive a credit of $2,611 and for the years 2012 through 2023, the Company was to receive a credit of $4,111 annually.

In accordance with the power purchase agreement with LEM, the Company was allowed to purchase power in the open market rather than from LEM, incurring penalties when the power purchased from LEM did 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 had to be divided as follows. one-third, adjusted for capital expenditures, was used to make principal payments on the New RUS Promissory Note; one-third was used to make principal payments on the RUS ARVP Note; and the remaining value was retained by the Company.

3. UTILITY PLANT

At December 31, 2009 and 2008, utility plant is summarized as follows:

	2009	2008
Classified plant in service:		
Production plant	$1,675,733	$ -
Electric plant — leased	-	1,535,004
Transmission plant	236,639	230,800
General plant	18,201	17,240
Other	543	543
	1,931,116	1,783,587
Less accumulated depreciation	908,099	879,073
	1,023,017	904,514
Construction in progress	55,257	8,185
Utility plant — net	$1,078,274	$912,699

Interest capitalized for the years ended December 31, 2009, 2008, and 2007, was $133, $492, and $391, respectively.

The Company has not identified any material legal asset retirement obligations, as defined in FASB ASC 410, *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, 2009 and 2008, the Company had a regulatory liability of approximately $35,835 and $32,696, 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 provided 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, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were $222,739 and $329,559, respectively, reflecting a net cash payment of $107,120. To meet its remaining obligations Big Rivers' entered into a $12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of $77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and was amortized up to the Effective Date of the Unwind Transaction, with the balance of the regulatory asset reflected as an offset to the gain recognized from the Unwind Transaction.

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, 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. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 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 was amortized up to the date of lease termination, with the Company recognizing $1,998, and $2,900, in 2008, and 2007, respectively.

The Amount recognized in the statement of financial position related to the sale-leaseback as of December 31, 2008, is as follows:

Deferred loss from termination of sale-leaseback	$76,001

The unamortized balance of the deferred loss was recognized in 2009 in conjunction with the unwind transaction described in Note 2 based on agreement with the KPSC.

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2008, and 2007, are as follows:

	2008	**2007**
Power contracts revenue (revenue discount adjustment — see Note 6)	$(2,453)	$(3,680)
Interest on obligations related to long-term lease:		
Interest expense	8,989	12,819
Amortize gain on sale-leaseback	(1,998)	(2,900)
Net interest on obligations related to long-term lease	$6,991	$9,919
Interest income on restricted investments under long-term lease	$8,742	$12,481
Interest income and other	$779	$778

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2009 and 2008, is as follows:

	2009	2008
RUS Series A Promissory Note, stated amount of, $599,462, stated interest rate of 5.75%, with an interest rate of 5.84%, maturing July 2021	$596,786	$ -
New RUS Promissory Note, stated amount of, $768,391, stated interest rate of 5.75%, with an interest rate of 5.82%, maturing July 2021	-	765,297
RUS Series B Note, stated amount of $245,530, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	109,666	-
RUS ARVP Note, stated amount of $245,899, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	-	103,685
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments	-	15,658
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 10.50% and 8.95% in 2009 and 2008, respectively), maturing in October 2022	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.22% and 5.14% in 2009 and 2008, respectively), maturing in June 2013	58,800	58,800
PMCC Promissory Note with an interest rate of 8.5%	-	12,380
Total long-term debt	848,552	1,039,120
Current maturities	14,185	51,771
Total long-term debt — net of current maturities	$834,367	$987,349

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

Year	Amount
2010	$14,185
2011	14,850
2012	76,081
2013	79,278
2014	21,678
Thereafter	642,480
Total	$848,552

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 5.82%. On the Unwind Closing Date, the New RUS Note and the ARVP Note were replaced with the RUS 2009 Promissory Note Series A and the RUS 2009 Promissory Note Series B, respectively. After an Unwind Closing Date payment of $140,181, the RUS 2009 Promissory Note Series A is recorded at an interest rate of 5.84%. The RUS 2009 Series B Note is recorded at an imputed interest rate of 5.80%. The RUS Notes are collateralized by substantially all assets of the Company and secured by the Indenture dated July 1, 2009 between the Company and U.S. Bank National Association.

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. Both Series are secured by the Indenture dated July 1, 2009 between the company and U.S. Bank National Association.

These instruments are subject to maximum interest rates of 13% and 18%, respectively. The December 31, 2009 interest rates on the Series 1983 and Series 2001 Pollution Control Bonds were 3.25% and 4.50%, respectively.

LEM Settlement Note — On July 15, 1998 Big Rivers executed the Settlement Note with LEM. The Settlement Note required Big Rivers to pay to LEM $19,676, plus interest at 8% per annum over the lease term. The principal and interest payment was approximately $1,822 annually. On the Unwind Closing Date, in connection with the Unwind Transaction the remaining balance on the Settlement Note in the amount of $15,440 was forgiven.

PMCC Promissory Note — On September 30, 2008 in conjunction with the early termination of the sale-leaseback transaction (see Note 4), Big Rivers executed a promissory note with Phillip Morris Capital Corporation (PMCC). The note required Big Rives to pay PMCC $12,380, plus interest at 8.5% per annum. On the Unwind Closing Date Big Rivers repaid the $12,380 principal amount. At December 31, 2009 the Company had no remaining liability associated with this promissory note.

Notes Payable — Notes payable represent the Company's borrowing on its line of credit with the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank, ACB (CoBank). The maximum borrowing capacity on the lines of credit is $100,000 consisting of $50,000 each for CFC and CoBank. There were no borrowings outstanding on the line of credit at December 31, 2009, however letter of credits issued under an associated Letter of Credit Facility with CFC reduced the borrowing capacity by $5,654. Advances on the CFC line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2014. Advances on the CoBank line of credit bear interest at a variable rate and outstanding balances are payable in full by the maturity date of July 16, 2012.

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 demand and energy charges 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. Each members rural demand charge is based upon the maximum coincident demand of their rural delivery points.

Prior to the Unwind Transaction the demand and energy charges were not subject to adjustments for increases or decreases in fuel or environmental costs. In conjunction with the Unwind Transaction, the KPSC approved the implementation of certain tariff riders, including a fuel adjustment clause and an environmental surcharge, offset by an unwind surcredit (a refund to tariff members of certain charges collected from the Aluminum Smelter in accordance with the contract terms). The net effect of these tariffs is recognized as revenue on a monthly basis with an offset to the regulatory liability – member rate mitigation described below.

The net impact of the tariff riders to members rates is currently mitigated by a Member Rate Stability Mechanism (MRSM) that was funded by certain cash amounts received from the E.ON Entities in connection with the Unwind

Transaction (the Economic and Rural Economic Reserves) and held by Big Rivers as restricted investments. An offsetting regulatory liability – member rate mitigation was established with the funding of these accounts. Big Rivers is required to file a rate case with the KPSC within three years of the unwind or July 2012.

Effective since September 1, 2000, and continuing through August 31, 2008, the KPSC approved Big Rivers' request for a $3,680 annual revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. On September 1, 2008, Big Rivers' discontinued the revenue discount adjustment to its members in conjunction with the sale-leaseback termination.

7. INCOME TAXES

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.

Under the provisions of FASB ASC 740, *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. 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. Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more-likely-than-not recognition threshold is satisfied and measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

As a result of the sale-leaseback terminations in 2008 (see Note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted solely of Alternative Minimum Tax (AMT) credit carryforwards). An income statement charge of $5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of $900 relating to the 2008 AMT obligation were recorded in the Statement of Operations for 2008. An AMT charge of $1,025 was recorded in the Statement of Operations for 2009.

At December 31, 2009, Big Rivers had a nonpatron net operating loss carryforward of approximately $53,138 expiring through 2012, and an alternative minimum tax credit carryforward of approximately $7,052, which carries forward indefinitely.

The Company has not recorded any regular income tax expense for the years ended December 31, 2009, 2008 and 2007, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $19,619, $20,363, and $7,724 in current regular tax expense for the years ended December 31, 2009, 2008 and 2007, respectively.

The components of the net deferred tax assets as of December 31, 2009 and 2008, were as follows:

	2009	2008
Deferred tax assets:		
Net operating loss carryforward	$20,990	$40,609
Alternative minimum tax credit carryforwards	7,052	5,935
Member Rate Mitigation	10,326	-
Fixed asset basis difference	11,420	33,786
Total deferred tax assets	49,788	80,330
Deferred tax liabilities — ARVP Note	(23,793)	(25,384)
Net deferred tax asset (prevaluation allowance)	25,995	54,946
Valuation allowance	(25,995)	(54,946)
Net deferred tax asset	$ -	$ -

A reconciliation of the Company's effective tax rate for 2009, 2008 and 2007, follows:

	2009	2008	2007
Federal rate	35.0 %	35.0 %	35.0 %
State rate — net of federal benefit	4.5	4.5	4.5
Patronage allocation to members	(35.4)	(31.3)	(28.0)
Tax benefit of operating loss carryforwards and other	(4.1)	(8.2)	(11.5)
Alternative minimum tax	0.2	18.0	-
Effective tax rate	0.2 %	18.0 %	- %

The Company files a federal income tax return, as well as several state income tax returns. The years currently open for federal tax examination are 2005 through 2009 and 1990 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2002 through 2009 and years 1990 through 1997, also due to unused net operating loss carryforwards. The Company has not recorded any unrecognized tax benefits or liabilities related to federal or state income taxes.

The Company classifies interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No interest or penalties have been recorded during 2007, 2008, or 2009.

8. POWER PURCHASED

Prior to the Unwind Transaction and in accordance with the Lease Agreement, Big Rivers supplied 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 included minimum and maximum hourly and annual power purchase amounts. Big Rivers could not 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 failed to take the minimum requirement during any hour or year, Big Rivers was 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 was required by the Lease Agreement to purchase minimum hourly and annual amounts of power from LEM, the lease did 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, 2009, 2008, and 2007, were $51,592, $99,700, and $96,295, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

Defined Benefit Plans — Big Rivers has noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements and who were employed by the Company prior to the plans closure dates cited below. 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 salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

The Company has adopted FASB ASC 715, *Defined Benefit Plans,* including the requirement to recognize the funded status of its pension plans and other postretirement plans (see Note 12 — Postretirement Benefits Other Than Pensions). FASB ASC 715 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

FASB ASC 715 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2009 and 2008.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2009 and 2008, follows:

	2009	**2008**
Benefit obligation — beginning of period	$24,253	$19,889
Service cost — benefits earned during the period	1,241	1,072
Interest cost on projected benefit obligation	1,466	1,220
Participant contributions (lump sum repayment)	40	318
Plan settlements	262	-
Benefits paid	(3,945)	(248)
Actuarial loss	2,176	2,002
Benefit obligation — end of period	$25,493	$24,253

The accumulated benefit obligation for all defined benefit pension plans was $18,630 and $18,568 at December 31, 2009 and 2008, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2009 and 2008, follows:

	2009	2008
Fair value of plan assets — beginning of period	$20,295	$21,820
Actual return on plan assets	4,820	(5,095)
Employer contributions	1,060	3,500
Participant contributions (lump sum repayment)	40	318
Benefits paid	(3,945)	(248)
Fair value of plan assets — end of period	$22,270	$20,295

The funded status of the Company's pension plans at December 31, 2009 and 2008, follows:

	2009	*2008*
Benefit obligation — end of period	$(25,493)	$(24,253)
Fair value of plan assets — end of period	22,270	20,295
Funded status	$(3,223)	$(3,958)

Components of net periodic pension costs for the years ended December 31, 2009, 2008, and 2007, were as follows:

	2009	2008	2007
Service cost	$1,241	$1,072	$958
Interest cost	1,466	1,220	1,058
Expected return on plan assets	(1,332)	(1,516)	(1,167)
Amortization of prior service cost	19	19	19
Amortization of actuarial loss	834	247	285
Settlement loss	1,690	-	-
Net periodic benefit cost	$3,918	$1,042	$1,153

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2009 and 2008, follows:

	2009	2008
Prior service cost	$ (59)	$ (78)
Unamortized actuarial (loss)	(9,651)	(13,226)
Accumulated other comprehensive income	$(9,710)	$(13,304)

In 2010, $19 of prior service cost and $560 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2009 and 2008, follows:

	2009	**2008**
Prior service cost	$ 19	$ 19
Unamortized actuarial (loss)	3,575	(8,365)
Other comprehensive income	$3,594	$(8,346)

At December 31, 2009 and 2008, amounts recognized in the statement of financial position were as follows:

	2009	**2008**
Deferred credits and other	$(3,223)	$(3,958)

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2009	**2008**	**2007**
Discount rate — projected benefit obligation	5.59 %	6.38 %	6.25 %
Discount rate — net periodic benefit cost	6.38	6.25	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	7.25

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%.

Big Rivers utilizes a third party investment manager for the plan assets, and has communicated thereto the Company's Retirement Plan Investment Policy, including a target asset allocation mix of 50% U.S. Equities (an acceptable range of 45-55%), 15% International Equities (an acceptable range of 10-20%), and 35% fixed income (an acceptable range of 30-40%). As of December 31, 2009 and 2008, the investment allocation was 55% and 40%, respectively, in U.S. Equities, 11% and 7%, respectively, in International Equities, and 34% and 53%, respectively, in fixed income. The objective of the investment program seeks to (a) maximize return on investment, (b) minimize volatility, (c) minimize company contributions, and (d) provide the employee benefit in accordance with the plans. The portfolio is well diversified and of high quality. The average quality of the fixed income investments must be "A" or better. The Equity portfolio must also be of investment grade quality. The performance of the investment manager is reviewed semi-annually.

At December 31, 2009, the fair value of Big Rivers' defined benefit pension plan assets by asset category are as follows:

	Level 1	Level 2	Total
Cash and Money Market	$ 815	$ -	$ 815
Equity Securities:			
U.S. large-cap stocks	8,580	-	8,580
U.S. mid-cap stock mutual funds	2,064	-	2,064
U,S. small-cap stock mutual funds	1,282	-	1,282
International stock mutual funds	2,328	-	2,328
Preferred stock	404	-	404
Fixed:			
U.S. Government Agency Bonds	-	2,139	2,139
Taxable U.S. Municipal Bonds	-	2,282	2,282
U.S. Corporate Bonds	-	2,376	2,376
	$15,473	$6,797	$22,270

Expected retiree pension benefit payments projected to be required during the years following 2009 are as follows:

Years Ending December 31	Amount
2010	$ 2,033
2011	1,868
2012	2,911
2013	4,043
2014	2,041
2015–2019	13,642
Total	$26,538

In 2010, the Company expects to contribute $1,096 to its pension plan trusts.

Defined Contribution Plans — Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $355 and $308 for the years ended December 31, 2009 and 2008, respectively.

Deferred Compensation Plan — Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2009 employer contribution was $33 and deferred compensation expense was $67. As of December 31, 2009, the trust asset was $94 and the deferred liability was $101.

10. RESTRICTED INVESTMENTS

The amortized costs and fair values of Big Rivers restricted investments held for member rate mitigation at December 31, 2009 are as follows:

	Amortized Costs	Fair Values
Cash and Money Market	$25,186	$25,186
Debt Securities:		
U.S. Treasuries	67,895	67,474
U.S. Government Agency	150,144	150,181
Total	$243,225	$242,841

Gross unrealized gains and losses on restricted investments at December 31, 2009 were as follows:

	Gains	Losses
Cash and Money Market	$ -	$ -
Debt Securities:		
U.S. Treasuries	12	434
U.S. Government Agency	79	41
Total	$91	$475

Debt securities at December 31, 2009 mature, according to their contractual terms, as follows (actual maturities may differ due to call or prepayment rights):

	Amortized Costs	Fair Values
In one year or less	$46,102	$46,112
After one year through five years	197,123	196,729
Total	$243,225	$242,841

Gross unrealized losses on investments and the fair values of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009, were:

	Less Than 12 Months	
	Losses	**Fair Values**
Debt securities:		
U.S. Treasuries	$434	$59,872
U.S. Government Agency	41	45,026
Total	$475	$104,898

The unrealized loss positions were primarily caused by interest rate fluctuations. The number of investments in an unrealized loss position as of December 31, 2009 was eight. Since the company does not intend to sell and will more likely than not maintain each debt security until its anticipated recovery, and no significant credit risk is deemed to exist, these investments are not considered other-than-temporarily impaired.

The restricted investments related to cash and money market investments are classified as trading securities under ASC 320 and were recorded at fair value using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows.

Cash and Money Market	$25,186

11. FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measures. It applies under other accounting standards that require or permit fair value measurements and does not require any new fair value measurements. This standard of FASB ASC 820 is effective for fiscal years beginning after November 15, 2007. The adoption of the standards of FASB ASC 820 had no impact on the Company's results of operations and financial condition.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account classified as trading securities under ASC 320 that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount (a Level 1 measure), as follows.

	2009	**2008**
Institutional money market government portfolio	$59,887	$38,424

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

Big Rivers' long-term debt at December 31, 2009 consists of RUS notes totaling $706,452 and variable rate pollution control bonds in the amount of $142,100 (see Note 5). The RUS debt cannot be traded in the market and, therefore, a value other than its outstanding principal amount cannot be determined. The fair value of the Company's variable rate pollution control debt is par value, as each variable rate reset effectively prices such debt to the current market.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses. Generally, except for generation bargaining retirees, Big Rivers pays 85% of the premium cost for all retirees age 62 to 65. The Company pays 25% of the premium cost for spouses under age 62. For salaried retirees age 55 to age 62, Big Rivers pays 25% of the premium cost. Beginning at age 65, the Company pays 25% of the premium cost if the retiree is enrolled in Medicare Part B. For each generation bargaining retiree, Big Rivers establishes a retiree medical account at retirement equal to $1,200 per year of service up to 30 years ($1,250 per year for those retiring on or after 1/1/12). The account balance is credited with interest based on the 10-year treasury rate subject to a minimum of 4% and a maximum of 7%. The account is to be used for the sole purpose of paying the premium cost for the retiree and spouse.

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 rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2009	2008	2007
Discount rate — projected benefit obligation	5.78 %	6.32 %	5.85 %
Discount rate — net periodic benefit cost	6.32	5.85	5.75

The health care cost trend rate assumptions as of December 31, 2009 and 2008, were as follows:

	2009	2008
Initial trend rate	7.70 %	7.90 %
Ultimate trend rate	4.50 %	4.50 %
Year ultimate trend is reached	2028	2028

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

	2009	2008
One-percentage-point decrease:		
Effect on total service and interest cost components	$(138)	$(37)
Effect on year end benefit obligation	(989)	(290)
One-percentage-point increase:		
Effect on total service and interest cost components	162	44
Effect on year end benefit obligation	1,134	337

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2009 and 2008, follows:

	2009	2008
Benefit obligation — beginning of period	$2,948	$2,862
Service cost — benefits earned during the period	878	129
Interest cost on projected benefit obligation	464	167
Transaction benefit obligation assumed in the unwind	8,768	-
Participant contributions	48	61
Plan amendments	175	-
Benefits paid	(203)	(179)
Actuarial (gain) or loss	786	(92)
Benefit obligation — end of period	$13,864	$2,948

A reconciliation of the Company's postretirement plan assets at December 31, 2009 and 2008, follows:

	2009	2008
Fair value of plan assets — beginning of period	$ -	$ -
Employer contributions	155	118
Participant contributions	48	61
Benefits paid	(203)	(179)
Fair value of plan assets — end of period	$ -	$ -

The funded status of the Company's postretirement plan at December 31, 2009 and 2008, follows:

	2009	2008
Benefit obligation — end of period	$(13,864)	$(2,948)
Fair value of plan assets — end of period	-	-
Funded status	$(13,864)	$(2,948)

The components of net periodic postretirement benefit costs for the years ended December 31, 2009, 2008, and 2007, were as follows.

	2009	2008	2007
Service cost	$ 878	$ 129	$ 85
Interest cost	464	167	153
Amortization of prior service cost	17	2	2
Amortization of actuarial (gain)	(17)	(60)	(70)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$1,373	$269	$201

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2009 and 2008, follows:

	2009	2008
Prior service cost	$(165)	$ (7)
Unamortized actuarial gain	407	1,210
Transition obligation	(92)	(123)
Accumulated other comprehensive income	$150	$1,080

In 2010, $18 of prior service cost, $0 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2009 and 2008, follows.

	2009	2008
Prior service cost	$(157)	$ 2
Unamortized actuarial gain	(803)	33
Transition obligation	30	30
Other comprehensive income	$(930)	$65

At December 31, 2009 and 2008, amounts recognized in the statement of financial position were as follows:

	2009	2008
Accounts payable	$ (424)	$ (156)
Deferred credits and other	(13,440)	(2,792)
Net amount recognized	$(13,864)	$(2,948)

Expected retiree benefit payments projected to be required during the years following 2009 are as follows:

Year	Amount
2010	$424
2011	599
2012	827
2013	1,014
2014	1,245
2015–2019	8,342
Total	$12,451

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 $375 and $408 at December 31, 2009 and 2008, respectively. The postretirement expense recorded was $45, $63, and $51 for 2009, 2008, and 2007, respectively, and the benefits paid were $78, $0, and $0 for 2009, 2008, and 2007, respectively.

13. RELATED PARTIES

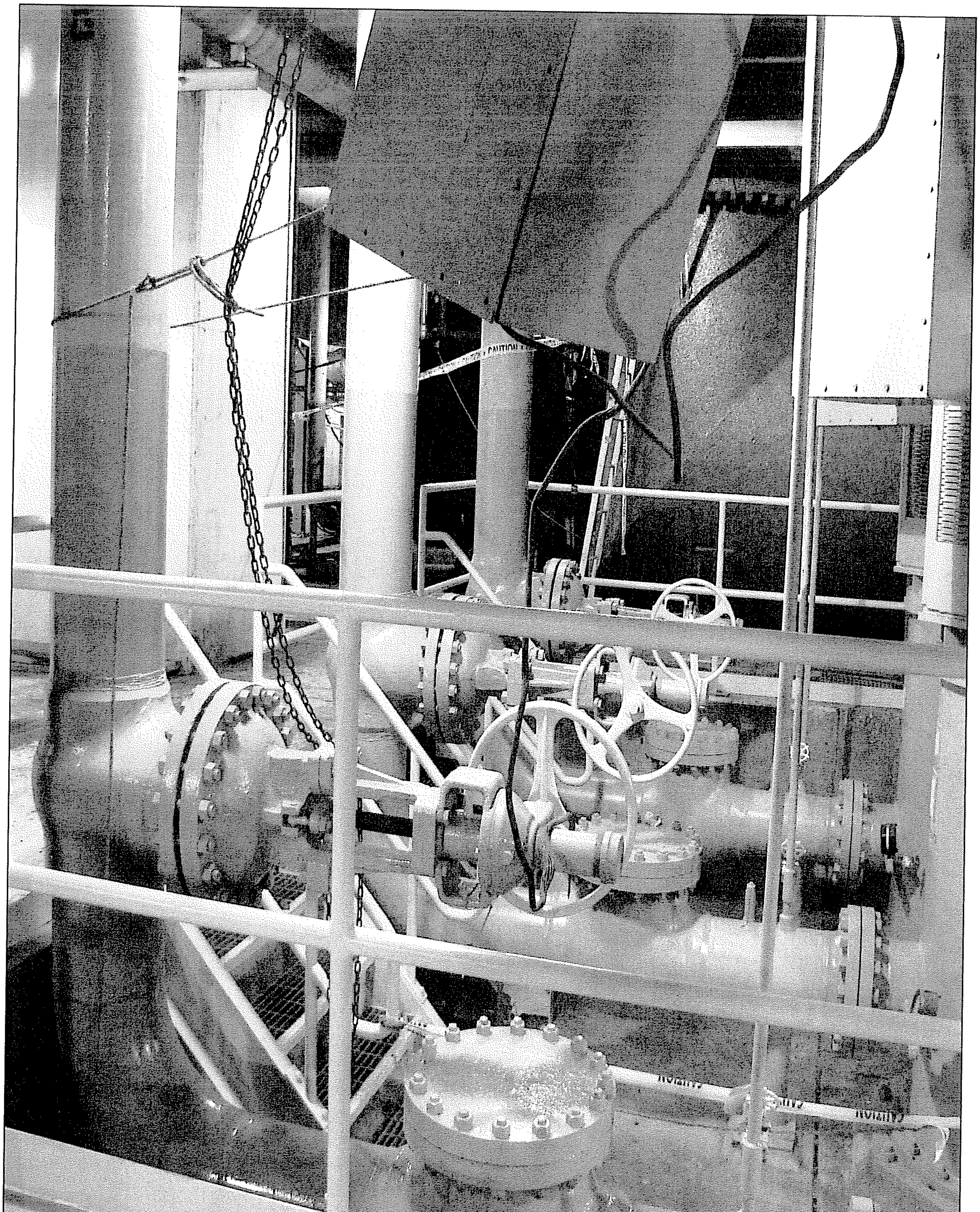
For the years ended December 31, 2009, 2008, and 2007, Big Rivers had tariff sales to its members of $125,826, $114,514, and $113,281, respectively. In addition, for the years ended December 31, 2009, 2008, and 2007, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $167,885, $55,124, and $123,094, respectively.

At December 31, 2009 and 2008, Big Rivers had accounts receivable from its members of $35,524 and $16,540, respectively.

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.

* * * * * *


CAUTION

Five-Year Review Years Ended December 31 — (Dollars in thousands)

SUMMARY OF OPERATIONS	2009	2008	2007	2006	2005
Operating Revenue:					
Power Contracts Revenue	$ 341,333	$ 214,758	$ 271,605	$ 200,692	$ 191,280
Lease Revenue	32,027	58,423	58,265	57,896	57,675
Total Operating Revenue	373,360	273,181	329,870	258,588	248,955
Operating Expenses:					
Fuel for Electric Generation	80,655	–	–	–	–
Power Purchased	116,883	114,643	169,768	114,516	114,500
Operations (Excluding Fuel), Maintenance, Other	87,645	32,858	31,436	25,336	23,504
Depreciation	32,485	31,041	30,632	30,408	30,192
Total Operating Expenses	317,668	178,542	231,836	170,260	168,196
Interest Expense and Other:					
Interest	59,898	72,710	70,851	70,259	68,748
Other – net	3,309	6,868	103	111	124
Total Interest Expense & Other	63,207	79,578	70,954	70,370	68,872
Operating Margin	(7,515)	15,061	27,080	17,958	11,887
Non-Operating Margin	538,845	12,755	20,097	16,584	14,456
NET MARGIN	$ 531,330	$ 27,816	$ 47,177	$ 34,542	$ 26,343
SUMMARY OF BALANCE SHEET					
Total Utility Plant	$1,986,373	$1,791,772	$1,764,924	$1,744,315	$1,727,556
Accumulted Depreciation	908,099	879,073	853,290	826,647	798,684
Net Utility Plant	1,078,274	912,699	911,634	917,668	928,872
Cash and Cash Equivalents	60,290	38,903	148,914	96,143	67,264
Reserve Account Investments	244,641	–	–	–	–
Other Assets	122,278	122,834	253,610	240,578	229,844
TOTAL ASSETS	$1,505,483	$1,074,436	$1,314,158	$1,254,389	$1,225,980
Equities (deficit)	$ 379,392	$ (154,602)	$ (174,137)	$ (217,371)	$ (251,913)
Long-term Debt	848,552	987,349	1,022,345	1,041,075	1,046,846
Regulatory Liability – Reserve Accounts	207,348	–	–	–	–
Other Liabilities and Deferred Credits	70,191	241,689	465,950	430,685	431,047
TOTAL LIABILITIES AND EQUITY	$1,505,483	$1,074,436	$1,314,158	$1,254,389	$1,225,980
ENERGY SALES - MWhs					
Member Rural	2,239,445	2,386,916	2,406,446	2,231,554	2,262,698
Member Large Industrial	919,587	925,793	921,359	956,502	971,243
Smelter Contracts	2,885,491	–	–	–	–
Other	1,746,438	1,844,677	2,835,789	2,062,286	2,021,365
Total Energy Sales	7,790,961	5,157,386	6,163,594	5,250,342	5,255,306
SOURCES OF ENERGY - MWhs					
Generated	3,715,544	–	–	–	–
Purchased	4,166,916	5,211,789	6,213,682	5,294,138	5,304,878
Losses and Net Interchange	(91,499)	(54,403)	(50,088)	(43,796)	(49,572)
Total Energy Available	7,790,961	5,157,386	6,163,594	5,250,342	5,255,306
NET CAPACITY - MWs					
Net Generating Capacity Owned	1,444	1,459	1,459	1,459	1,459
Rights to HMP&L Station Two	212	217	217	217	217
Other Net Capacity Available	178	178	178	178	178

Big Rivers
ELECTRIC CORPORATION

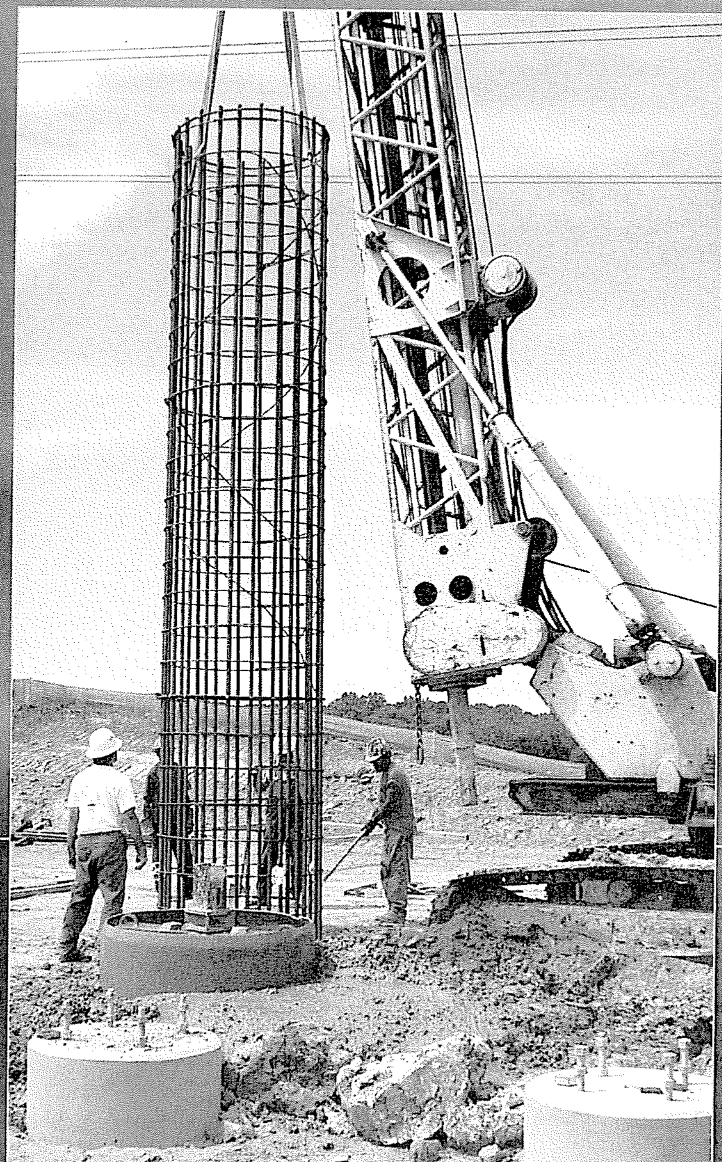
Your Touchstone Energy® Cooperative

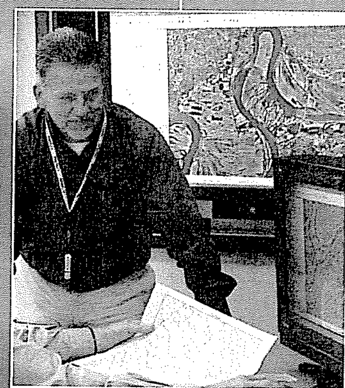
201 Third Street (42420)
PO Box 24 (42419-0024)
Henderson, KY

phone 270 827 2561
fax 270 827 2558
www.bigrivers.com

Building a Brighter Future

2008 ANNUAL REPORT





Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

At-a-Glance

Big Rivers Electric Corporation is a generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky.

It is owned by three distribution system member cooperatives—Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation—that serve rural members across 22 counties in western Kentucky.

Big Rivers had total energy sales of almost 5.2 million megawatt-hours (MWh) in 2008. Of the total sales, 3.3 million MWh were sold to the member cooperatives. The other 1.8 million MWh sold were contract or market sales.

Incorporated	June 1961
Generating Capacity	1,459 MW
Total Power Capacity	1,854 MW
Employees	113
Member Distribution Systems	3
Counties Reached	22
Member Consumers Served	111,000
Miles of Transmission Line	1,262
Total Energy Sales	5,157,386 MWh
Total Energy Revenue	$ 204,519,278
Average Member Cost	$ 34.57/MWh

Financial Highlights

For the years ended December 31, 2008, 2007, 2006, 2005, and 2004 | (Dollars in thousands)

	2008	2007	2006	2005	2004
Margins	27,816	47,177	34,542	26,343	22,025
Equity	(154,602)	(174,137)	(217,371)	(251,913)	(278,256)
Capital Expenditures*	22,760	18,682	13,189	12,904	12,203
Cash & Cash Equivalents	38,903	148,914	96,143	67,264	54,891
New RUS Note Voluntary Prepayment Status	-	-	34,995	55,357	53,518
Times Interest Earned Ratio	1.37	1.64	1.47	1.37	1.32
Debt Service Coverage Ratio	1.17	2.04	1.86	1.79	1.76
Cost of Debt	6.33%	5.76%	5.83%	5.57%	5.35%
Cost of Capital	8.33%	7.75%	7.82%	7.58%	7.38%

** Big Rivers' share only.*

Building a Brighter Future

2008 ANNUAL REPORT

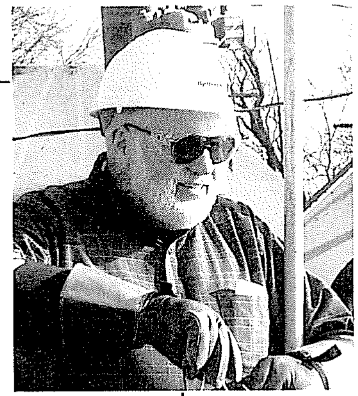


Table of Contents

About the Big Rivers System 2

Message from CEO and Board Chair 4

Year in Review : 2008 6

Financial Review : 2008 17

Financial Statements 21

Notes to Financial Statements 25

Five-Year Review 37

About the Big Rivers System

Big Rivers Electric Corporation is a generation and transmission cooperative (G&T) headquartered in Henderson, Kentucky. It is owned by three distribution system member cooperatives that serve rural members across 22 counties in western Kentucky.

Big Rivers supplies the wholesale power needs of the member cooperatives and markets surplus power to non-member utilities and power markets.

Member cooperatives

The member cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson; and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg.

Combined, they provide retail electric power and other services to more than 111,000 residential, commercial and industrial members in western Kentucky.

Generation resources

Big Rivers owns 1,459 megawatts (MW) of generating capacity in four plants:

Robert A. Reid	130 MW
Kenneth C. Coleman	455 MW
Robert D. Green	454 MW
D.B. Wilson	420 MW
Owned Generation	1,459 MW

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).

Owned Generation	1,459 MW
HMP&L Station Two	217 MW
SEPA	178 MW
Total Power Capacity	1,854 MW

In July 1998, Big Rivers leased the operation of its generation to LG&E Energy Corp. affiliates (now E.ON U.S., LLC). Big Rivers provides power to the member cooperatives principally under a power purchase agreement with certain E.ON U.S. affiliates.

Transmission system

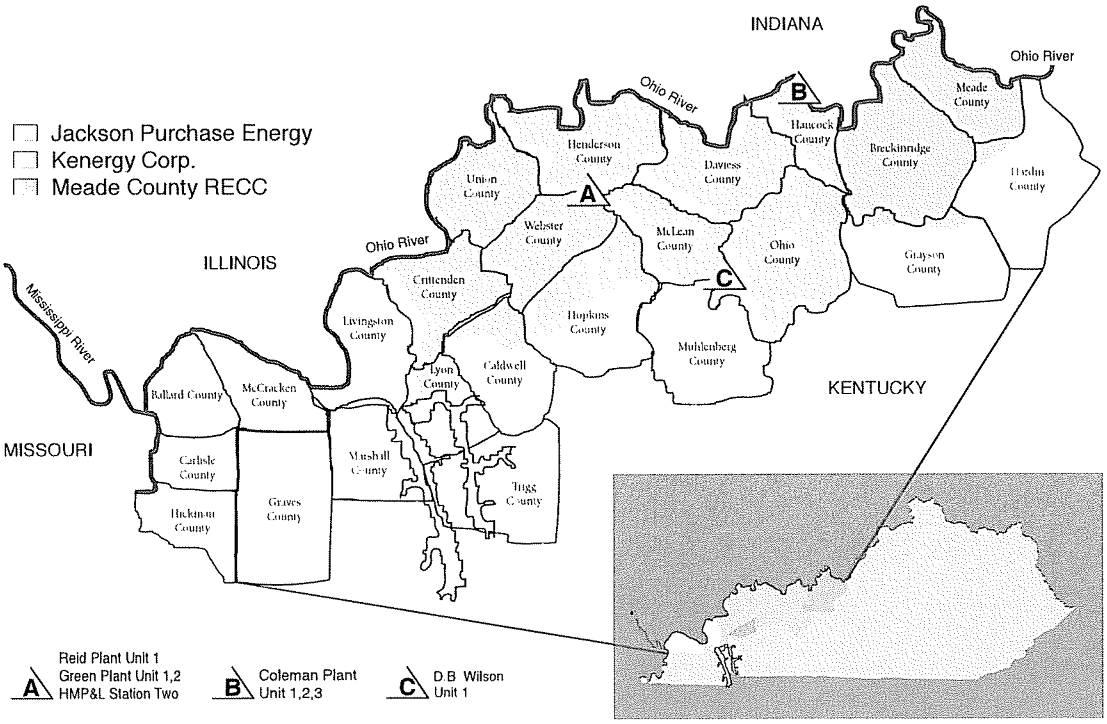
Big Rivers owns, operates, and maintains its 1,262-mile transmission system primarily to deliver power to the three distribution system member cooperatives. In addition, available transmission capacity is sold to third parties for moving power into, out of, or through the Big Rivers control area.

Power is delivered through 80 substations owned by Big Rivers or the member cooperatives and 22 interconnects with seven surrounding utilities.

The cooperative difference

Big Rivers is constantly focused on the needs and local priorities of the member cooperatives. Computer services, economic development, mapping, planning, safety, marketing and customer support services are just a few of the areas in which Big Rivers is able to provide assistance when called on to do so.

As a long-standing member of Touchstone Energy®, Big Rivers and the member cooperatives pledge to serve western Kentucky with integrity, accountability, innovation and a commitment to community. Keeping the cost of electricity low and the reliability high is a priority.



Member Cooperatives

JPEC

(270) 442-7321
www.JPEnergy.com

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

Headquartered: Paducah, KY

Number of accounts: 29,186

Miles of line: 2,891

Kenergy
Your Touchstone Energy Cooperative

Kenergy Corp.

(270) 826-3991
www.kenergycorp.com

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

Headquartered: Henderson, KY

Number of accounts: 54,896

Miles of line: 6,997

Meade County RECC
Your Touchstone Energy® Cooperative

Meade County Rural Electric Cooperative Corporation

(270) 422-2162
www.mcrecc.coop

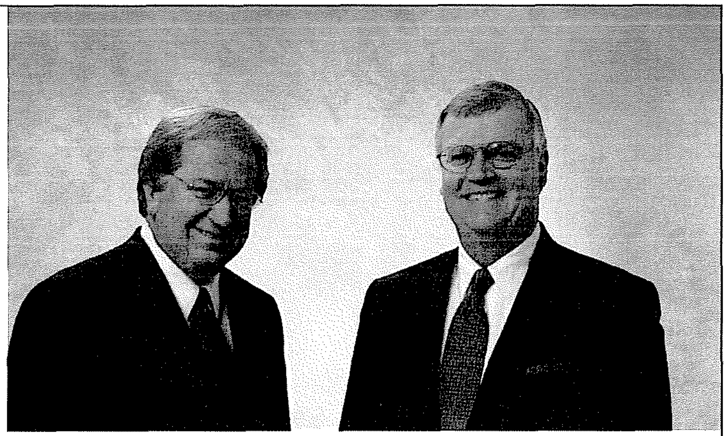
Serves: Breckinridge, Grayson, Hancock, Hardin, Meade and Ohio

Headquartered: Brandenburg, KY

Number of accounts: 27,969

Miles of line: 2,972

Message from the CEO and Board Chair



Like any electric utility, a future focus and planning for tomorrow have always been an integral part of the operations of Big Rivers Electric Corporation. Being a member-owned organization means that our planning always involves our members—Jackson Purchase Energy, Kenergy Corp., and Meade County RECC—and their futures, as well. In 2008, these efforts took on special meaning for Big Rivers and the members.

An important element of our focus was the careful preparation and smooth implementation of a succession plan for the position of president and CEO. Successfully implementing a plan developed in 2006 by Big Rivers' board of directors when then CEO Mike Core notified the board of his planned retirement in a couple of years, Mark Bailey was elected president and CEO on October 17, 2008. Bailey, who had joined Big Rivers on June 1 2007 as executive vice president, had formerly been CEO of Kenergy Corp., and prior to that was employed at American Electric Power for 30 years. We thank Mike Core for his fine leadership the past 12 years and wish him the very best as he begins his planned retirement in April 2009.

Another important area of future focus reached a milestone in early December when the Kentucky Public Service Commission held a hearing in response to an application Big Rivers had filed with the Commission in late 2007 for approval to "unwind" the 1998 transaction with certain affiliates of E.ON U.S.

Since mid-1998, Western Kentucky Energy, a subsidiary of E.ON, has operated the Big Rivers generating stations, supplying the wholesale power needs of Big Rivers and a portion of the power supply for the smelters through Kenergy Corp. Big Rivers was approached in 2003 by E.ON to determine whether Big Rivers had an interest in unwinding the transaction. Since that time, a major effort and focus involved negotiating both a termination of that arrangement and a long-term power supply for each of Kenergy's two aluminum smelter customers.

Several conditions remain to be satisfied before there can be a closing of the proposed unwind transaction, and a great deal of activity must occur to successfully implement the long-planned transition so that Big Rivers can resume its role of generation operator. Big Rivers pursued the unwind because it would position us well for the future: it would provide Big Rivers with strong financial metrics, help keep more than 1,400 smelter jobs in western Kentucky and allow Big Rivers the flexibility to meet the significant challenges of wholesale power supply to the member cooperatives for the long-term power requirements of their member-owners.

Future planning was not all that was successfully accomplished by Big Rivers in 2008; it was also a year of successful operations. Proving that the time-consuming effort required to pursue an unwind transaction was not a total distraction, Big Rivers posted $27.8 million in margins continuing the strong operating trend begun in 1998.

The future challenges of wholesale power supply are numerous and include rising fuel costs, global climate change and other environmental issues, transmission expansion and load growth just to name a few. In addition, safety and reliability are important areas of focus for any utility and they remain a primary focus for us. As strong as our relationships are now with our members and throughout our industry and the region, we will strive for an even higher level of performance and are confident we will succeed.

Big Rivers has many strengths, but by far the biggest is its conscientious and dedicated workforce. Big Rivers is well positioned with the managerial expertise and talent, financial flexibility, and member support and participation required to sustain a reliable, economical power supply for western Kentucky. We are proud to be part of the Big Rivers' team and look forward to working with all our stakeholders as we continue to move ahead.

Mark A. Bailey

Mark A. Bailey
President and CEO

Bill Denton

William Denton
Chair of the Board of Directors

Board of Directors

Back row (left to right):

Dr. James Sills, Vice-Chair
Meade County RECC

Wayne Elliott
Jackson Purchase Energy

William Denton, Chair
Kenergy Corp.

Front row (left to right):

Lee Bearden, Secretary-Treasurer
Jackson Purchase Energy

Paul Edd Butler
Meade County RECC

Larry Elder
Kenergy Corp.

Management Team

Back row (left to right):

Al Yockey, V.P. Enterprise Risk Management & Strategic Planning

C. William Blackburn, Senior V.P. Financial & Energy Services & Chief Financial Officer

David Spainhoward, Senior V.P. External Relations & Interim Chief Production Officer

Paula Mitchell, Executive Assistant

James Miller, Corporate Counsel

James Haner, V.P. Administrative Services

Front row (left to right):

David Crockett, V.P. System Operations

Mark Bailey, President & CEO

Travis Housley, V.P. Special Projects

Mark Hite, V.P. Accounting

Building a Brighter Future

2008 : YEAR IN REVIEW

An annual report, by definition, provides an overview of what happened in the previous year. While this report certainly serves that purpose, a careful reading also will demonstrate how Big Rivers continues to look ahead and position itself for the future.

In 2008, the extensive activity of Big Rivers' various departments and employees was focused on providing the best service possible to the company's three member cooperatives and their retail members. At the same time, Big Rivers continued building on an already solid foundation to keep momentum moving forward. The goal is always to make Big Rivers an ever-better partner for the member cooperatives and the people of western Kentucky.

This strategy of looking ahead led Big Rivers in 2008 to invest in new communication technology, expand transmission systems, initiate a new risk management process, reorganize staffing, and get more involved with the national renewable energy movement.

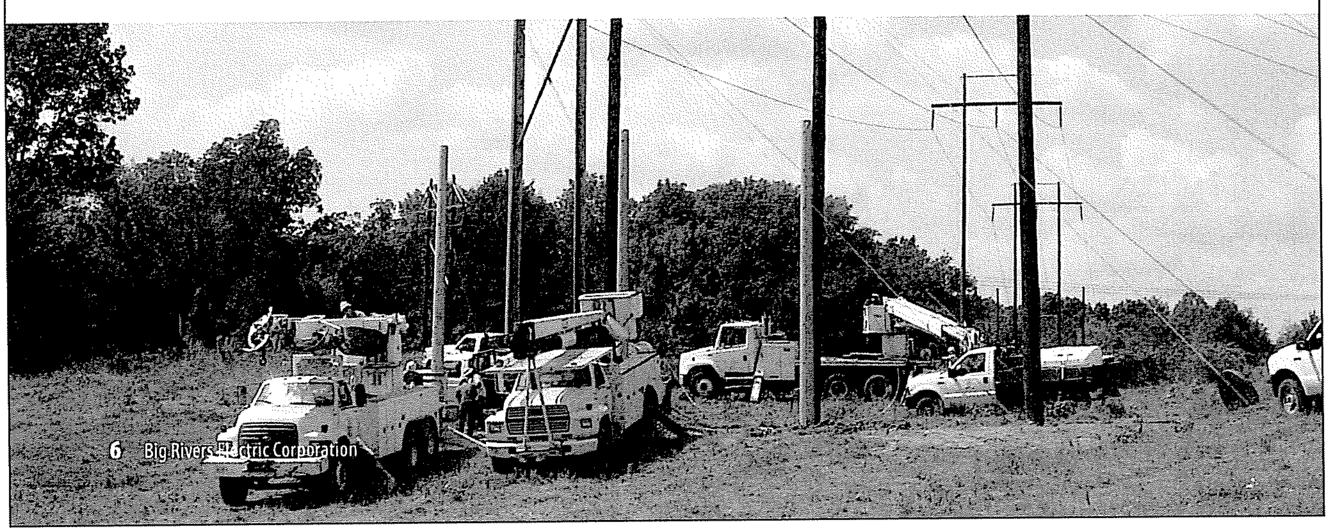
The company transitioned to new leadership in October 2008 as Mike Core prepared for retirement. A strong team of experienced hands set the stage for an orderly transition, as Executive Vice President Mark Bailey assumed the role of President and CEO.

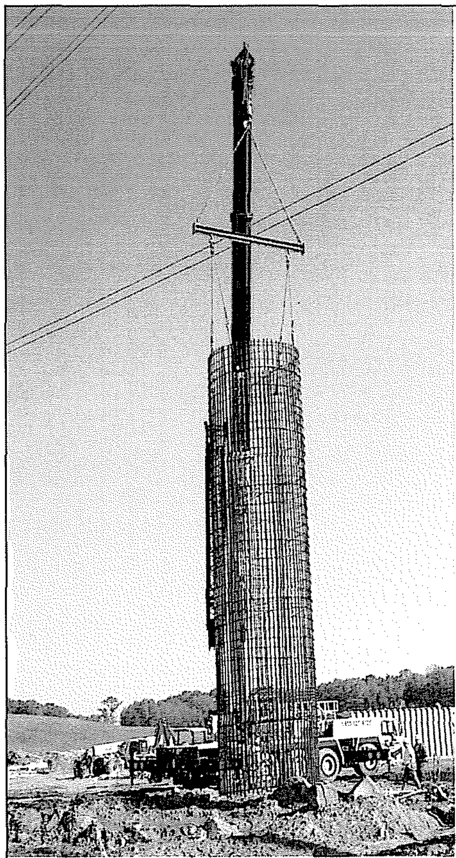
The company moved ahead with its work to "Unwind" the lease agreements with E.ON U.S. for its power plants. Significant progress was made, and if successful, this move will allow Big Rivers and the member cooperatives to make an even greater long-term economic impact on the region and provide additional flexibility for response to challenges and opportunities.

Partnerships with Big Rivers' member cooperatives were strengthened, as well. Services managed by Big Rivers deepened the relationships with the member cooperatives and helped them deliver safe, dependable, low-cost power to their retail members. And at all times, one eye was kept on the future to make sure that the actions of today continue to set the stage for tomorrow.

Safety

Safety is at the heart of everything that Big Rivers does. The company provides an extensive array of training programs for the member cooperatives and employees. Topics include the use of equipment, procedures for working on live lines and





Opposite page and left—A second 161 kV line and substation line terminal for Meade County RECC were completed and placed into service, as were new 345 kV interconnection facilities with Kentucky Utilities.

de-energized circuits, as well as all OSHA-required topics such as trenching, fall protection, and working in confined spaces. Big Rivers also spends a great deal of time on public safety training with schools, fire departments, and industry.

Safety achievements in 2008 include:

Big Rivers continues to perform better than the national average when it comes to safety. Over the last five years, the national average has ranged from 4.4 to 5.4 recordable incidents per year per 100 workers. Big Rivers 113 employees sustained two recordable incidents in 2008.

Big Rivers worked 355 continuous days in 2008 without a lost time incident.

System Operations

Work on system operations demonstrated both good stewardship of existing facilities as well as careful planning for future needs and opportunities. All scheduled line, station, and communication system maintenance work was completed along with necessary pole inspections and change-outs.

A number of new transmission and communication facilities were placed into service in 2008:

Skillman tap to Meade County 17-mile 161kV line

Two 345kV interconnections with Kentucky Utilities at Daviess EHV station

Digital microwave system expansion into Meade County RECC and Jackson Purchase Energy service areas

Patriot Coal Niagara Portal 69kV line (new Kenergy contract service)

Armstrong Dock 69kV metering (new Kenergy contract service)

Existing transmission facilities were upgraded, as well:

Reid plant to Daviess County reconductored 22 miles of 161kV line

Reid plant to Onton reconductored 10 miles of 69kV line

Hopkins County to South Hanson tap reconductored 14 miles of 69kV line

Geneva Junction line switching replacement

Reid plant 161kV switchyard 9 switches replaced

Relocated 0.75 mile of Henderson County to Vectren 138kV line out of a wetland area

Transmission system maintenance:

3200 poles inspected and treated

121 poles replaced

31 power transformers tested

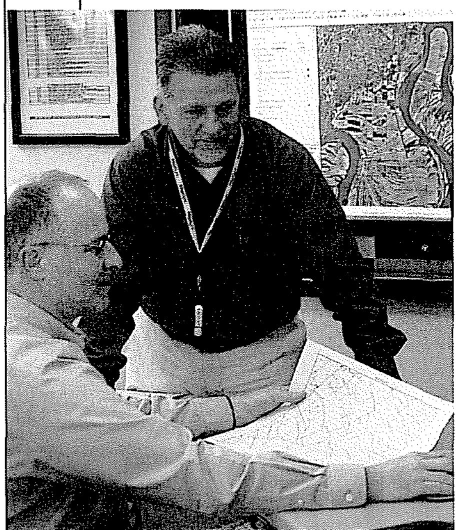
369 miles of line right-of-way treated or cut for vegetation maintenance

Tested 44 circuit breakers and overhauled 27

Repaired 21 transmission line switches

Other system operations tasks completed in 2008:

- Completed development of 2009-2011 transmission construction work plan for Rural Utilities Service (RUS)
- Completed secondary oil spill containment upgrades at four stations to meet new Environmental Protection Agency (EPA) regulation
- Found fully compliant with North American Electric Reliability Corporation (NERC) operating standards via compliance program audit by Southeastern Electric Reliability Council (SERC)
- Finalized development of short- and long-term communication system plans for the Unwind
- Substantially completed the design phase of two-way radio system replacements for Big Rivers and the member cooperatives



Above—Big Rivers GIS specialist Bert Thomas (R), works with Kenergy manager of planning and design Rob Stump (L) to create mapping of the distribution network, which allows Kenergy to issue work orders, track outages, dispatch service crews, and plan service expansions. Bert is certified as one of 1600 geographic information systems professionals within the United States.

Enterprise Risk Management

The relationship between a company's strategic plans and various key risk factors is a critical element in how the organization moves into the future. During 2008, Big Rivers initiated its enterprise risk management function, taking a disciplined and consistent approach to identify, communicate, and manage risks.

Rating agencies, regulators, creditors, and members all watch a company's risk management closely. Specific policies are now in place covering a variety of areas such as energy risk assessment, financial issues, trading sanctions, safety, and economic development.

Strategic Planning

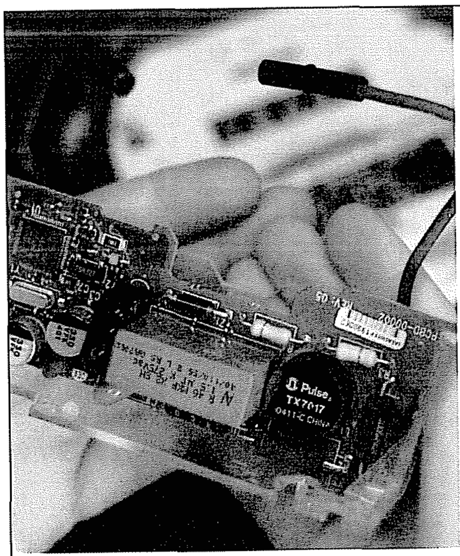
The environment for Big Rivers has changed dramatically with rising fuel costs, crisis in the worldwide financial markets, environmental concern about carbon sequestration, aging infrastructure and aging work force.

As Big Rivers continues with the Unwind transaction, it will make adjustments in its operations, plans, risk management, and strategies to meet the challenges of this opportunity. If Big Rivers remains in the existing pre-Unwind arrangement, then it will continue to enhance its present operations, plans, risk management and strategic planning activities.

Renewable Energy

Big Rivers is well positioned in the national renewable energy movement. Power supplies of the future will include a growing emphasis on renewable energy as these sources gain more attention, popularity, and viability.

In the tradition of working together, cooperatives across the country have formed the National Renewables Cooperative Organization (NRCO) to promote and facilitate the development of renewable energy resources.



Above—Meade County RECC uses a "turtle" such as this for automatic meter reading of residential accounts.

Membership in the NRCO is open to generation and transmission cooperatives (G&Ts) and distribution cooperatives with the legal ability to buy power in the wholesale market. Big Rivers was one of 24 founding members of the organization, which formed in November 2008.

The NRCO will allow cooperatives to pool their expertise so that the knowledge base of cooperatives with experience in developing renewable energy will be available to all. At the outset, the NRCO will serve in a consulting capacity, evaluating renewable resource opportunities, facilitating participation in renewable energy projects and assist in creating optimal arrangements for members like Big Rivers.

The NRCO will also assist cooperatives in the on-going management of renewable resources.

Locally, Big Rivers began making renewable energy available to the member cooperatives in 2007 through a program called EnviroWatts. This program supports operation and production of energy generated from renewable resources in western Kentucky. Retail members of Big Rivers' member cooperatives may buy this environmentally friendly power in 100 kWh blocks.

Big Rivers continues to evaluate renewable energy sources along with the regulatory and legislative efforts that impact development of additional sources of generation.

Energy Efficiency Education

Big Rivers continued to assist the member cooperatives in educating their retail members about energy efficiency, continued distributing thousands of energy-saving compact fluorescent light bulbs, and developed localized advertising campaigns to support these efforts.

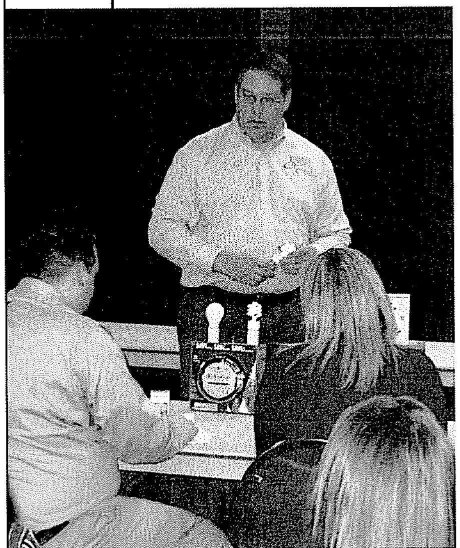
Kenergy and Jackson Purchase Energy held their first Home Energy Expos in 2008, while Meade County RECC hosted its second annual expo. On average, a thousand customers from each of the cooperatives attended.

Power Supply

Ultimately, the goal of those responsible for power supply at Big Rivers is to ensure there is enough power available when it is needed by effectively managing available resources. A variety of approaches help accomplish this goal.

Big Rivers has been a member/owner of ACES Power Marketing, one of the nation's largest electricity traders, since January 2003. ACES operates as an energy risk management and hedge manager. Member/owners like

Above—Renewable energy generated in Hawesville, KY utilizes biomass power produced from wood chips that would otherwise be sent to landfills.



Above—Big Rivers manager marketing & member relations Russ Pogue provides training on energy efficiency to employees of Jackson Purchase Energy, which helps them to better [illegible] their retail members.

Big Rivers actively participate by utilizing the ACES infrastructure and resources to assess their risks and execute specific, customized portfolio strategies.

A portion of the power delivered to member cooperatives by Big Rivers is produced by hydroelectric dams operated by the U.S. Army Corps of Engineers. Big Rivers contracts 178 MW from the Southeastern Power Administration (SEPA) which markets power from the dams. This is another example of the commitment of Big Rivers to deliver renewable energy and also to diversify its supply to better protect the interests of the member cooperatives.

Information Technology

Good communication is vital to the work of Big Rivers, whether it is between the company and the member cooperatives or among the automated systems within Big Rivers' extensive operations. Whether the purpose is improved safety, convenience, efficiency, or simply to keep everyone better informed, Big Rivers took a number of steps in 2008 to enhance information technology.

Integrated voice recorder (IVR) was interfaced to the Geographic Information System (GIS) and Customer Information System (CIS) to automatically handle customer outage call-ins.

Big Rivers and the member cooperatives developed the Check Remittance System that allows the cooperatives to use the "Check21" feature. This feature interfaces directly to the bank for check imaging and faster turnaround.

Big Rivers continued efforts to comply with the Energy Act of 2005.

Environmental Compliance

Because of the myriad of environmental regulations placed on utilities at the state and federal levels, Big Rivers provides training and services to keep the member cooperatives in compliance. In addition to conducting annual training sessions required by OSHA and the EPA, Big Rivers also assists the member cooperatives with a host of other environmental rules and regulations, assists in preparing specific environmental related reports, and provides consultation to the member cooperatives if a chemical is accidentally released into the environment.

Above—Big Rivers supervisor application development, Nancy Utley (R), reviews the new check processing system installed at Meade County RECC with Diane Bevel (L), one of their customer service representatives.

Above—Big Rivers environmental compliance specialist, Mark Bertram, provides refresher training to Kenergy employees, required by OSHA and EPA to maintain their annual certifications.

Legislative Issues

Big Rivers monitors and reacts to legislative issues impacting its business, the member cooperatives and the electric industry as a whole.

Regulatory Affairs

A number of regulatory case filings were submitted to the Kentucky Public Service Commission in 2008. The continuing effort to unwind the lease agreements with affiliates of E.ON U.S. remained on the front burner as the process moved forward. A number of other regulatory issues were addressed in addition as the country continues to evaluate energy supply options, such as renewable energy and energy efficiency improvement.

Economic Development

Despite an ailing economy in late 2008, Big Rivers experienced a high level of interest in economic development projects. Available natural resources drew the interest of multiple renewable energy projects such as carbon sequestration, photovoltaic, bio-fuels, algae, ethanol, and coal-related inquiries. Furthermore, Big Rivers encountered a steady flow of projects focused in automotive manufacturing, steel, aluminum, and various other energy intensive projects during 2008.

Status of the " Unwind"

Big Rivers is continuing to pursue the early termination of its lease agreements with affiliates of E.ON U.S. – the process known as the Unwind. While Big Rivers' financial position has consistently improved over the eleven years that the lease has been in place, it would be beneficial in the long run to resume control of the company's generating facilities.

A successful Unwind would provide a strong balance sheet, tremendous financial and operational flexibility for response to changing market conditions, the ability to be a more dynamic player in regional economic development, and the renewed chance for Big Rivers to chart its own future.

In addition, it would help safeguard thousands of jobs in western Kentucky related to the Rio Tinto Alcan and Century aluminum smelters by providing long-term power agreements that help the smelters remain competitive. This significant list of benefits continues to drive the Unwind process.

The tumultuous year in the world's financial markets in 2008 had an impact on the Unwind process, with Big Rivers ultimately terminating the sale-leaseback arrangement of the Wilson & Green plants. Details of the Unwind plan were filed with the Kentucky Public Service Commission (PSC) in October for review and approval. The transaction also needs sign-off from Big Rivers' member cooperatives, other creditors, the parent companies of the smelters, and Henderson Municipal Power & Light.

Considering the continuous improvement in performance by Big Rivers over the past eleven years, the future looks bright whether the Unwind is completed or not. But should this landmark transaction be closed successfully, Big Rivers and the member cooperatives will be in a far stronger position than ever before.

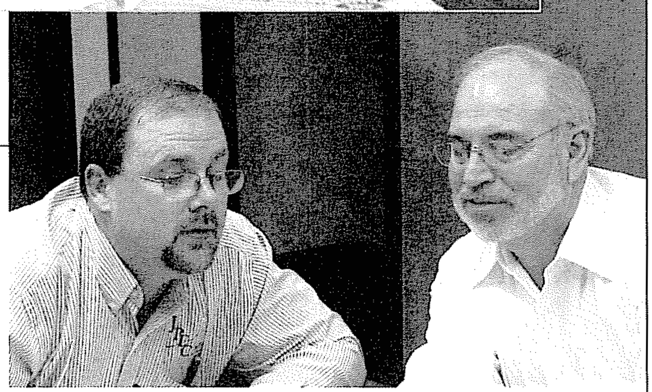
Working with the Member Cooperatives

Burns Mercer, President & CEO
Meade County RECC

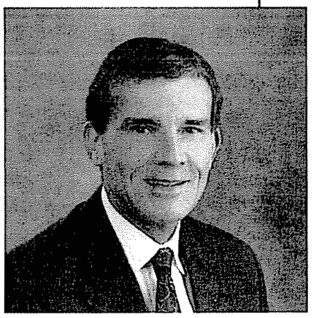
"The billing support that we get through Big Rivers is an important part of creating a positive experience between Meade County RECC and our members. Obviously, those bills have to be right and we have to be responsive if there's ever a question, and we trust Big Rivers to make that happen.

Another example of the partnership that we have with Big Rivers is the Energy Expo that we produced for our members in 2008. Big Rivers helped in developing education initiatives, arranging for exhibitors, and providing us with communication materials and marketing support, as well. They are a tremendous resource for us on a day-to-day basis."

Right—Big Rivers senior communications coordinator Angela Ackerman (L) creates marketing materials for the Meade County RECC Home Energy Expo with their vice president of member services and marketing Tim Gossett (R)



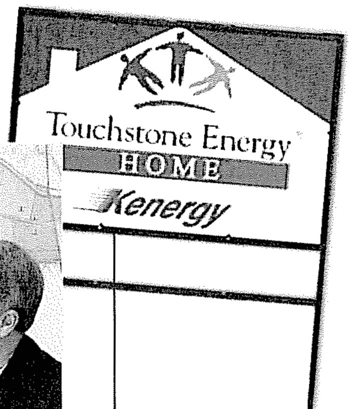
Right—Big Rivers manager information systems Dave Itzel (R) reviews ongoing projects for Jackson Purchase Energy with their vice president of finance & accounting Charles "Chuck" Williamson (L)



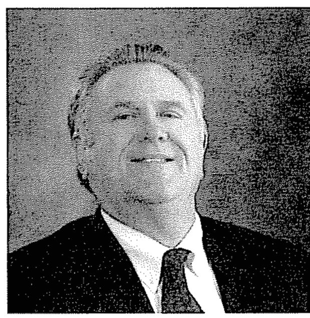
"When we are talking to a company considering locating or expanding in our service area, Big Rivers works with us on quoting power rates and providing other economic development assistance. Because of this service, we are a strong player in creating new jobs and opportunities in our territory.

The incentives for residential customers, offered through Big Rivers, are another great resource that we use extensively to promote energy efficiency measures."

Sandy Novick, President & CEO
Kenergy Corp.



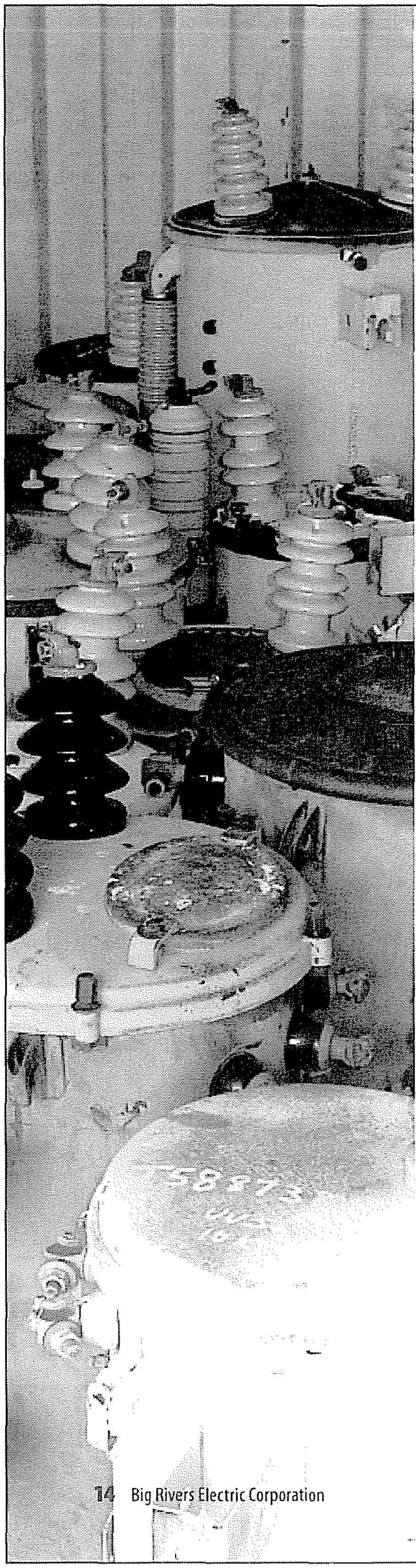
Left — Big Rivers senior vice president external relations & interim chief production officer David Spainhoward (R), meeting with Kenergy member services director David Hamilton (L) and Northwest Kentucky Forward president & CEO Kevin Sheilley (M).



"One outstanding area of our partnership with Big Rivers is in customer service training. We consistently get some of the highest scores in the country on customer satisfaction surveys, and the assistance that Big Rivers provides in training and in assessing what our members think is a key to that success.

In addition, our relationship with our commercial and industrial accounts is enhanced through the energy audits that Big Rivers conducts for us with them. Whether a question arises because of an unusual change in a member's bill or merely through curiosity about his or her overall energy use, the audits performed by Big Rivers provide good information and enhance our relationships with our members."

Kelly Nuckols, President & CEO
Jackson Purchase Energy



The Philippine Project

Working toward the future in a responsible way means recognizing that the world is truly a global community in which every part affects another. In this spirit, Big Rivers and the member cooperatives continued in 2008 to lend expertise, equipment, financial support, and human resources to the Philippine Project—an NRECA humanitarian effort to bring sustainable development to the island of Mindanao, Philippines.

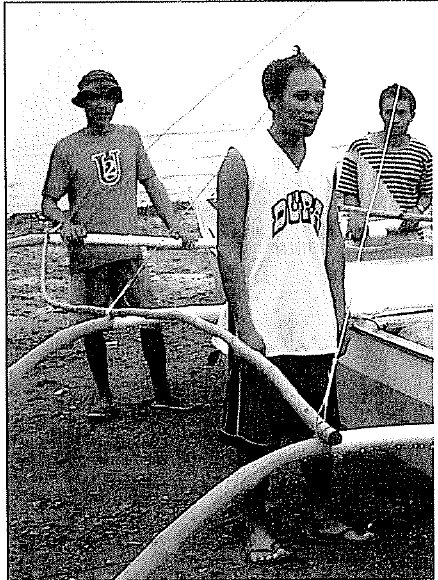
The heart of the project is the extension of electric distribution lines to remote villages. After power arrives, program managers work with electric cooperatives based in the Philippines to help local residents develop income-producing projects. Technical expertise and low-interest loans are provided, both to start new businesses and to wire homes for electricity. The effort has funded agricultural projects, sewing cooperatives, a furniture shop, welding businesses, an auto repair shop, and the financing of two small, motorized fishing boats. In addition, local schools have been given donated textbooks, desks, computers, and other supplies.

Big Rivers and the member cooperatives are vital players in the Philippine Project, providing electrical equipment, engineering assistance, financial donations, and overall supervision. In 2008, 159 used transformers, three 69kV oil circuit breakers, two meter test boards and nine single-phase breakers were shipped along with 14 computers.

To date, more than 31 villages have been energized and over 400 computers and 4,000 pounds of text books have been distributed to schools. House wiring loans have been extended to over 450 homes and more than 50 livelihood projects have been started. This equates to more than 7,500 people directly impacted by the project, realizing better lives as a result of Big Rivers and the member cooperatives' efforts. Seven additional villages have been approved for electrification in 2009.

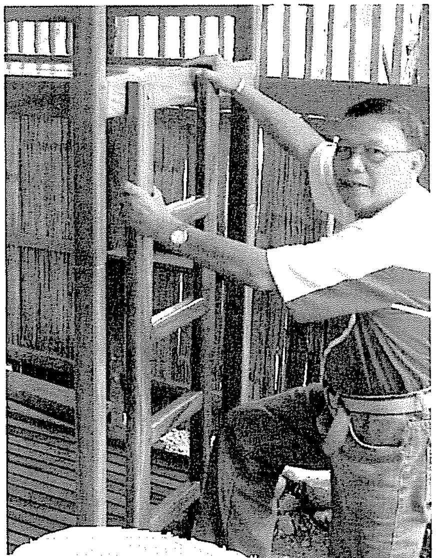
The driving force behind Big Rivers' involvement has been Travis Housley, vice president special projects. He has made 17 trips to the Philippines to lend his considerable expertise in planning, engineering, and overall facilitation of these extensive efforts. He plans to retire in 2009. The Philippine Project has flourished during his tenure, and his legacy is a strong program undergirded by faith, hard work, and the active participation of electric cooperatives across the country.

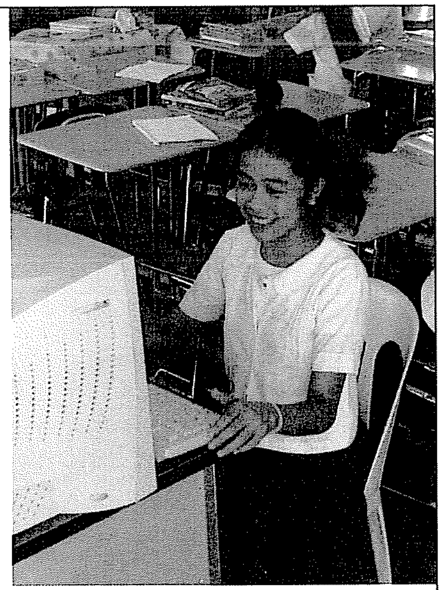
Post retirement, Travis will carry on his work in the Philippines, which former President & CEO Mike Core called "an effort to offer an alternative to terrorism as a reaction to poverty." Such efforts promise a brighter future for these villages, the entire Philippines archipelago, and the world.



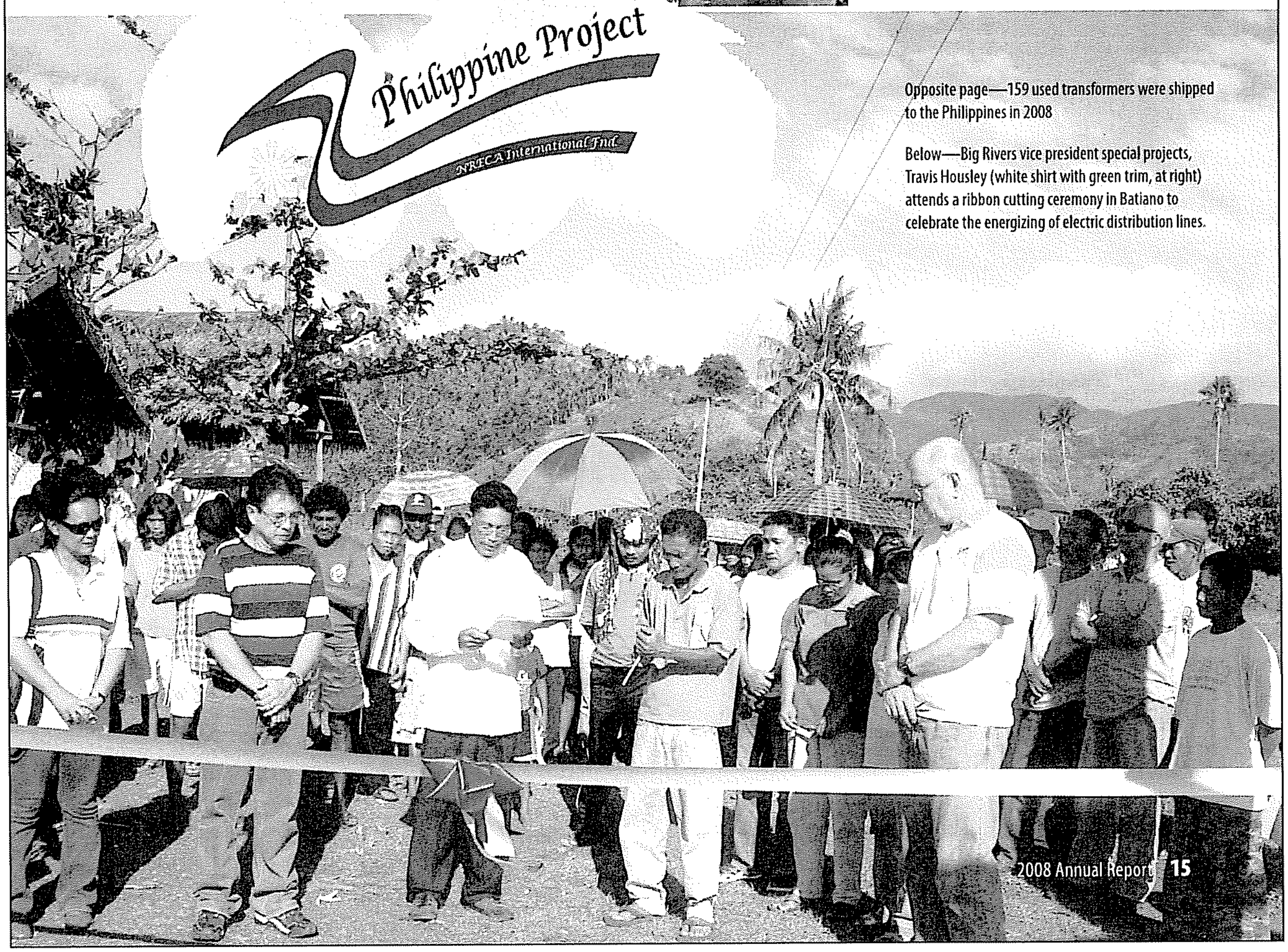
Above—This motorized fishing boat is one of many new income-producing livelihood projects financed through low-interest loans

Below—Gil Medina NRECA [illegible] shows off a wooden bunk bed made at [illegible] furniture shop opened through the Philippine Project





Above—This student enjoys new computers and modern school desks at a classroom in Lanao



Opposite page—159 used transformers were shipped to the Philippines in 2008

Below—Big Rivers vice president special projects, Travis Housley (white shirt with green trim, at right) attends a ribbon cutting ceremony in Batiano to celebrate the energizing of electric distribution lines.

Reflections on the Past

A RETIRED CEO'S OBSERVATIONS

It's About The "We"

I have been told that I am the first CEO at Big Rivers to reach a normal retirement. On the cusp of retirement, I am granting myself the liberty of making a few observations about Big Rivers.

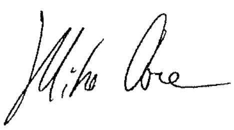
Big Rivers is a resilient organization. It has seen its share of rough times, but has always found a way to work through them. When I arrived in early 1997, Big Rivers was in bankruptcy and it was a hectic and chaotic time, but we made it. Its successes in the past eleven years were due not to any specific individual, but entirely to the "we" effort.

The "we" is about Big Rivers' board and the member cooperatives setting a course to correct its financial ills, because we knew that success would come from working together and not separately. The "we" includes a dedicated group of professionals and consultants who take much more than just a professional interest. The "we" also involved improving relationships and working with our regulators, creditors and other businesses associated with Big Rivers.

Perhaps the most important "we" is our dedicated group of employees who certainly were not the cause of rough times, but were roughed up a time or two as a result of them. I have always told our employees that they are our most important asset, even though you won't find them on the balance sheet.

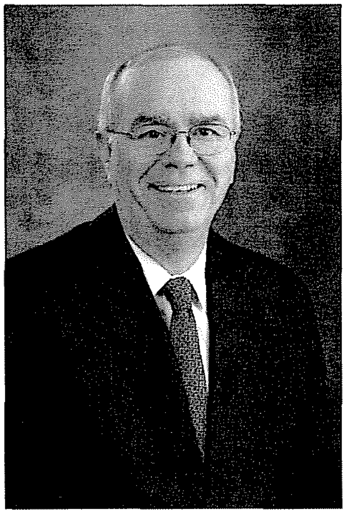
As I leave Big Rivers, I leave with the satisfaction of working together to achieve successes and strengths, which will afford stability and flexibility in meeting future challenges. I will depart being grateful that I was permitted to be a part of the "we."

Big Rivers' success will continue because it's all about the "we."



Michael Core
President and CEO

1996-2008



Financial Review : 2008

The year 2008 began with an expanding economy and a continuing rise in energy prices as global demand for energy resources pushed supply. As a result, electric generation costs continued to rise throughout the first half of the year as fuel costs set new peaks in the U.S.

Beginning around the third quarter, it was evident the world was entering what would later likely be called the worst economic downturn since World War II. Demand for oil, gas and coal quickly collapsed and prices plummeted. As a result, the market for electricity in the Southeast U.S. also took a plunge.

Financial institutions were sent into a tail-spin in an undercurrent of fear regarding toxic debt and a renewed sense of risk aversion. Many pillars of the financial community lost footing and were "downgraded" by rating agencies.

One of those financial institutions was Ambac Financial Group, Inc. (Ambac), which provided credit enhancement for the Big Rivers sale-leaseback and continues to provide credit enhancement for the pollution control bonds.

As a result, Big Rivers was required to find another guarantor for the sale-leaseback, but with the financial markets in chaos, Big Rivers was unable to locate a financial institution with the appropriate credit rating that was willing to provide support. Therefore, during 2008 Big Rivers negotiated a cash buyout of the sale-leaseback it entered in 2000.

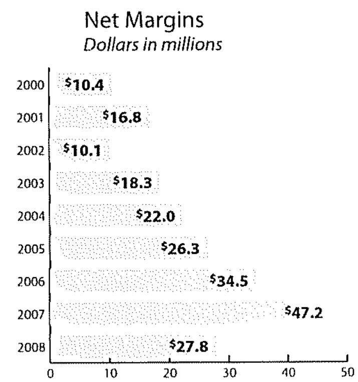
Net margins

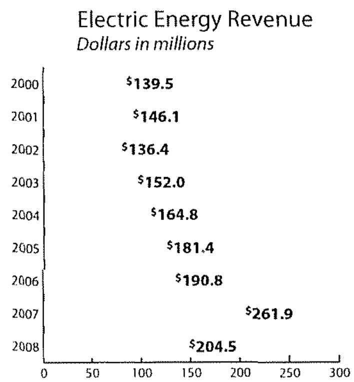
While Big Rivers considers $27.8 million net margins a very good year, six items account for the $19.4 million reduction in margins realized in 2008 vs. the $47.2 million of 2007.

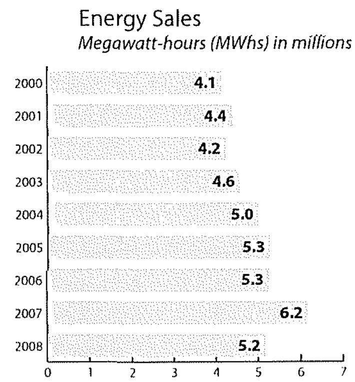
First, Big Rivers intensified its work toward an "unwind" of the 1998 transaction with certain affiliates of E.ON U.S. Accordingly, significant professional services costs were incurred in 2008, $1.5 million more than in 2007.

Second, resulting from the credit downgrade of Ambac, interest rates on the $142.1 million pollution control bonds increased significantly during the latter part of 2008, $5.2 million more than in 2007.

Third, the resulting buyout of the 2000 sale-leaseback significantly reduced Big Rivers' cash reserves. In addition, investment interest rates significantly declined







during 2008. Together, these two factors account for the significant reduction in interest income, $3.6 million less than in 2007.

Fourth, the net sale-leaseback buyout cost is being amortized over its original life, through 2027. The 2008 amortization expense reduced margins $1.7 million more than in 2007.

Fifth, since consummating the sale-leaseback in 2000, Big Rivers has been paying alternative minimum tax. The buyout and termination of the sale-leaseback results in it being unlikely that Big Rivers will become a regular taxpayer when its remaining net operating loss carryforward expires. Accordingly, the associated deferred tax asset, $5.9 million, was expensed in 2008. No such expense was recognized in 2007.

Finally, Big Rivers realized a reduction in net sales margin of $2.2 million for 2008 vs. 2007, as discussed in the next few sections.

Electric energy revenue

Revenue earned from arbitrage and other sales returned to a normal level in 2008, following a considerable increase in 2007 due to forward market sale activity of 51,089 megawatt-hours, and the pass-through sale of 1,129,589 megawatt-hours for certain large industrial members of Kenergy Corp., one of Big Rivers' member distribution cooperatives.

This reduction of resale power led to a drop in electric energy revenue of $57.4 million dollars in 2008 vs. 2007. Total member tariff revenue increased by $1.2 million in 2008.

Wholesale member rates

Big Rivers' wholesale rates continue to be among the lowest in the nation. A member rate discount of 3.3 percent, which had been in effect since April 2000, was discontinued on September 1, 2008. This benefit to members came from the April 2000 sale-leaseback and ended with the buyout and termination of that agreement.

Even with the member rate discount no longer in place, average wholesale prices to members increased only slightly from $34.04 per megawatt-hour in 2007 to $34.57 per megawatt-hour in 2008.

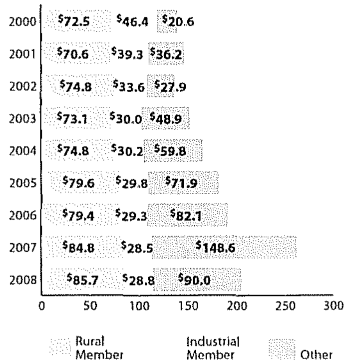
Member sales to rural loads totaled 2.4 million megawatt-hours in 2008. The average wholesale price per megawatt-hour for rural loads was $35.90, up from $35.22 per megawatt-hour in 2007. Sales to large industrial customers totaled 926 thousand megawatt-hours in 2008, and the price increased from an average of $30.96 per megawatt-hour in 2007 to $31.12 per megawatt-hour in 2008.

The member tariff net sales margin increased $0.9 million in 2008 vs. 2007.

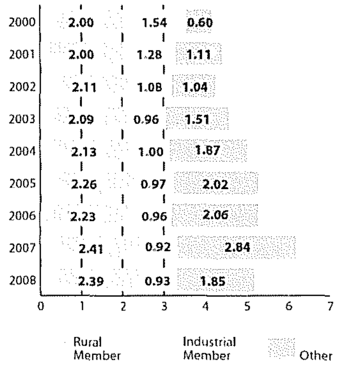
Arbitrage and other sales

Once the power supply needs of the members have been met, Big Rivers markets surplus power to non-member utilities and power markets.

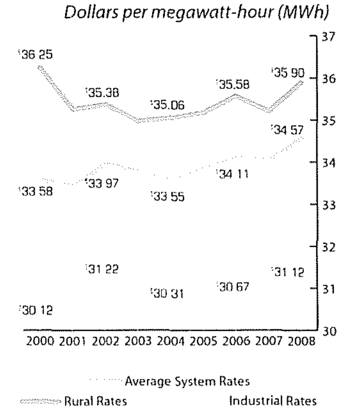
Electric Energy Revenue
Dollars in millions



Energy Sales
Megawatt-hours (MWhs) in millions



Wholesale Member Rates
Dollars per megawatt-hour (MWh)



A decrease in the wholesale power markets, the downturn in the economy, and a drop in price for natural gas led to lower prices in 2008 on arbitrage and other sales. Net sales margin on arbitrage and other sales decreased $3.1 million in 2008 vs. 2007.

The net sales margin on arbitrage and other sales since the inception of the lease agreement in 1998 is in excess of $240 million, which has significantly improved Big Rivers' equity position.

Lines & letters of credit

Big Rivers holds a line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC) for $15 million. The line of credit has an underlying $15 million master letter of credit facility for supporting off-system sales.

For participation in the Midwest Independent Transmission Operator (MISO) Energy Market, a letter of credit was required from Big Rivers in the amount of $2 million. That letter of credit remained outstanding as of December 31, 2008.

A letter of credit was also required for a construction agreement with Kentucky Utilities related to Armstrong Coal service of $670,000, which remained outstanding as of December 31, 2008.

Equity

Big Rivers' equity position improved significantly, from a negative equity of $174.1 million in 2007 to a negative equity of $154.6 million in 2008.

Cash flow

Thanks to the cash reserve Big Rivers was able to build over the years, it was in a position to negotiate the sale-leaseback cash and promissory note buyout with the equity participants in that transaction during 2008.

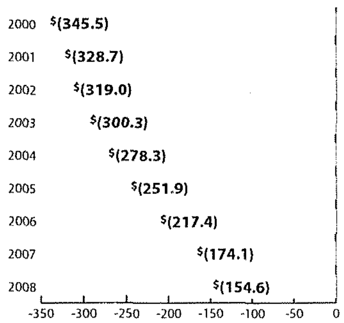
But with the buyout resulting in a $107.1 million net cash payment, Big Rivers' cash reserves were significantly reduced. Big Rivers' year-end 2008 cash position was $38.9 million, vs. $148.9 million at year-end 2007.

The "Unwind"

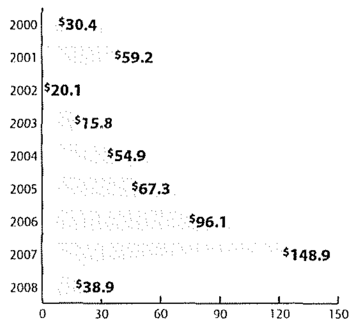
The Kentucky Public Service Commission offered its conditional approval of the "unwind" transaction in March of 2009. Assuming that the final pieces of the complex plan fall into place, Big Rivers anticipates closing the "unwind" transaction in 2009.

An "unwind" closing will return to Big Rivers the operation of its owned and leased generation facilities. Big Rivers will be able to resume its historic role as a generation and transmission cooperative, providing low-cost power, assisting in economic development, and helping improve the quality of life throughout western Kentucky.

Equity (deficit)
Dollars in millions



Cash & Cash Equivalents
Dollars in millions



Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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, 2008 and 2007, and the related statements of operations, equities (deficit), and of cash flows for each of the three years in the period ended December 31, 2008. 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 Big Rivers Electric Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, 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 23, 2009, on our consideration of Big Rivers Electric Corporation'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 23, 2009

Member of
Deloitte Touche Tohmatsu

Balance Sheets

As of December 31, 2008 and 2007 | (Dollars in thousands)

ASSETS

	2008	2007
UTILITY PLANT—Net	$ 912,699	$ 911,634
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	–	192,932
OTHER DEPOSITS AND INVESTMENTS—At cost	4,693	4,240
CURRENT ASSETS:		
Cash and cash equivalents	38,903	148,914
Accounts receivable	20,464	26,683
Materials and supplies inventory	756	768
Prepaid expenses	450	131
Total current assets	60,573	176,496
DEFERRED LOSS FROM TERMINATION OF SALE-LEASEBACK	76,001	–
DEFERRED CHARGES AND OTHER	20,470	28,856
TOTAL	$ 1,074,436	$ 1,314,158

EQUITIES (DEFICIT) AND LIABILITIES

	2008	2007
CAPITALIZATION:		
Equities (deficit)	$ (154,602)	$ (174,137)
Long-term debt	987,349	1,022,345
Obligations related to long-term lease	–	183,891
Total capitalization	832,747	1,032,099
CURRENT LIABILITIES:		
Current maturities of long-term obligations	51,771	39,392
Purchased power payable	9,336	13,038
Accounts payable	5,832	4,932
Accrued expenses	3,134	3,014
Accrued interest	8,018	7,811
Total current liabilities	78,091	68,187
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	10,955	15,537
Deferred gain on sale-leaseback	–	53,480
Residual value payments obligation	145,145	141,370
Other	7,498	3,485
Total deferred credits and other	163,598	213,872
COMMITMENTS AND CONTINGENCIES (see note 13)		
TOTAL	$ 1,074,436	$ 1,314,158

See notes to financial statements.

Statements of Operations

For the years ended December 31, 2008, 2007 and 2006 | (Dollars in thousands)

	2008	2007	2006
POWER CONTRACTS REVENUE	$ 214,758	$ 271,605	$ 200,692
LEASE REVENUE	58,423	58,265	57,896
Total operating revenue	273,181	329,870	258,588
OPERATING EXPENSES:			
Operations:			
Power purchased and interchanged	114,643	169,768	114,516
Transmission and other	28,600	27,196	21,684
Maintenance	4,258	4,240	3,652
Depreciation and amortization	31,041	30,632	30,408
Total operating expenses	178,542	231,836	170,260
ELECTRIC OPERATING MARGIN	94,639	98,034	88,328
INTEREST EXPENSE AND OTHER:			
Interest	65,719	60,932	60,754
Interest on obligations related to long-term lease	6,991	9,919	9,505
Amortization of loss from termination of long-term lease	811	–	–
Income tax expense	5,934	–	–
Other—net	123	103	111
Total interest expense and other	79,578	70,954	70,370
OPERATING MARGIN	15,061	27,080	17,958
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	8,742	12,481	12,069
Interest income and other	4,013	7,616	4,515
Total non-operating margin	12,755	20,097	16,584
NET MARGIN	$ 27,816	$ 47,177	$ 34,542

See notes to financial statements.

Statements of Equities (Deficit)

For the years ended December 31, 2008, 2007 and 2006 | (Dollars in thousands)

	Total Equities (Deficit)	Accumulated Deficit	Other Equities: Donated Capital and Memberships	Other Equities: Consumers' Contributions to Debt Service	Other Equities: Accumulated Other Comprehensive Income
BALANCE – December 31, 2005	$ (251,913)	$ (256,358)	$ 764	$ 3,681	$ –
Net margin/ total comprehensive income	34,542	34,542	–	–	–
BALANCE – December 31, 2006	(217,371)	(221,816)	764	3,681	–
Net margin/ total comprehensive income	47,177	47,177	–	–	–
FAS 158 adoption	(3,943)	–	–	–	(3,943)
BALANCE – December 31, 2007	(174,137)	(174,639)	764	3,681	(3,943)
Comprehensive income:					
Net margin	27,816	27,816	–	–	–
FAS 158 funded status adjustment	(8,281)	–	–	–	(8,281)
Total comprehensive income	19,535	–	–	–	–
BALANCE – December 31, 2008	$ (154,602)	$ (146,823)	$ 764	$ 3,681	$ (12,224)

See notes to financial statements.

Statements of Cash Flows

For the years ended December 31, 2008, 2007 and 2006 | (Dollars in thousands)

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 27,816	$ 47,177	$ 34,542
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	34,320	33,866	33,592
Increase in restricted investments under long-term lease	(2,502)	(6,242)	(6,040)
Decrease in deferred AMT Income Taxes	5,035	–	–
Amortization of deferred gain on sale-leaseback	(1,998)	(2,900)	(2,882)
Amortization of deferred loss on sale-leaseback	811	–	–
Deferred lease revenue	(4,582)	(1,779)	(4,439)
Residual value payments obligation gain	(6,748)	(6,591)	(6,187)
Increase in RUS ARVP Note	5,841	5,572	5,313
Increase in New RUS Promissory Note	–	15,761	13,889
Increase in obligations under long-term lease	2,749	6,580	6,356
Changes in certain assets and liabilities:			
Accounts receivable	6,218	(8,934)	(1,398)
Materials and supplies inventory	12	43	(144)
Prepaid expenses	(319)	3,477	(3,517)
Deferred charges	1,871	(2,429)	(694)
Purchased power payable	(3,702)	3,818	(1,513)
Accounts payable	899	1,566	972
Accrued expenses	327	1,033	81
Other—net	(4,940)	(5,465)	(1,170)
Net cash provided by operating activities	61,108	84,553	66,761
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(22,760)	(18,682)	(13,189)
Proceeds from disposition of investments related to sale-leaseback	222,739	–	–
Other deposits and investments	(401)	(424)	(419)
Net cash used in investing activities	199,578	(19,106)	(13,608)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(40,838)	(12,676)	(24,274)
Payments upon termination of sale-leaseback	(329,859)	–	–
Net cash used in financing activities	(370,697)	(12,676)	(24,274)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,011)	52,771	28,879
CASH AND CASH EQUIVALENTS—Beginning of year	148,914	96,143	67,264
CASH AND CASH EQUIVALENTS—End of year	$ 38,903	$ 148,914	$ 96,143
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 74,819	$ 45,600	$ 47,277
Cash paid for taxes	$ 1,220	$ 420	$ 375

See notes to financial statements.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007, AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008, 2007, AND 2006 (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 the KPSC and RUS.

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 generally follow the Uniform System of Accounts as prescribed by the RUS Bulletin 1767B-1, as adopted by the KPSC. These 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*
2009	$ 52,332
2010	52,332
2011	41,291
2012	35,076
2013	35,076
Thereafter	350,756
	$ 566,863

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, 2008 and 2007, the Company has recorded $10,728 and $8,359, respectively, for such additions in utility plant. The Company has recorded $6,748, $6,591, and $6,187 in 2008, 2007, and 2006, 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, 2008, the cumulative Nonincremental Capital Costs amounted to $6,618 (unaudited).

E.ON U.S. has constructed a scrubber (Major Capital Improvement) at Big Rivers' Coleman plant. The scrubber achieved commercial acceptance in January 2007. The project cost $97,495 (unaudited). No amounts related to this project are recorded in the Company's financial statements.

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 2008, 2007, and 2006, the average composite depreciation rates were 1.85%, 1.85%, and 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.

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 February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115*, which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option a) may be applied instrument by instrument; b) is irrevocable (unless a new election date occurs); and c) is applied only to entire instruments and not to portions of instruments. The Company has not elected to record any financial assets or liabilities at fair value under this standard.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133*. SFAS 161 enhances the current disclosures under SFAS 133 and requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation in order to better convey the purpose of derivative use in terms of the risks that the entity is intending to manage. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company will adopt SFAS 161 on January 1, 2009, and the impact is not expected to be material to the Company's 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 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 $42,077 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 E.ON U.S. for the undepreciated value of WKEC's 80% share of these costs, at the end of the lease, currently estimated to be $18,609. 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 nonrefundable 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.

The Company, LEM, and WKEC have entered into an agreement that would allow for a mutually acceptable early termination of the Lease Agreement (see Note 14).

3. UTILITY PLANT

At December 31, 2008 and 2007, utility plant is summarized as follows:

	2008	*2007*
Classified plant in service:		
Electric plant—leased	$1,535,004	$ 1,524,421
Transmission plant	230,800	209,547
General plant	17,240	15,772
Other	543	114
	1,783,587	1,749,854
Less accumulated depreciation	879,073	853,290
	904,514	896,564
Construction in progress	8,185	15,070
Utility plant—net	$ 912,699	$ 911,634

Interest capitalized for the years ended December 31, 2008, 2007, and 2006, was $492, $391, and $236, 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, 2008 and 2007, the Company had a regulatory liability of approximately $32,696 and $29,771, 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 provided 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, would be fully funded.

On September 30, 2008, the Company completed an early termination of the sale-leaseback transaction. The termination was precipitated by the June 2008 downgrade of the claims-paying ability of Ambac Assurance Corporation (Ambac). Ambac served as insurer of Big Rivers' payment obligations, thereby providing credit support under the transaction. Ambac's downgrade exposed the Company to adverse consequences under the contractual terms of the transaction and after consideration of alternative options, Big Rivers ultimately settled on termination as the preferred solution. Proceeds from disposition of the restricted investment and payments required under the termination agreements were $222,739 and $329,559, respectively, reflecting a net cash payment of $107,120. To meet its remaining obligations Big Rivers' entered into a $12,380 promissory note (see Note 5) with Philip Morris Capital Corporation (PMCC). A net loss of $77,001 resulting from the early termination of the sale-leaseback was recorded as a regulatory asset and is being amortized over the remaining period of the original transaction. Big Rivers believes this regulatory asset will be subsequently recovered through the rate-making actions of the Kentucky Public Service Commission.

Prior to termination the sale-leaseback transaction was recorded as a financing for financial reporting purposes and a sale for Federal income tax purposes. In connection therewith, in 2000, 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 for 2007 as restricted investments under long term lease and obligations related to long-term lease in the accompanying balance sheets. Interest received and paid was recorded to these accounts up to the date of lease termination. The Company paid 7.57% interest on its obligations related to long-term lease and received 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 was amortized up to the date of lease termination, with the Company recognizing $1,998, $2,900, and $2,881, in 2008, 2007, and 2006, respectively.

Amounts recognized in the statement of financial position related to the sale-leaseback as of December 31, 2008 and 2007, are as follows:

	2008	*2007*
Restricted investments under long-term lease	$ –	$ 192,932
Obligations related to long-term lease	–	183,891
Deferred gain on sale-leaseback	–	53,480
Deferred loss from termination of sale-leaseback	76,001	–

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2008, 2007, and 2006, are as follows:

	2008	*2007*	*2006*
Power contracts revenue (revenue discount adjustment—see Note 6)	$(2,453)	$(3,680)	$(3,680)
Interest on obligations related to long-term lease:			
Interest expense	$ 8,989	$12,819	$12,386
Amortize gain on sale-leaseback	(1,998)	(2,900)	(2,881)
Net interest on obligations related to long-term lease	$ 6,991	$ 9,919	$ 9,505
Interest income on restricted investments under long-term lease	$ 8,742	$12,481	$12,069
Interest income and other	$ 779	$ 778	$ 777

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2008 and 2007, is as follows:

	2008	2007
New RUS Promissory Note, stated amount of, $768,391, stated interest rate of 5.75%, with an interest rate of 5.82%, maturing July 2021	$ 765,297	$ 804,098
RUS ARVP Note, stated amount of $245,899, no stated interest rate, with interest imputed at 5.80%, maturing December 2023	103,685	99,290
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023	15,658	16,204
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 8.95% and 3.74% in 2008 and 2007, respectively), maturing in October 2022	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 5.14% and 3.74% in 2008 and 2007, respectively), maturing in June 2013	58,800	58,800
PMCC Promissory Note interest rate of 8.5%, maturing in December 2009	12,380	-
Total long-term debt	1,039,120	1,061,692
Current maturities	51,771	39,347
Total long-term debt—net of current maturities	$ 987,349	$1,022,345

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

Year	Amount
2009	$ 51,771
2010	41,440
2011	47,492
2012	65,561
2013	64,542
Thereafter	768,314
	$ 1,039,120

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 5.82%. 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.

Due to current market conditions, the variable interest rates incurred on the Series 1983 and Series 2001 Pollution Control Bonds have increased. These instruments are subject to maximum interest rates of 13% and 18%, respectively. The December 31, 2008 interest rates on the Series 1983 and Series 2001 Pollution Control Bonds were 3.41% and 18%, respectively.

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 $45, $47, and $345 during 2008, 2007, and 2006, respectively. At December 31, 2008, the Company has no remaining liability associated with that settlement agreement.

PMCC Promissory Note—On September 30, 2008 in conjunction with the early termination of the sale-leaseback transaction (see Note 4), Big Rivers executed a promissory note with Phillip Morris Capital Corporation (PMCC). The note requires Big Rives to pay PMCC $12,380, plus interest at 8.5% per annum. The note matures in December 2009.

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 borrowings outstanding on the line of credit at December 31, 2008, but letters of credit issued under an associated Letter of Credit Facility reduced the borrowing capacity by $2,670. 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.

In mid-2008, the financial rating of Ambac (see Note 4), a party to the sale-leaseback transaction Big Rivers entered into in 2000 was lowered, triggering an obligation on the part of the Company to replace Ambac in the transaction or otherwise resolve the issues created by that circumstance. Big Rivers elected to buyout the equity participants and simultaneously terminate the transaction on September 30, 2008. The buyout price significantly reduced Big Rivers' cash reserves. Accordingly, on March 2, 2009, Big Rivers filed an application with the Kentucky Public Service Commission (Commission) requesting approval of a 21.6% rate increase, seeking an effective date of April 1, 2009 for interim rate relief. A hearing on the interim rate relief is scheduled for March 26, 2009. Big Rivers believes the requested rate increase is reasonable and necessary to enable it to continue meeting all of its long-term financial obligations on a timely basis. In addition, Big Rivers has been and continues to reduce its non-critical expenditures in order to ensure that it can meet its short-term obligations as they fall due. Big Rivers has not increased the base wholesale tariff rates to its member distribution cooperatives since 1997. If the termination of the LG&E lease agreement (see Note 14) closes, this case will become moot, and will be dismissed. The termination of the LG&E lease agreement would also provide Big Rivers all necessary cash resources.

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, 2008, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. On September 1, 2008, Big Rivers discontinued the revenue discount adjustment to its members.

7. INCOME TAXES

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. 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.

As a result of the above noted termination (see Note 4), Big Rivers no longer considers that it is more likely than not that it will recover its net deferred tax assets (which consisted solely of Alternative Minimum Tax (AMT) credit carryforwards). An income statement charge of $5,035 relating the AMT amounts carried forward at January 1, 2008 together with a charge of $900 relating to the 2008 AMT obligation have been recorded in the Statement of Operations.

At December 31, 2008, Big Rivers had a nonpatron net operating loss carryforward of approximately $102,807 expiring through 2012, and an alternative minimum tax credit carryforward of approximately $5,935, which carries forward indefinitely.

As of December 31, 2007, Big Rivers has a net deferred tax asset, against which a valuation allowance has been provided based upon the fact that it is presently uncertain whether such asset will be realized. The resulting net deferred tax asset at December 31, 2007, is approximately $5,035, which represents the alternative minimum tax credit carryforward, against which no allowance has been provided.

The Company has not recorded any regular income tax expense for the years ended December 31, 2008, 2007 and 2006, as the Company has utilized federal net operating losses to offset any regular taxable income during those years. Had the Company not had the benefit of a net operating loss carryforward, the Company would have recorded $20,363, $7,724, and $10,599 in current regular tax expense for the years ended December 31, 2008, 2007 and 2006, respectively.

The components of the net deferred tax assets as of December 31, 2008 and 2007, were as follows:

	2008	*2007*
Deferred tax assets:		
Net operating loss carryforward	$ 40,609	$ 60,972
Alternative minimum tax credit carryforwards	5,935	5,035
Sale-leaseback	–	142,807
Fixed asset basis difference	33,786	7,764
Other accruals	–	2,844
Total deferred tax assets	80,330	219,422
Deferred tax liabilities:		
Lease agreement	(25,384)	(27,359)
Net deferred tax asset (prevaluation allowance)	54,946	192,063
Valuation allowance	(54,946)	(187,028)
Net deferred tax asset	$ –	$ 5,035

A reconciliation of the Company's effective tax rate for 2008, 2007 and 2006, follows:

	2008	*2007*	*2006*
Federal rate	35.0 %	35.0 %	35.0 %
State rate—net of federal benefit	4.5	4.5	4.5
Patronage allocation to members	(31.3)	(28.0)	(20.5)
Tax benefit of operating loss carryforwards and other	(8.2)	(11.5)	(19.0)
Alternative Minimum Tax	18.0	–	–
Effective tax rate	18.0 %	– %	– %

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, disclosures and transition. The cumulative effects of applying FIN 48 are to be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 was effective for fiscal years beginning after December 15, 2006.

The Company adopted the provisions of FIN 48 on January 1, 2007. The Company files a federal income tax return, as well as several state income tax returns. The years currently open for federal tax examination are 2005 through 2008 and 1990 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2002 through 2008 and years 1990 through 1997, also due to unused net operating loss carryforwards. As a result of implementing FIN 48, the Company made no adjustment to the liability for unrecognized tax benefits. The Company did not have any unrecognized tax benefits recorded related to federal or state income taxes.

Upon adoption of FIN 48, the Company adopted a financial statement policy of classification of interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No interest or penalties have been recorded as of the adoption or during 2007 and 2008.

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, 2008, 2007, and 2006, were $99,700, $96,295, and $97,999, respectively, and are included in power purchased and interchanged on the statement of operations.

9. PENSION PLANS

Defined Benefit 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 salaried employees defined benefit plan was closed to new entrants effective January 1, 2008, and the bargaining employees defined benefit plan was closed to new hires effective November 1, 2008. The Company simultaneously established base contribution accounts in the defined contribution thrift and 401(k) savings plans, which were renamed as the retirement savings plans. The base contribution account for an eligible employee, which is one who meets the minimum age and service requirements, but for whom membership in the defined benefit plan is closed, is funded by employer contributions based on graduated percentages of the employee's pay, depending on his or her age.

On December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("SFAS No. 158"). SFAS No. 158 required the Company to recognize the funded status of its pension plans and other postretirement plans (see Note 11 - Postretirement Benefits Other Than Pensions). SFAS No. 158 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2008 and 2007.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation—beginning of period	$ 19,889	$ 17,464
Service cost—benefits earned during the period	1,072	958
Interest cost on projected benefit obligation	1,220	1,058
Participant contributions (lump sum repayment)	318	-
Benefits paid	(248)	(124)
Actuarial loss	2,002	533
Benefit obligation—end of period	$ 24,253	$ 19,889

The accumulated benefit obligation for all defined benefit pension plans was $18,568 and $14,789 at December 31, 2008 and 2007, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2008 and 2007, follows:

	2008	2007
Fair value of plan assets—beginning of period	$ 21,820	$ 16,416
Actual return on plan assets	(5,095)	1,006
Employer contributions	3,500	4,522
Participant contributions (lump sum repayment)	318	-
Benefits paid	(248)	(124)
Fair value of plan assets—end of period	$20,295	$ 21,820

The funded status of the Company's pension plans at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation—end of period	$(24,253)	$(19,889)
Fair value of plan assets—end of period	20,295	21,820
Funded status	$ (3,958)	$ 1,931

Components of net periodic pension costs for the years ended December 31, 2008, 2007, and 2006, were as follows:

	2008	2007	2006
Service cost	$ 1,072	$ 958	$ 838
Interest cost	1,220	1,058	926
Expected return on plan assets	(1,516)	(1,167)	(828)
Amortization of prior service cost	19	19	19
Amortization of actuarial loss	247	285	212
Net periodic benefit cost	$1,042	$1,153	$1,167

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2008 and 2007, follows:

	2008	2007
Prior service cost	$ (78)	$ (97)
Unamortized actuarial (loss)	(13,226)	(4,861)
Accumulated other comprehensive income	$ (13,304)	$ (4,958)

In 2009, $19 of prior service cost and $828 of actuarial loss is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2008, follows:

Prior service cost	$ 19
Unamortized actuarial (loss)	(8,365)
Other comprehensive income	$ (8,346)

At December 31, 2008 and 2007, amounts recognized in the statement of financial position were as follows:

	2008	2007
Deferred charges and other	$ –	$ 1,931
Deferred credits and other	(3,958)	–
Net amount recognized	$ (3,958)	$ 1,931

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2008	2007	2006
Discount rate—projected benefit obligation	6.38%	6.25 %	5.75 %
Discount rate—net periodic benefit cost	6.25	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	7.25

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 65% equities. The remaining 35% 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, 2008 and 2007, the investment allocation was 47% and 49%, respectively, in equities and 53% and 51%, respectively, in fixed income.

Expected retiree pension benefit payments projected to be required during the years following 2008 are as follows:

Years Ending December 31	*Amount*
2009	$ 1,092
2010	1,860
2011	1,663
2012	2,781
2013	3,711
2014–2018	12,304
Total	$23,411

In 2009, the Company expects to contribute $1,169 to its pension plan trusts.

Defined Contribution Plans

Big Rivers has two defined contribution retirement plans covering substantially all employees who meet minimum age and service requirements. Each plan has a thrift and 401(k) savings section allowing employees to contribute up to 75% of pay on a pre-tax and/or after-tax basis, with employer matching contributions equal to 60% of the first 6% contributed by the employee on a pre-tax basis.

A base contribution retirement section was added and the plan name changed from thrift and 401(k) savings to retirement savings, effective January 1, 2008, for the salaried plan and November 1, 2008, for the bargaining plan. The base contribution account is funded by employer contributions based on graduated percentages of pay, depending on the employee's age.

The Company's expense under these plans was $308 and $215 for the years ended December 31, 2008 and 2007, respectively.

Deferred Compensation Plan

Effective May 1, 2008, Big Rivers established a nonqualified deferred compensation plan for its eligible employees who are members of a select group of management or highly compensated employees. The purpose of the plan is to allow participants to receive contributions or make deferrals that they could not receive or make under the salaried employees qualified defined contribution retirement savings plan (formerly the thrift and 401(k) savings plan) as a result of nondiscrimination rules and other limitations applicable to the qualified plan under the Internal Revenue Code. The nonqualified plan also allows a participant to defer a percentage of his or her pay on a pre-tax basis.

The nonqualified deferred compensation plan is unfunded, but the Company has chosen to finance its obligations under the plan, including any employee deferrals, through a rabbi trust. The trust assets remain a part of the Company's general assets, subject to the claims of its creditors. The 2008 employer contributions and deferred compensation expense, and the trust asset and deferred liability balances as of December 31, 2008, were each $37.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 adoption of SFAS No. 157 had no impact on the Company's results of operations and financial condition.

The carrying value of accounts receivable, and accounts payable approximate fair value due to their short maturity. At December 31, the Company's cash and cash equivalents included short-term investments in an institutional money market government portfolio account that were recorded at fair value which were determined using quoted market prices for identical assets without regard to valuation adjustment or block discount, as follows:

	2008	*2007*
Institutional money market government portfolio	$ 38,424	$148,316

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:

	2008		*2007*	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted investments	$ –	$ –	$192,932	$250,088

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 rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2008	*2007*	*2006*
Discount rate— projected benefit obligation	6.32%	5.85 %	5.75 %
Discount rate— net periodic benefit cost	5.85	5.75	5.75

The health care cost trend rate assumptions as of December 31, 2008 and 2007, were as follows:

	2008	*2007*
Initial trend rate	7.90 %	9.00 %
Ultimate trend rate	4.50 %	5.50 %
Year ultimate trend is reached	2028	2012

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

	2008	*2007*
One-percentage-point decrease:		
Effect on total service and interest cost components	$ (37)	$ (28)
Effect on year end benefit obligation	(290)	(268)
One-percentage-point increase:		
Effect on total service and interest cost components	44	34
Effect on year end benefit obligation	337	313

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation—beginning of period	$ 2,862	$ 2,695
Service cost—benefits earned during the period	129	85
Interest cost on projected benefit obligation	167	153
Participant contributions	61	45
Benefits paid	(179)	(170)
Actuarial (gain) or loss	(92)	54
Benefit obligation—end of period	$ 2,948	$ 2,862

A reconciliation of the Company's postretirement plan assets at December 31, 2008 and 2007, follows:

	2008	2007
Fair value of plan assets—beginning of period	$ –	$ –
Employer contributions	118	125
Participant contributions	61	45
Benefits paid	(179)	(170)
Fair value of plan assets—end of period	$ –	$ –

The funded status of the Company's postretirement plan at December 31, 2008 and 2007, follows:

	2008	2007
Benefit obligation—end of period	$ (2,948)	$ (2,862)
Fair value of plan assets—end of period	–	–
Funded status	$ (2,948)	$ (2,862)

The components of net periodic postretirement benefit costs for the years ended December 31, 2008, 2007, and 2006, were as follows:

	2008	2007	2006
Service cost	$ 129	$ 85	$ 145
Interest cost	167	153	143
Amortization of prior service cost	2	2	2
Amortization of actuarial (gain)	(60)	(70)	(80)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$ 269	$ 201	$ 241

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2008 and 2007, follows:

	2008	2007
Prior service cost	$ (7)	$ (9)
Unamortized actuarial gain	1,210	1,177
Transition obligation	(123)	(153)
Accumulated other comprehensive income	$ 1,080	$ 1,015

In 2009, $2 of prior service cost, $65 of actuarial gain, and $30 of the transition obligation is expected to be amortized to periodic benefit cost.

The recognized adjustments to other comprehensive income at December 31, 2008, follows:

Prior service cost	$ 2
Unamortized actuarial gain	33
Transition obligation	30
Other comprehensive income	$ 65

At December 31, 2008 and 2007, amounts recognized in the statement of financial position were as follows:

	2008	2007
Accounts payable	$ (156)	$ (138)
Deferred credits and other	(2,792)	(2,724)
Net amount recognized	$ (2,948)	$ (2,862)

Expected retiree benefit payments projected to be required during the years following 2008 are as follows:

Year	Amount
2009	$ 156
2010	178
2011	197
2012	220
2013	255
2014–2018	1,419
Total	$2,425

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 $408 and $345 at December 31, 2008 and 2007, respectively. The postretirement expense recorded was $63, $51, and $44 for 2008, 2007, and 2006, respectively, and the benefits paid were $0, $0, and $20 for 2008, 2007, and 2006, respectively.

12. RELATED PARTIES

For the years ended December 31, 2008, 2007, and 2006, Big Rivers had tariff sales to its members of $114,514, $113,281, and $108,737, respectively. In addition, for the years ended December 31, 2008, 2007, and 2006, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $55,124, $123,094, and $57,374, respectively.

At December 31, 2008 and 2007, Big Rivers had accounts receivable from its members of $16,540 and $20,052, respectively.

13. COMMITMENTS AND CONTINGENCIES

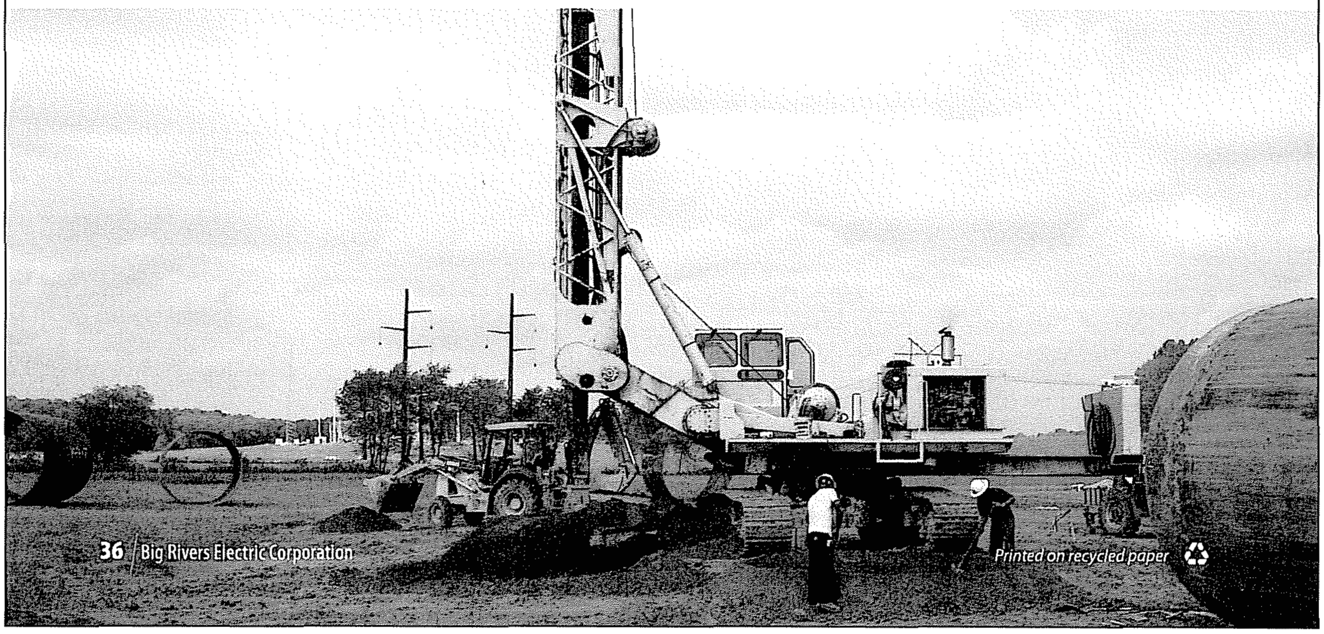
Big Rivers is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

14. TERMINATION OF THE LG&E LEASE AGREEMENT

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.

Applications seeking the necessary state regulatory approvals and tariff revisions required to implement these transactions were filed with the Commission on December 28, 2007, in P.S.C. Case Nos. 2007-00455 and 2007-00460. An order granting the relief sought in Case No. 2007-00460 was entered on June 25, 2008. By order dated March 6, 2009, the Commission entered a final order in Case No. 2007-00455 granting substantially all the relief sought by Big Rivers, and requiring the joint applicants to agree to certain conditions imposed in its order. Letters agreeing to those conditions were filed with the Commission on March 13, 2009, and the parties are working to complete the steps required to close the transactions contemplated in the Termination Agreement.

The termination of the LG&E lease is expected to have a significant and favorable financial impact on Big Rivers. The contemplated transaction, as approved by the Commission, requires that LG&E pay Big Rivers $505,373 in cash, transfer certain assets to Big Rivers and forgive Big Rivers obligation to make certain payments (recorded as a liability of $160,803 at December 31, 2008) to LG&E. Big Rivers contemplates using $140,000 of these proceeds to reduce it long-term debt.



Five-Year Review

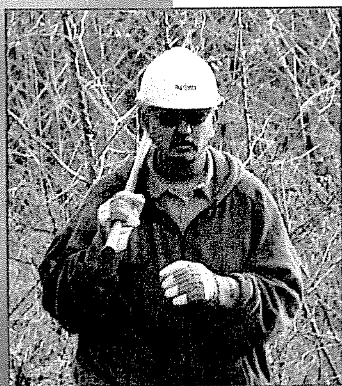
Years Ended December 31 | (Dollars in thousands)

SUMMARY OF OPERATIONS	2008	2007	2006	2005	2004
Operating Revenue:					
Power Contracts Revenue	$ 214,758	$ 271,605	$ 200,692	$ 191,280	$ 175,777
Lease Revenue	58,423	58,265	57,896	57,675	56,753
Total Operating Revenue	273,181	329,870	258,588	248,955	232,530
Operating Expenses:					
Power Purchased	114,643	169,768	114,516	114,500	106,099
Transmission, Maintenance & Other	32,858	31,436	25,336	23,504	21,271
Depreciation	31,041	30,632	30,408	30,192	29,732
Total Operating Expenses	178,542	231,836	170,260	168,196	157,102
Interest Expense and Other:					
Interest	72,710	70,851	70,259	68,748	65,648
Other-net	6,868	103	111	124	158
Total Interest Expense & Other	79,578	70,954	70,370	68,872	65,806
Operating Margin	15,061	27,080	17,958	11,887	9,622
Non-Operating Margin	12,755	20,097	16,584	14,456	12,403
NET MARGIN	$ 27,816	$ 47,177	$ 34,542	$ 26,343	$ 22,025
SUMMARY OF BALANCE SHEET					
Utility Plant in Service	$1,783,587	$1,749,854	$1,731,230	$1,714,850	$1,698,519
Construction Work in Progress	8,185	15,070	13,085	12,706	15,068
Total Utility Plant	1,791,772	1,764,924	1,744,315	1,727,556	1,713,587
Accumulated Depreciation	879,073	853,290	826,647	798,684	772,938
Net Utility Plant	$ 912,699	$ 911,634	$ 917,668	$ 928,872	$ 940,649
TOTAL ASSETS	$1,074,436	$1,314,158	$1,254,389	$1,225,980	$1,220,640
Equities (deficit)	$ (154,602)	$ (174,137)	$ (217,371)	$ (251,913)	$ (278,256)
Long-term Debt	987,349	1,022,345	1,041,075	1,046,846	1,079,688
Other Liabilities	241,689	465,950	430,685	431,047	419,208
TOTAL LIABILITIES AND EQUITY	$1,074,436	$1,314,158	$1,254,389	$1,225,980	$1,220,640
ENERGY SALES - MWh					
Member Rural	2,386,916	2,406,446	2,231,554	2,262,698	2,132,801
Member Large Industrial	925,793	921,359	956,502	971,243	997,202
Other	1,844,677	2,835,789	2,062,286	2,021,365	1,868,657
Total Energy Sales	5,157,386	6,163,594	5,250,342	5,255,306	4,998,660
PURCHASED ENERGY - MWh					
LG&E Energy Marketing	4,934,677	4,830,682	4,980,506	4,947,727	4,623,620
Southeastern Power Administration	235,464	195,521	242,099	296,982	270,762
Other	41,648	1,187,479	71,533	60,169	156,665
Total Energy Purchased	5,211,789	6,213,682	5,294,138	5,304,878	5,051,047
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	217
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 E.ON U.S.*

Building a Brighter Future

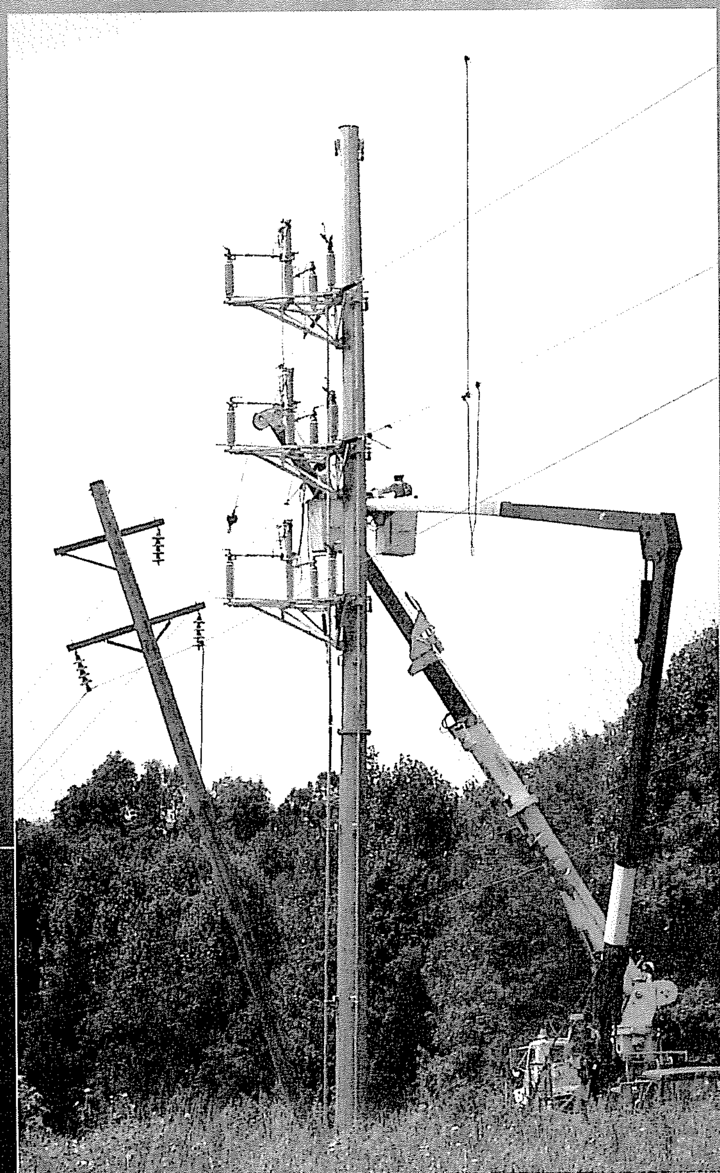
2008 ANNUAL REPORT



Big Rivers Electric Corporation

201 Third Street (42420)
PO Box 24 (42419-0024)
Henderson, KY

Phone: 270-827-2561
Fax: 270-827-2558
www.bigrivers.com



Big Rivers
ELECTRIC CORPORATION

Your Touchstone Energy® Cooperative

Printed on recycled paper

Big Rivers Electric Corporation

Financial Statements as of and for the
Years Ended December 31, 2007 and 2006,
and for Each of the Three Years in the Period
Ended December 31, 2007, and
Independent Auditors' Report

Deloitte.

Deloitte & Touche LLP
111 S. Wacker Drive
Chicago, IL 60606-4301
USA

Tel: +1 312 486 1000
Fax: +1 312 486 1486
www.deloitte.com

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, 2007 and 2006, and the related statements of operations, equities (deficit), and of cash flows for each of the three years in the period ended December 31, 2007. 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 Big Rivers Electric Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, 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 April 25, 2008, on our consideration of Big Rivers Electric Corporation'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.

As discussed in Note 9 to the consolidated financial statements, in 2007 the Company changed its method of accounting for defined benefit pension and other postretirement plans.

Deloitte & Touche LLP

April 25, 2008

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Dollars in thousands)

	2007	2006
ASSETS		
UTILITY PLANT — Net	$ 911,634	$ 917,668
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	192,932	186,690
OTHER DEPOSITS AND INVESTMENTS — At cost	4,240	3,816
CURRENT ASSETS:		
Cash and cash equivalents	148,914	96,143
Accounts receivable	26,683	17,748
Materials and supplies inventory	768	811
Prepaid expenses	131	3,608
Total current assets	176,496	118,310
DEFERRED CHARGES AND OTHER	28,856	27,905
TOTAL	$1,314,158	$1,254,389
EQUITIES (DEFICIT) AND LIABILITIES		
CAPITALIZATION:		
Equities (deficit)	$ (174,137)	$ (217,371)
Long-term debt	1,022,345	1,041,075
Obligations related to long-term lease	183,891	177,310
Other long-term obligations	-	45
Total capitalization	1,032,099	1,001,059
CURRENT LIABILITIES:		
Current maturities of long-term obligations	39,392	11,959
Purchased power payable	13,038	9,219
Accounts payable	4,932	3,366
Accrued expenses	3,014	2,164
Accrued interest	7,811	7,631
Total current liabilities	68,187	34,339
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	15,537	17,316
Deferred gain on sale-leaseback	53,480	56,380
Residual value payments obligation	141,370	140,744
Other	3,485	4,551
Total deferred credits and other	213,872	218,991
COMMITMENTS AND CONTINGENCIES (see note 14)		
TOTAL	$1,314,158	$1,254,389

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005
(Dollars in thousands)

	2007	2006	2005
POWER CONTRACTS REVENUE	$ 271,605	$ 200,692	$ 191,280
LEASE REVENUE	58,265	57,896	57,675
Total operating revenue	329,870	258,588	248,955
OPERATING EXPENSES:			
Operations:			
Power purchased and interchanged	169,768	114,516	114,500
Transmission and other	27,196	21,684	20,309
Maintenance	4,240	3,652	3,195
Depreciation and amortization	30,632	30,408	30,192
Total operating expenses	231,836	170,260	168,196
ELECTRIC OPERATING MARGIN	98,034	88,328	80,759
INTEREST EXPENSE AND OTHER:			
Interest	60,932	60,754	59,639
Interest on obligations related to long-term lease	9,919	9,505	9,109
Other—net	103	111	124
Total interest expense and other	70,954	70,370	68,872
OPERATING MARGIN	27,080	17,958	11,887
NONOPERATING MARGIN:			
Interest income on restricted investments under long-term lease	12,481	12,069	11,670
Interest income and other	7,616	4,515	2,786
Total nonoperating margin	20,097	16,584	14,456
NET MARGIN	$ 47,177	$ 34,542	$ 26,343

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005
(Dollars in thousands)

			Other Equities		
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	Consumers' Contributions to Debt Service	Accumulated Other Comprehensive Income
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	-
Net margin	47,177	47,177	-	-	-
FAS 158 Adoption	(3,943)	-	-	-	(3,943)
BALANCE — December 31, 2007	$ (174,137)	$ (174,639)	$ 764	$ 3,681	$ (3,943)

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005
(Dollars in thousands)

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 47,177	$ 34,542	$ 26,343
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	33,866	33,592	33,386
Increase in restricted investments under long-term lease	(6,242)	(6,040)	(5,955)
Amortization of deferred gain on sale-leaseback	(2,900)	(2,882)	(2,856)
Deferred lease revenue	(1,779)	(4,439)	(4,335)
Residual value payments obligation	(6,591)	(6,187)	(5,969)
Increase in RUS ARVP Note	5,572	5,313	5,077
Increase in New RUS Promissory Note	15,761	13,889	8,205
Increase in obligations under long-term lease	6,580	6,356	6,250
Changes in certain assets and liabilities:			
Accounts receivable	(8,934)	(1,398)	(741)
Materials and supplies inventory	43	(144)	(112)
Prepaid expenses	3,477	(3,517)	257
Deferred charges	(2,429)	(694)	480
Purchased power payable	3,818	(1,513)	1,528
Accounts payable	1,566	972	(516)
Accrued expenses	1,033	81	72
Other — net	(5,465)	(1,170)	351
Net cash provided by operating activities	84,553	66,761	61,465
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(18,682)	(13,189)	(12,904)
Other deposits and investments	(424)	(419)	(151)
Net cash used in investing activities	(19,106)	(13,608)	(13,055)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(12,676)	(24,274)	(36,037)
Net cash used in financing activities	(12,676)	(24,274)	(36,037)
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,771	28,879	12,373
CASH AND CASH EQUIVALENTS — Beginning of year	96,143	67,264	54,891
CASH AND CASH EQUIVALENTS — End of year	$148,914	$ 96,143	$ 67,264
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 45,600	$ 47,277	$ 46,534
Cash paid for taxes	$ 420	$ 375	$ 271

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, operates one segment that 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 KPSC and RUS.

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. These 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:

	Amount
2008	$ 52,332
2009	52,332
2010	52,332
2011	41,291
2012	35,076
Thereafter	385,832
	$619,195

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, 2007 and 2006, the Company has recorded $8,359 and $7,221, respectively, for such additions in utility plant. The Company has recorded $6,591, $6,187, and $5,969 in 2007, 2006 and 2005, 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, 2007, the cumulative Nonincremental Capital Costs amounted to $6,618 (unaudited).

E.ON U.S completed the construction of a scrubber (Major Capital Improvement) on Big Rivers' Coleman plant. First operation at the Coleman units occurred in February 2006, while commercial acceptance occurred in January 2007. The project was completed at a cost of $97,495 (unaudited), none of which is expected to be recorded as utility plant or lease revenue under the Lease Agreement.

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 2007, 2006, and 2005, the average composite depreciation rates were 1.85%, 1.86%, and 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.

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 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 February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115*, which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option a) may be applied instrument by instrument; b) is irrevocable (unless a new election date occurs); and c) is applied only to entire instruments and not to portions of instruments. The Company does not expect to elect to record any financial assets or liabilities at fair value under this standard.

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 $58,862 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 $16,017. 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 nonrefundable 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.

The Company, LEM, and WKEC have entered into an agreement that would allow for a mutually acceptable early termination of the Lease Agreement (see Note 15).

3. UTILITY PLANT

At December 31, 2007 and 2006, utility plant is summarized as follows:

	2007	2006
Classified plant in service:		
Electric plant — leased	$ 1,524,421	$ 1,506,822
Transmission plant	209,547	208,760
General plant	15,772	15,581
Other	114	67
	1,749,854	1,731,230
Less accumulated depreciation	853,290	826,647
	896,564	904,583
Construction in progress	15,070	13,085
Utility plant — net	$ 911,634	$ 917,668

Interest capitalized for the years ended December 31, 2007, 2006, and 2005, was $391, $236, and $160 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, 2007 and 2006, the Company had a regulatory liability of approximately $29,771 and $26,670, 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 $2,900, $2,881, and $2,856, in 2007, 2006, and 2005, respectively. The following are the scheduled principal payments on the long-term lease as of December 31:

Year	Amount
2008	-
2009	5,669
2010	
2011	
2012	508
Thereafter	177,714
Total	$ 183,891

Amounts recognized in the statement of financial position related to the sale-leaseback as of December 31, 2007 and 2006, are as follows:

	2007	2006
Restricted investments under long-term lease	$ 192,932	$ 186,690
Obligations related to long-term lease	183,891	177,310
Deferred gain on sale-leaseback	53,480	56,380

Amounts recognized in the statement of operations related to the sale-leaseback for the years ended December 31, 2007, 2006, and 2005, are as follows:

	2007	2006	2005
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	12,819	12,386	11,965
Amortize gain on sale-leaseback	(2,900)	(2,881)	(2,856)
Net interest on obligations related to long-term lease	9,919	9,505	9,109
Interest income on restricted investments under long-term lease	12,481	12,069	11,670
Interest income and other	778	777	772

5. DEBT AND OTHER LONG-TERM OBLIGATIONS

A detail of long-term debt at December 31, 2007 and 2006, is as follows:

	2007	2006
New RUS Promissory Note, stated amount of, $807,556, stated interest rate of 5.75%, with an interest rate of 5.81%, maturing July 2021	$ 804,098	$ 799,789
RUS ARVP Note, stated amount of $249,456, no stated interest rate, with interest imputed at 5.81%, maturing December 2023	99,290	94,391
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023	16,204	16,707
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.74% and 3.49% in 2007 and 2006, respectively), maturing in October 2022	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 3.74% and 3.49%% in 2007 and 2006, respectively), maturing in June 2013	58,800	58,800
Total long-term debt	1,061,692	1,052,987
Current maturities	39,347	11,912
Total long-term debt — net of current maturities	$ 1,022,345	$ 1,041,075

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

Year	Amount
2008	$ 39,347
2009	39,391
2010	41,440
2011	47,492
2012	65,561
Thereafter	828,461
Total	$ 1,061,692

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.

Due to current market conditions, the variable interest rates incurred on the Series 1983 and Series 2001 Pollution Control Bonds' have increased. These instruments are subject to maximum interest rates of 13% and 18%, respectively.

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 $47, $345, and $351 during 2007, 2006, and 2005, respectively. At December 31, 2007, the Company has a remaining liability of $45 payable in 2008 which 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, 2007. 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, 2008, 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 2008 Big Rivers plans to pursue KPSC approval to extend the adjustment, at minimum, through August 31, 2009.

7. INCOME TAXES

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, disclosures and transition. The cumulative effects of applying FIN 48 are to be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on January 1, 2007. The Company files a federal income tax return, as well as several state income tax returns. The years currently open for federal tax examination are 2004 through 2007 and 1990 through 1997, due to unused net operating loss carryforwards. The major state tax jurisdiction currently open for tax examination is Kentucky for years 2001 through 2007 and years 1990 through 1997, also due to unused net operating loss carryforwards. As a result of implementing FIN 48, the Company made no adjustment to the liability for unrecognized tax benefits. The Company did not have any unrecognized tax benefits recorded related to federal or state income taxes. Upon adoption of FIN 48, the Company adopted a financial statement policy of classification of interest and penalties as an operating expense on the income statement and accrued expense in the balance sheet. No interest or penalties have been recorded as of the adoption or during 2007.

The components of the net deferred tax assets as of December 31, 2007 and 2006, were as follows:

	2007	2006
Deferred tax assets:		
Net operating loss carryforward	$ 60,972	$ 68,696
Alternative minimum tax credit carryforwards	5,035	4,790
Sale-leaseback	142,807	136,598
Fixed asset basis difference	7,764	-
Other accruals	2,844	2,465
Total deferred tax assets	219,422	212,549
Deferred tax liabilities:		
Lease agreement	(27,359)	(21,270)
Fixed asset basis difference	-	(827)
Total deferred tax liabilities	(27,359)	(22,097)
Net deferred tax asset (prevaluation allowance)	192,063	190,452
Valuation allowance	(187,028)	(185,662)
Net deferred tax asset	$ 5,035	$ 4,790

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, 2007, 2006, and 2005, 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 $7,724, $10,599, and $7,995 in current tax expense for the years ended December 31, 2007, 2006, and 2005, 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.

A reconciliation of the Company's effective tax rate for 2007, 2006 and 2005 follows:

Federal rate	35.0 %	35.0 %	35.0 %
State rate, net of federal benefit	4.5	4.5	4.5
Patronage allocation to members	(28.0)	(20.5)	(21.7)
Tax benefit of operating loss carryforwards and other	(11.5)	(19.0)	(17.8)
Effective tax rate	0.0 %	0.0 %	0.0 %

At December 31, 2007 and 2006, Big Rivers had a nonpatron net operating loss carryforward of approximately $148,713 and $167,551, respectively, for tax reporting purposes expiring through 2014, and an alternative minimum tax credit carryforward at December 31, 2007 and 2006, of approximately $5,035 and $4,790, respectively, which carries forward indefinitely.

Big Rivers has a net deferred tax asset, against which a valuation allowance has been provided based upon the fact that it is presently uncertain whether such asset will be realized. The resulting net deferred tax asset at December 31, 2007 and 2006, is approximately $5,035 and $4,790, 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, 2007, 2006, and 2005, were $96,295, $97,999, and $96,795, 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.

On December 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88,106, and 132(R)* ("SFAS No. 158"). SFAS No. 158 required the Company to recognize the funded status of its pension plans and other postretirement plans (see Note 11 - Postretirement Benefits Other Than Pensions). SFAS No. 158 defines the funded status of a defined benefit pension plan as the fair value of its assets less its projected benefit obligation, which includes projected salary increases, and defines the funded status of any other postretirement plan as the fair value of its assets less its accumulated postretirement benefit obligation.

SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end balance sheet and requires disclosure in the notes to the financial statements certain additional information related to net periodic benefit costs for the next fiscal year. The Company's pension and other postretirement benefit plans are measured as of December 31, 2007 and 2006.

The following provides an overview of the Company's noncontributory defined benefit pension plans.

A reconciliation of the Company's benefit obligations of its noncontributory defined benefit pension plans at December 31, 2007 and 2006 follows:

	2007	2006
Benefit obligation, beginning of period	$ 17,464	$ 16,550
Service cost - benefits earned during the period	958	838
Interest cost on projected benefit obligation	1,058	926
Benefits paid	(124)	(852)
Actuarial (gain) or loss	533	2
Benefit obligation, end of period	$ 19,889	$ 17,464

The accumulated benefit obligation for all defined benefit pension plans was $14,789 and $12,421 at December 31, 2007 and 2006, respectively.

A reconciliation of the Company's pension plan assets at December 31, 2007 and 2006 follows:

	2007	2006
Fair value of plan assets, beginning of period	$ 16,416	$ 11,868
Actual return on plan assets	1,006	716
Employer contributions	4,522	4,684
Benefits paid	(124)	(852)
Fair value of plan assets, end of period	$ 21,820	$ 16,416

The funded status of the Company's pension plans at December 31, 2007 and 2006 follows:

	2007	2006
Benefit obligation, end of period	$ (19,889)	$ (17,464)
Fair value of plan assets, end of period	21,820	16,416
Funded status	$ 1,931	$ (1,048)

Components of net periodic pension costs for the years ended December 31, 2007, 2006, and 2005, were as follows:

	2007	2006	2005
Service cost	$ 958	$ 838	$ 824
Interest cost	1,058	926	931
Expected return on plan assets	(1,167)	(828)	(840)
Amortization of prior service cost	19	19	19
Amortization of actuarial (gain) or loss	285	212	224
Net periodic benefit cost	$ 1,153	$ 1,167	$ 1,158

A reconciliation of the pension plan amounts in accumulated other comprehensive income at December 31, 2007 follows:

	2007
Prior service cost	$ (97)
Unamortized actuarial gain/(loss)	(4,861)
Accumulated other comprehensive income	$ (4,958)

In 2008, $13 of prior service cost and $29 of actuarial loss is expected to be amortized to periodic benefit cost.

At December 31, 2006, the unrecognized prior service cost was $116 and the unrecognized actuarial loss was $4,452. These amounts net of the funded status were recorded as a prepaid benefit cost of $3,520 in the statement of financial position.

At December 31, 2007 and 2006, amounts recognized in the statement of financial position were as follows:

	2007	2006
Prepaid Benefit cost	$ -	$ 3,520
Noncurrent assets	1,931	-
Net amount recognized	$ 1,931	$ 3,520

Assumptions used to develop the projected benefit obligation and determine the net periodic benefit cost were as follows:

	2007	2006	2005
Discount rate - projected benefit obligation	6.25 %	5.75 %	5.75 %
Discount rate - net periodic benefit cost	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	7.25

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 65% equities. The remaining 35% 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, 2007 and 2006, the investment allocation was 49% and 0%, respectively, in equities and 51% and 100%, respectively, in fixed income.

Expected retiree pension benefit payments projected to be required during the years following 2007 are as follows:

Years Ending December 31	Amount
2008	$ 1,258
2009	846
2010	1,495
2011	1,326
2012	2,471
2013–2017	12,528
Total	$ 19,924

In 2008, the Company expects to contribute $1,010 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:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Restricted investments	$ 192,932	$ 250,088	$ 186,690	$ 233,418

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 rates used in computing the postretirement benefit obligation and net periodic benefit cost were as follows:

	2007	2006	2005
Discount rate - projected benefit obligation	5.85 %	5.75 %	5.75 %
Discount rate - net periodic benefit cost	5.75	5.75	6.25

The health care cost trend rate assumptions as of December 31, 2007 and 2006 were as follows:

	2007	2006
Initial trend rate	9.00 %	9.00 %
Ultimate trend rate	5.50 %	5.50 %
Year ultimate trend is reached	2012	2011

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

	2007	2006
One-Percentage-Point Decrease		
Effect on total service and interest cost components	$ (28)	$ (32)
Effect on year end benefit obligation	(268)	(254)
One-Percentage-Point Increase		
Effect on total service and interest cost components	$ 34	$ 38
Effect on year end benefit obligation	313	296

A reconciliation of the Company's benefit obligations of its postretirement plan at December 31, 2007 and 2006 follows:

	2007	2006
Benefit obligation, beginning of period	$ 2,695	$ 2,578
Service cost - benefits earned during the period	85	145
Interest cost on projected benefit obligation	153	143
Participant contributions	45	61
Benefits paid	(170)	(232)
Actuarial (gain) or loss	54	-
Benefit obligation, end of period	$ 2,862	$ 2,695

A reconciliation of the Company's postretirement plan assets at December 31, 2007 and 2006 follows:

	2007	2006
Fair value of plan assets, beginning of period	$ -	$ -
Employer contributions	125	171
Participant contributions	45	61
Benefits paid	(170)	(232)
Fair value of plan assets, end of period	$ -	$ -

The funded status of the Company's postretirement plan at December 31, 2007 and 2006 follows:

	2007	2006
Benefit obligation, end of period	$ (2,862)	$ (2,695)
Fair value of plan assets, end of period	-	-
Funded status	$ (2,862)	$ (2,695)

The components of net periodic postretirement benefit costs for the years ended December 31, 2007, 2006, and 2005, were as follows:

	2007	2006	2005
Service cost	$ 85	$ 145	$ 94
Interest cost	153	143	182
Amortization of prior service cost	2	2	2
Amortization of actuarial (gain) or loss	(70)	(80)	(23)
Amortization of transition obligation	31	31	31
Net periodic benefit cost	$ 201	$ 241	$ 286

A reconciliation of the postretirement plan amounts in accumulated other comprehensive income at December 31, 2007 follows:

	2007
Prior service cost	$ (9)
Unamortized actuarial gain/(loss)	1,177
Transition obligation	(153)
Accumulated other comprehensive income	$ 1,015

In 2008, $2 of prior service cost, $64 of actuarial gain, and $31 of the transition obligation is expected to be amortized to periodic benefit cost.

At December 31, 2006, the unrecognized prior service cost was $11, unrecognized accumulated gain was $1,287, and unrecognized transition obligation was $184. These amounts net of the funded status were recorded as a noncurrent liability of $3,787 in the statement of financial position.

At December 31, 2007 and 2006, amounts recognized in the statement of financial position were as follows:

	2007	2006
Accounts payable	$ (138)	$ -
Other deferred credits	(2,724)	(3,787)
Net amount recognized	$ (2,862)	$ (3,787)

Expected retiree benefit payments projected to be required during the years following 2007 are as follows:

Year	Amount
2008	$ 138
2009	168
2010	194
2011	212
2012	224
2013–2017	1,325
Total	$ 2,261

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 $345 and $294 at December 31, 2007 and 2006, respectively. The postretirement expense recorded was $51, $44, and $27 for 2007, 2006, and 2005, respectively, and the benefits paid were $0, $20, and $16 for 2007, 2006, and 2005, 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 $215 and $193 for the years ended December 31, 2007 and 2006, respectively.

13. RELATED-PARTIES

For the years ended December 31, 2007, 2006, and 2005, Big Rivers had tariff sales to its members of $113,281, $108,737, and $109,439, respectively. In addition, for the years ended December 31, 2007, 2006, and 2005, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Domtar Paper (formerly Weyerhaeuser) loads of $123,094, $57,374, and $46,372, respectively.

At December 31, 2007 and 2006, Big Rivers had accounts receivable from its members of $20,052 and $13,015, 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.

15. TERMINATION OF THE LG&E LEASE AGREEMENT

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. Applications seeking the necessary state regulatory approvals and tariff revisions required to implement these transactions were filed with the Kentucky Public Service Commission on December 28, 2007, in P.S.C. Case Nos. 2007-00455 and 2007-00460.

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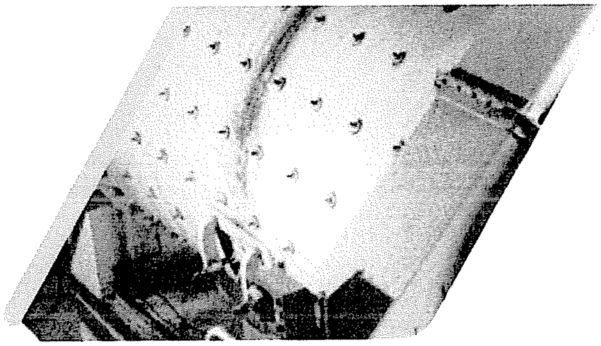
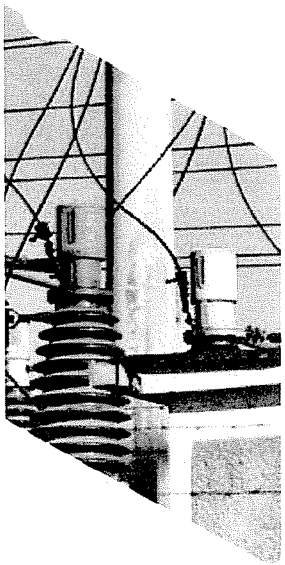
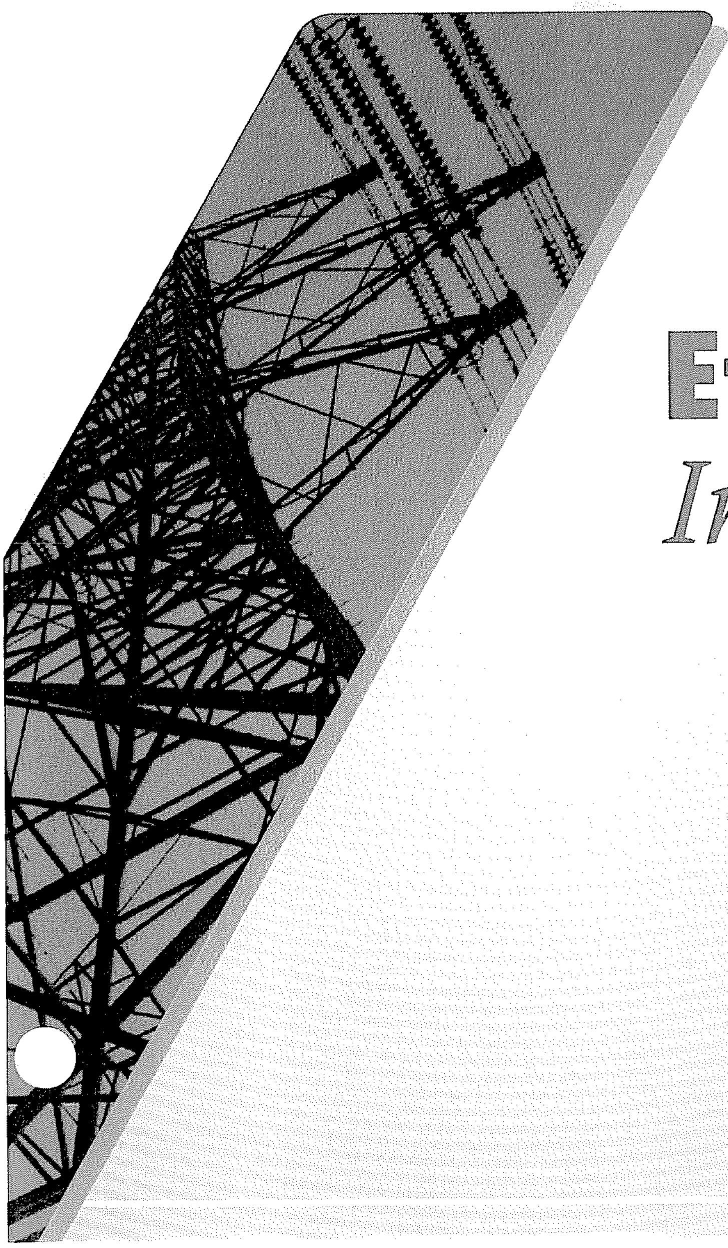






Efficiency

In Electricity

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	(217,371)	(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

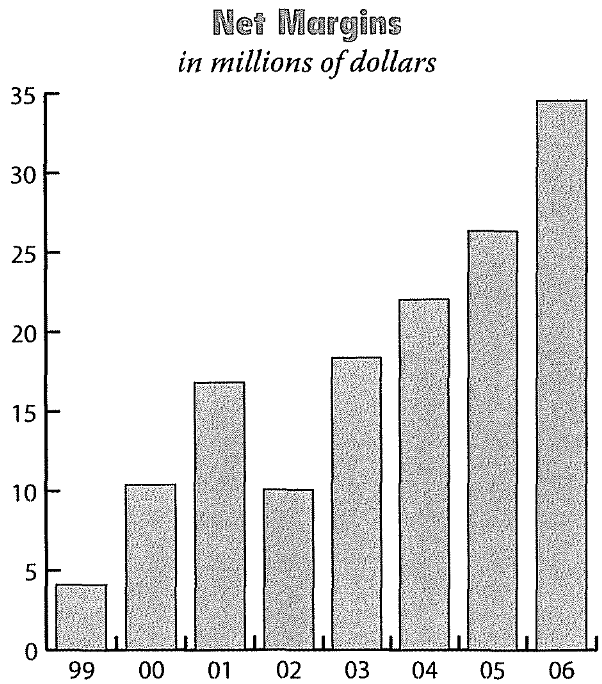
Member Consumers Served 110,000

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



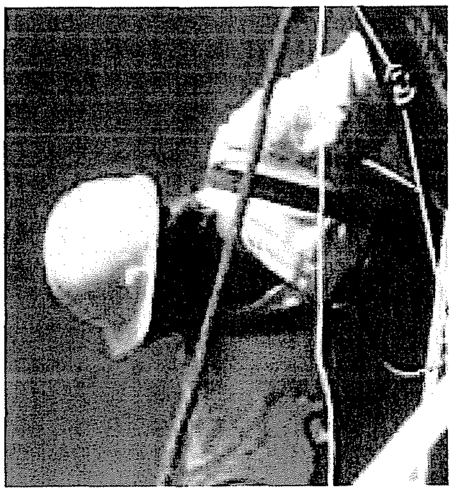
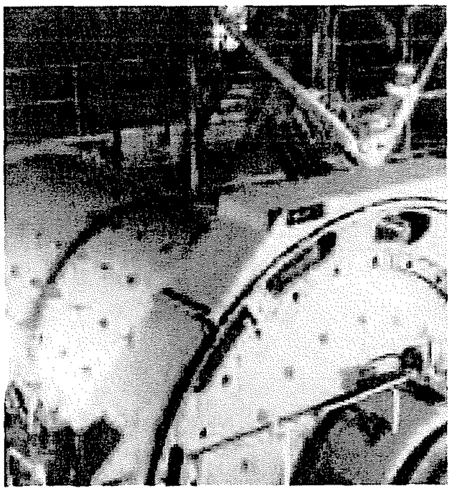
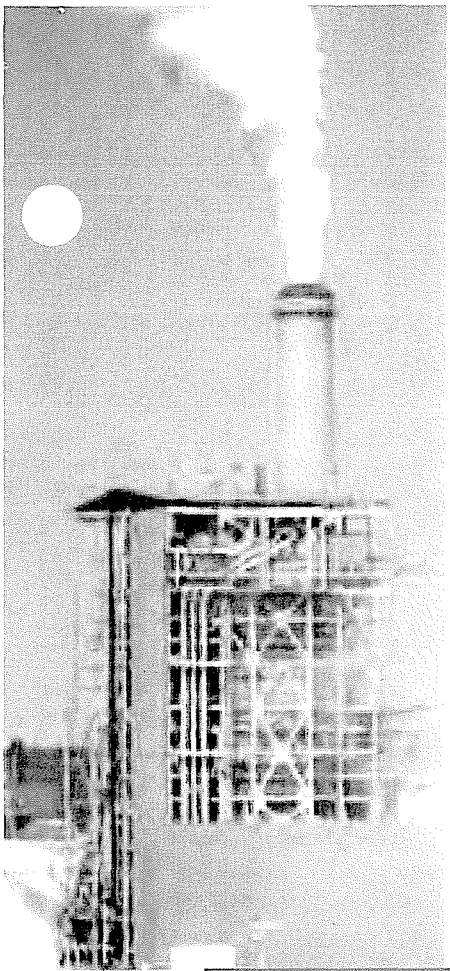




Table of Contents

Corporate Profile 2
Message from CEO and Board Chair 4
Efficiency in Electricity. 6
Financial Review : 2006 14
Independent Auditors' Report 17
Balance Sheets 18
Statements of Operations 19
Statements of Equities 20
Statements of Cash Flows 21
Notes to Financial Statements. 22
Member Distribution Systems 33
Board of Directors and Management Team 34
Five Year Review 36



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

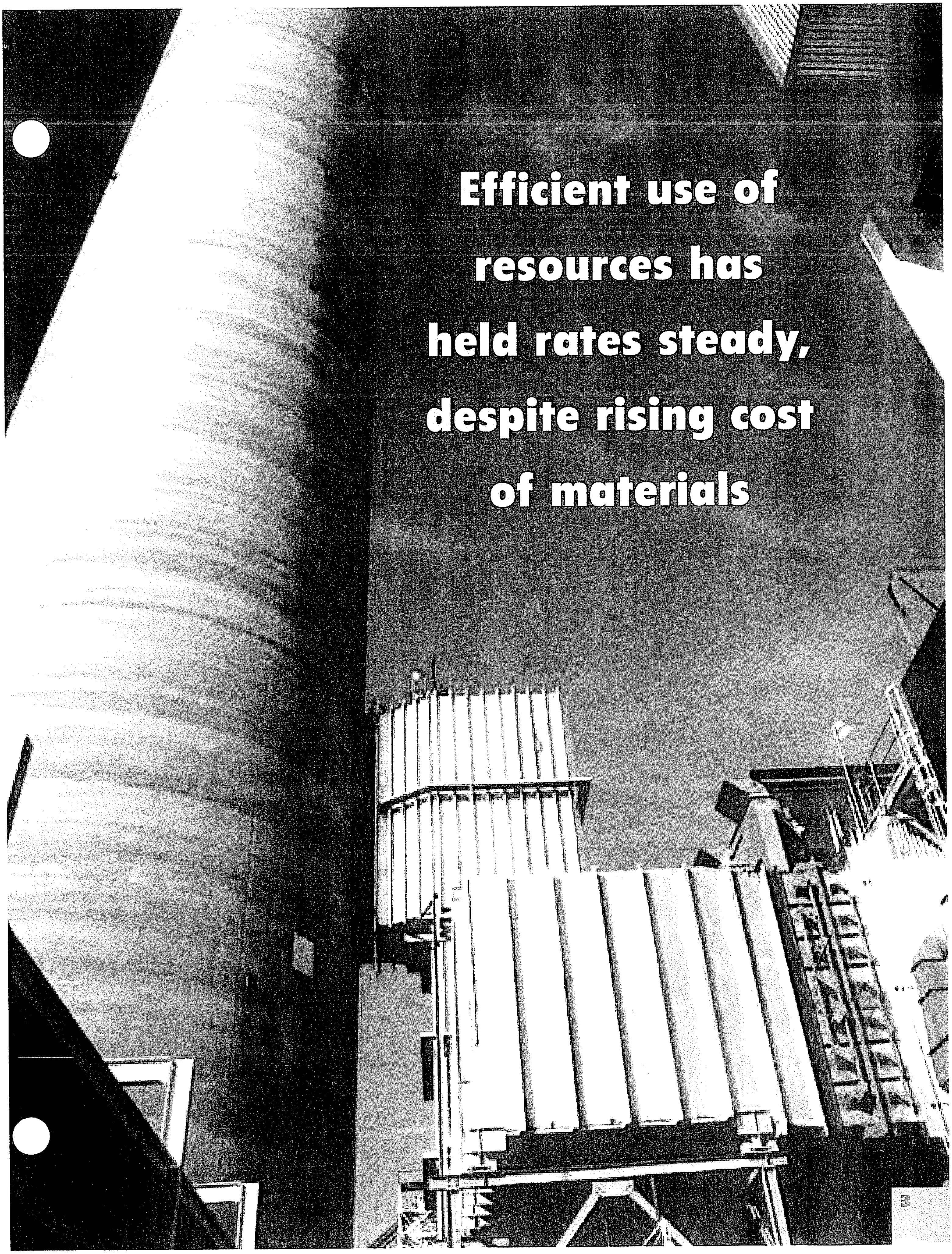
Generating Capacity Owned* = 1,459 MW

Rights to HMP&L Station Two* = 217 MW

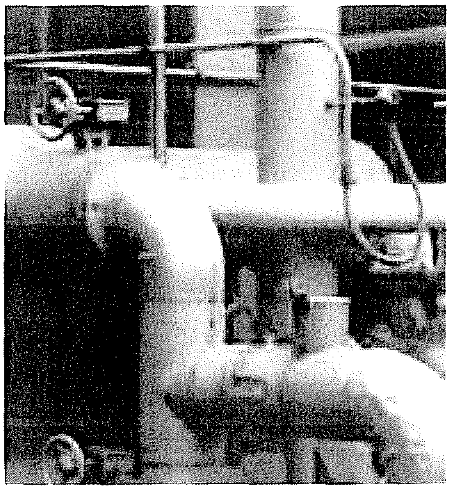
Contracted Capacity from SEPA = 178 MW

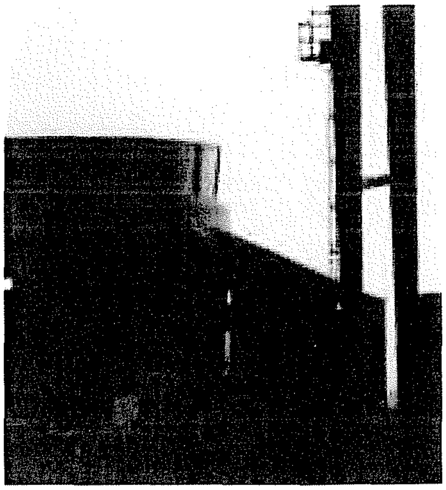
** These facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.*

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.

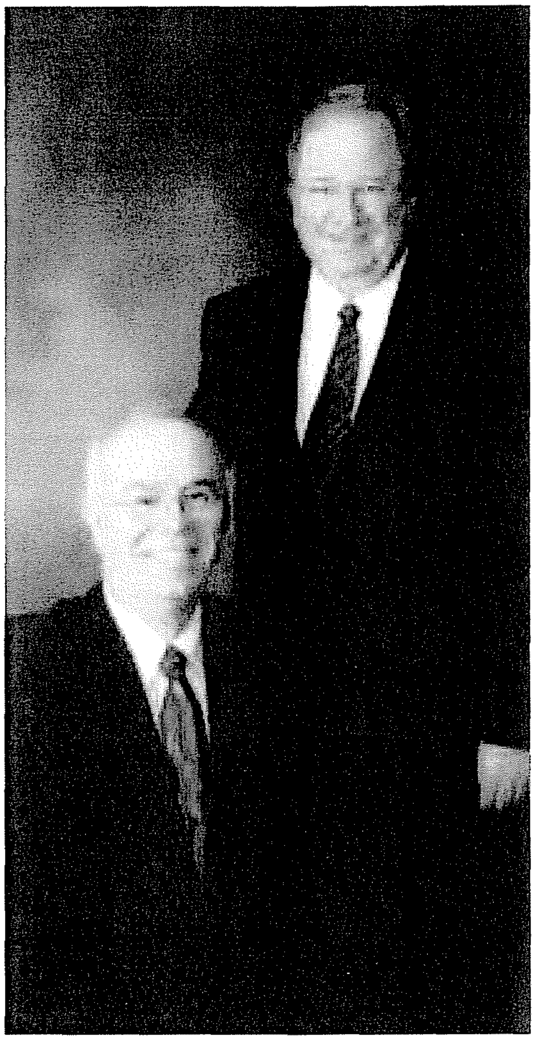
The appetite for energy in our country continues to steadily grow each year. This growth ultimately results in the need for new resources for generating additional electricity. The cost of building new electric generating plants is rising dramatically as materials and labor for construction are in high 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.

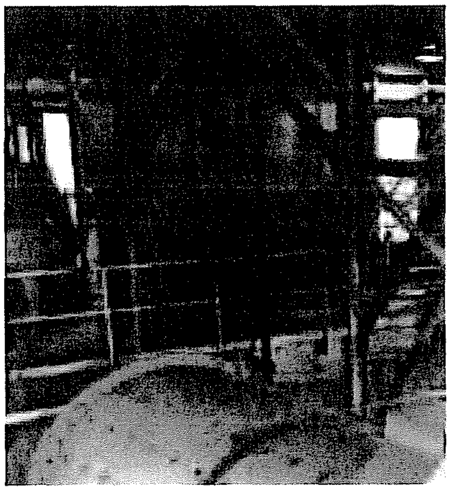
This major effort, if successful, will bring the operations of our power plants back to Big Rivers as was the case prior to the 1998 transaction. It will require us to be efficient to accomplish the mountains of work necessary for this effort and to still operate Big Rivers on a daily basis. The results 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.

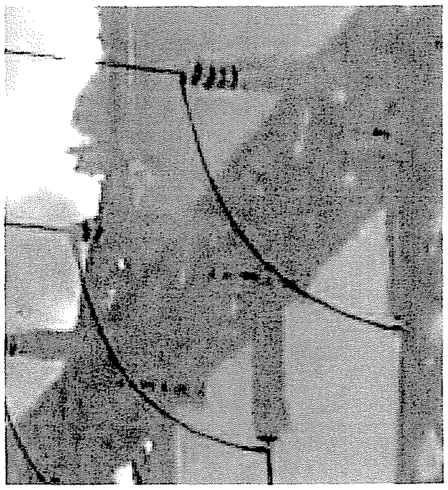


Michael Core
President and CEO

William Denton
Chair of the Board of Directors

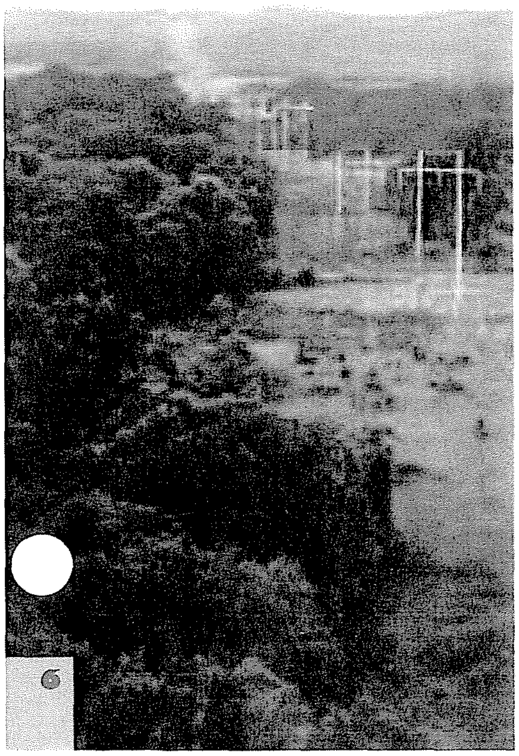
Efficiency in Electricity





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.

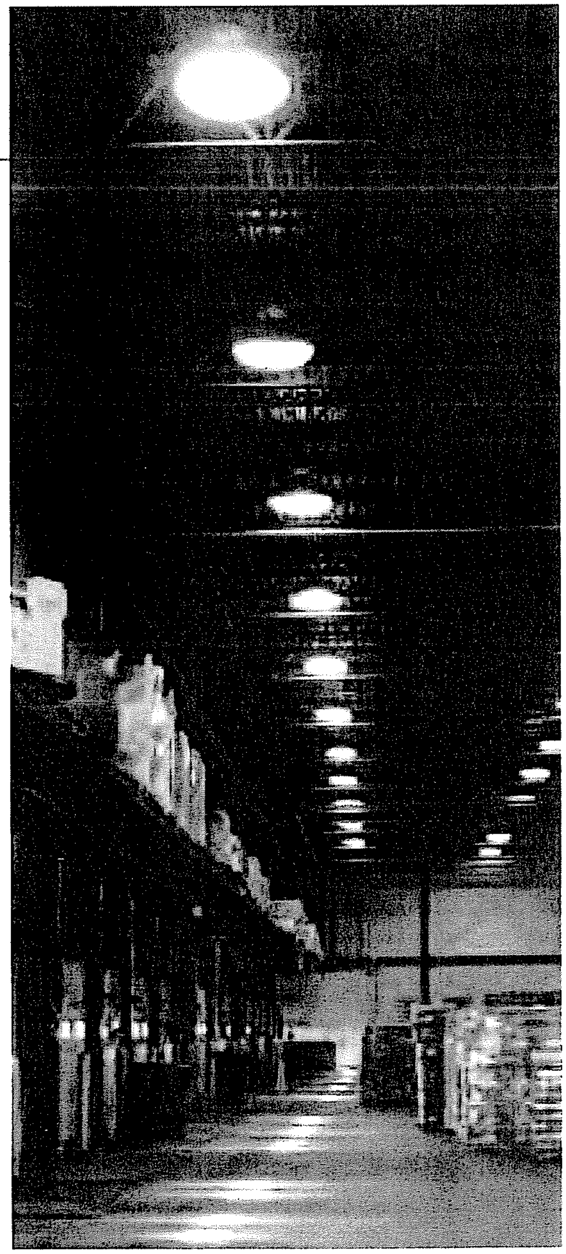
Big Rivers accomplished a number of important objectives in 2006 and kicked off several new initiatives that will result in the same affordable, value-conscious service on which Big Rivers members have come to depend. The following pages highlight some of the key activities from the past year that not 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.

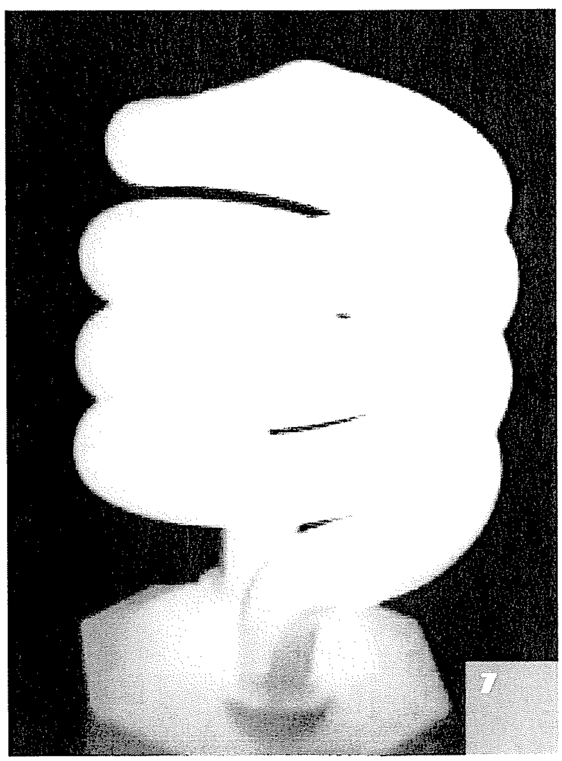


Energy Efficiency Programs and Partnerships

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.

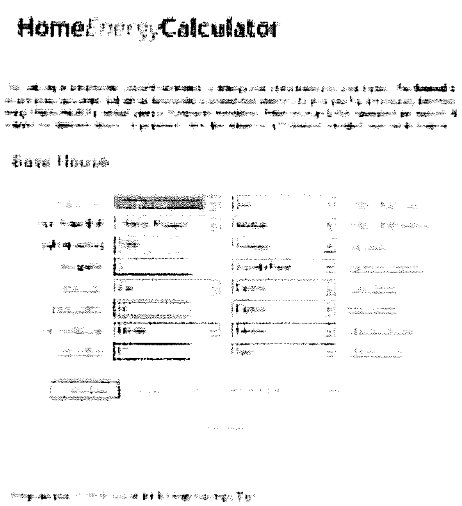
Big Rivers partnered with the Governor's Office of Energy Policy, the Department of Energy and other agencies to bring the High Performance Schools program to its service region. This partnership resulted in new and more efficient school buildings for both Hancock and Meade counties. Three Hancock County 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.

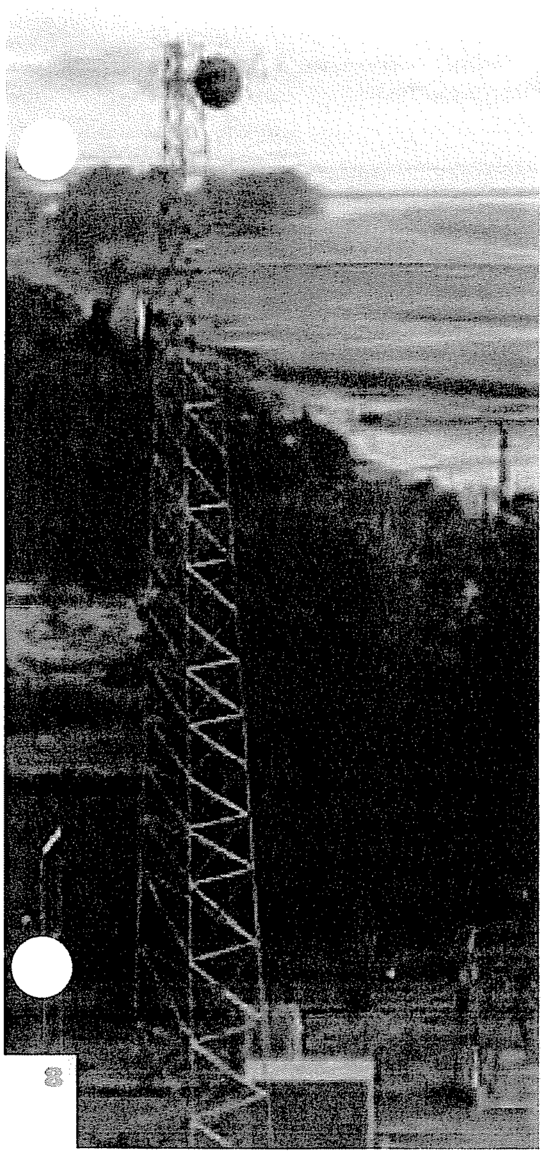
Meade County schools incorporated the highest efficiency heating and cooling system available today and used a composite concrete foam wall system that is both tight and highly insulated. Cooperative staff assisted the school system management through education, demonstration and analysis.



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.

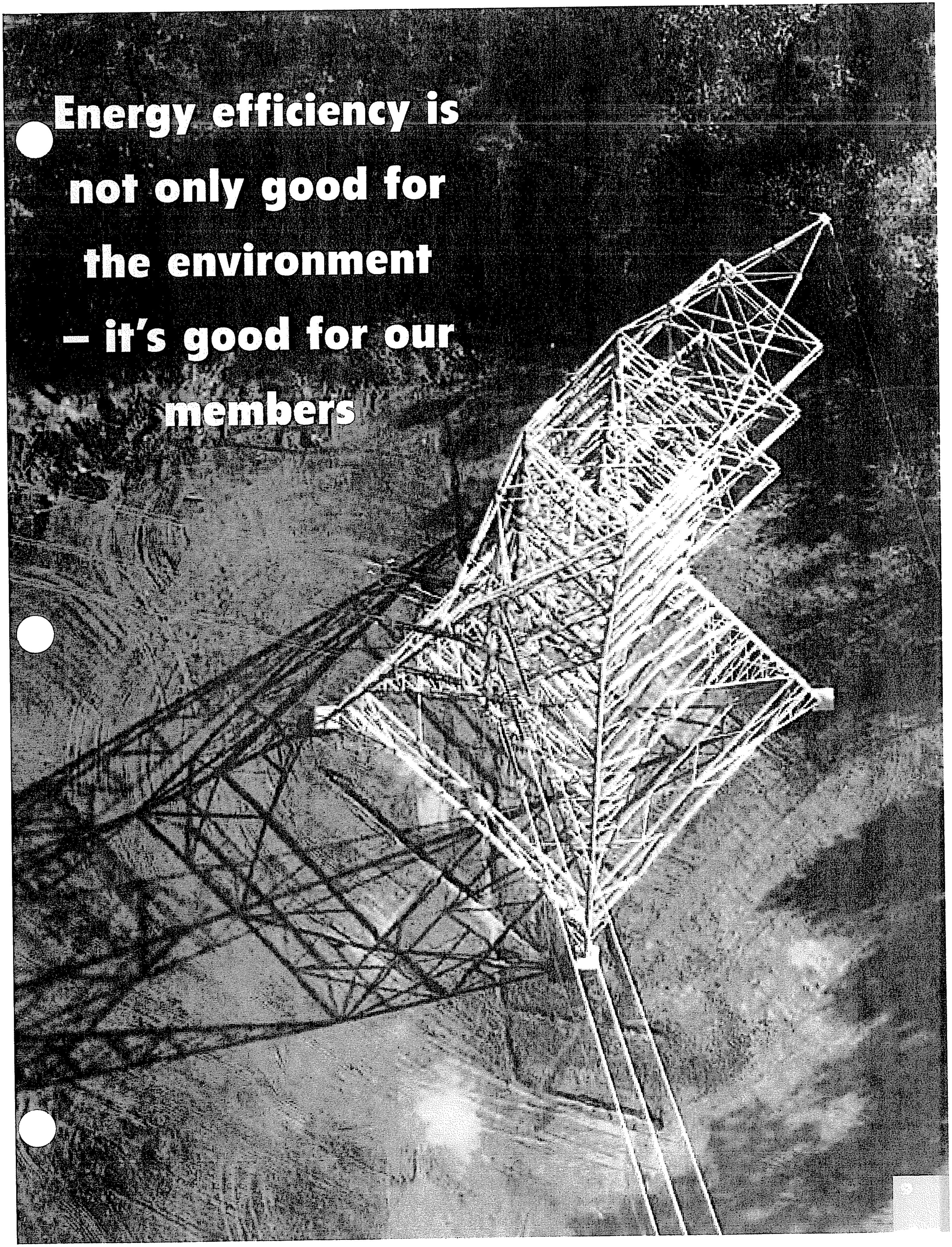
Big Rivers provided support to member-systems for the installation of tracking and identification systems designed to improve response time when a power outage takes place. The subsequent reduction in restoration time will help circumvent much of the downtime that member-consumers experience in the wake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

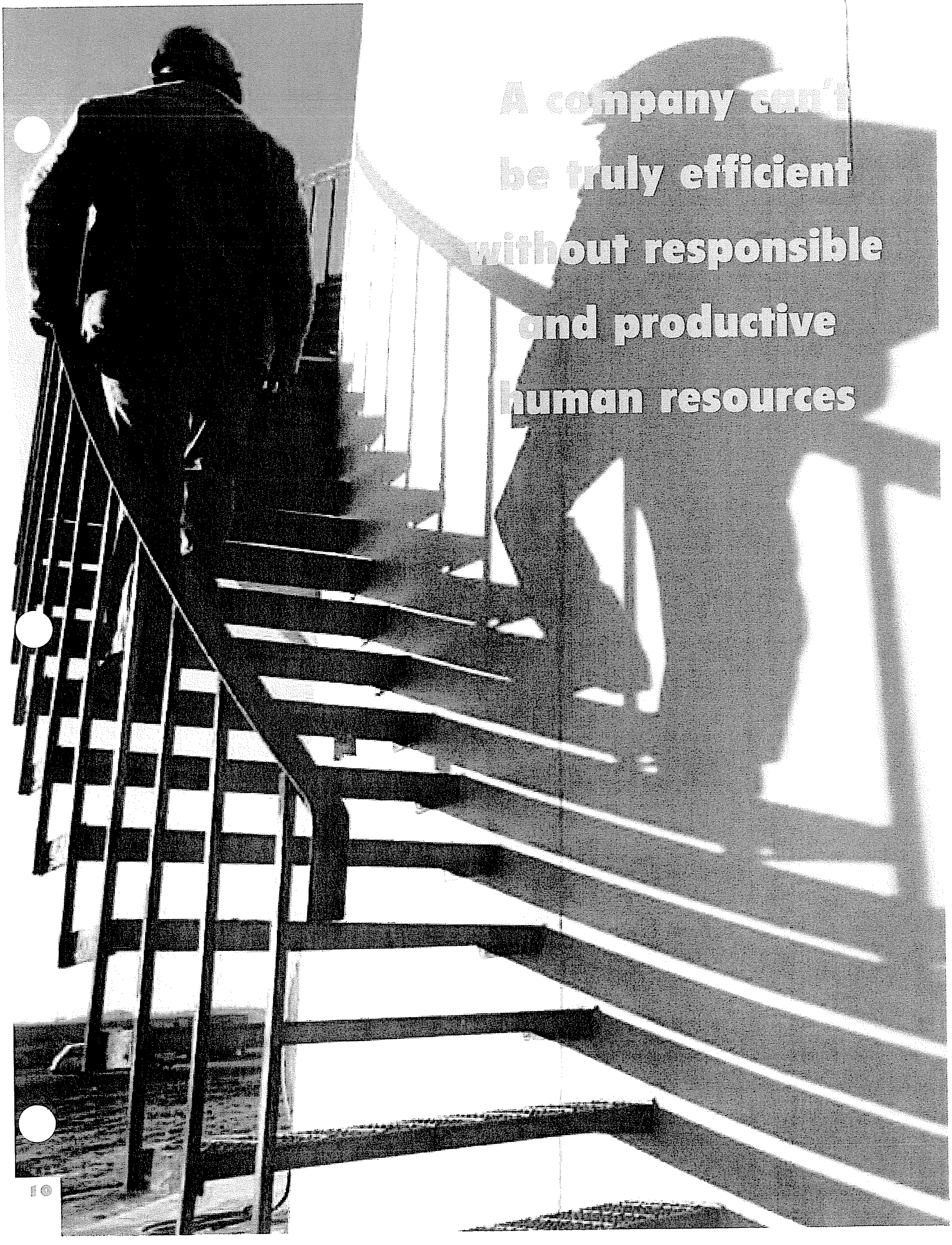
Improving the two-way radio system to improve communications between Big Rivers and its three member-systems is the focus of an engineering study begun in 2006. The objective is high-speed communication services between member-system facilities to improve service and reliability.

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 2007, 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.

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





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

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.

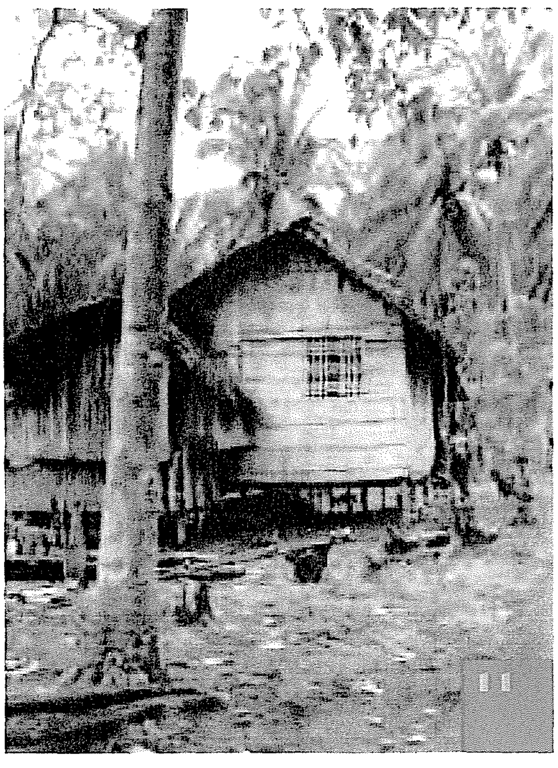
Employee Benefits and Personnel Development

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.

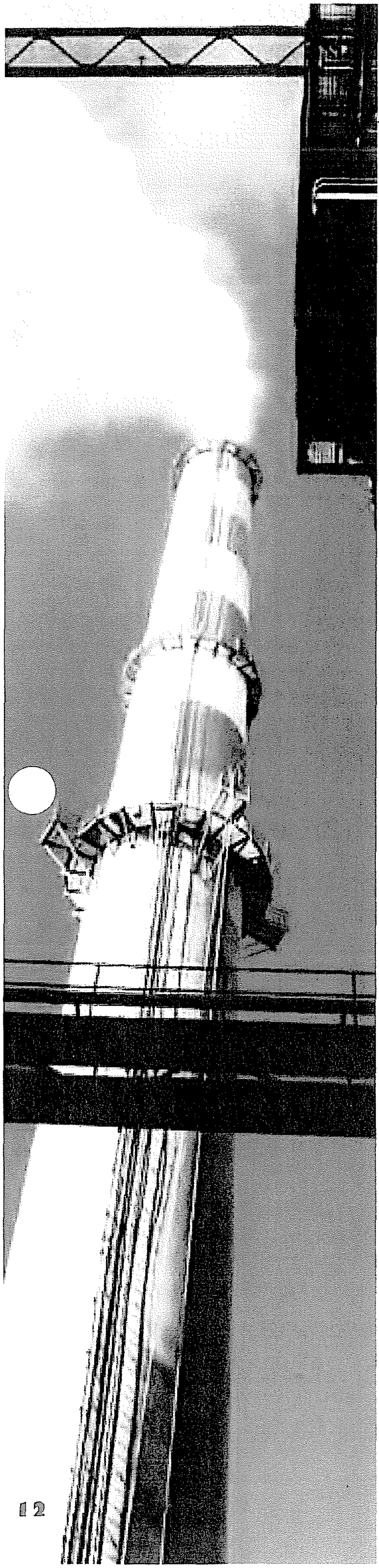
Big Rivers took a step forward in personnel development, instituting an apprentice lineman program aimed at strengthening productivity and maintaining the company's high level of service.

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 are eventually 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.

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

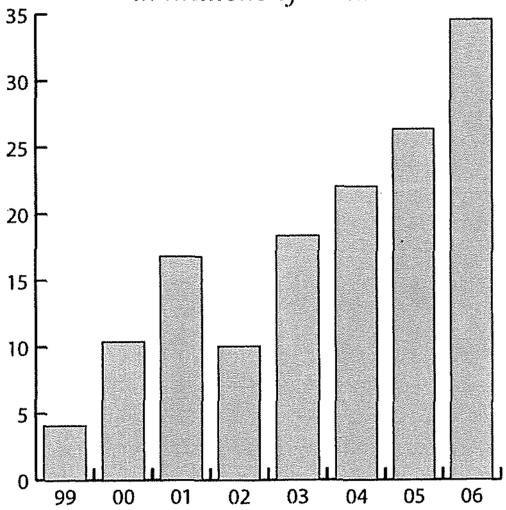
Financial Review : 2006

Big Rivers Records Strong 2006

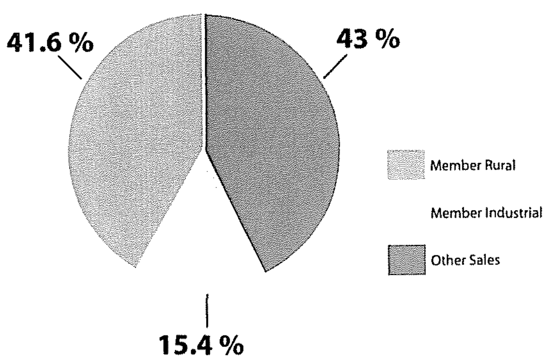
Big Rivers' commitment to efficient operations and careful management of resources produced a strong financial performance in 2006. Record margins were established as the company significantly improved its revenue-to-power cost ratio, an important measurement of efficiency.

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	(217,371)	(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.

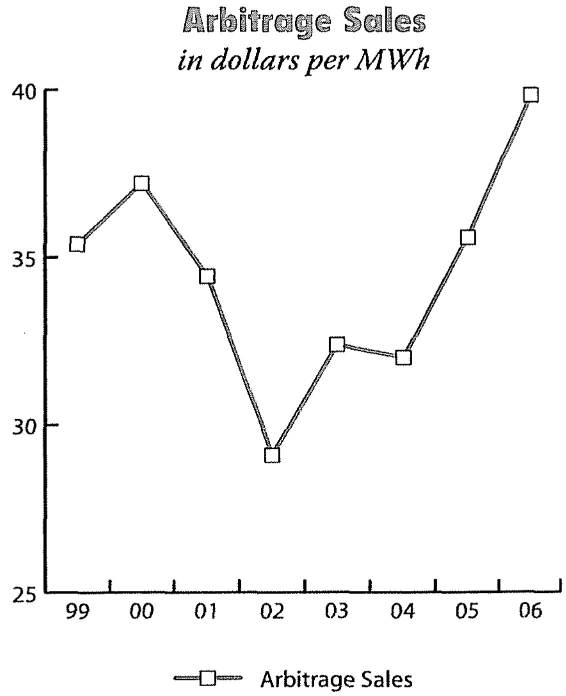
Wholesale Member Sales

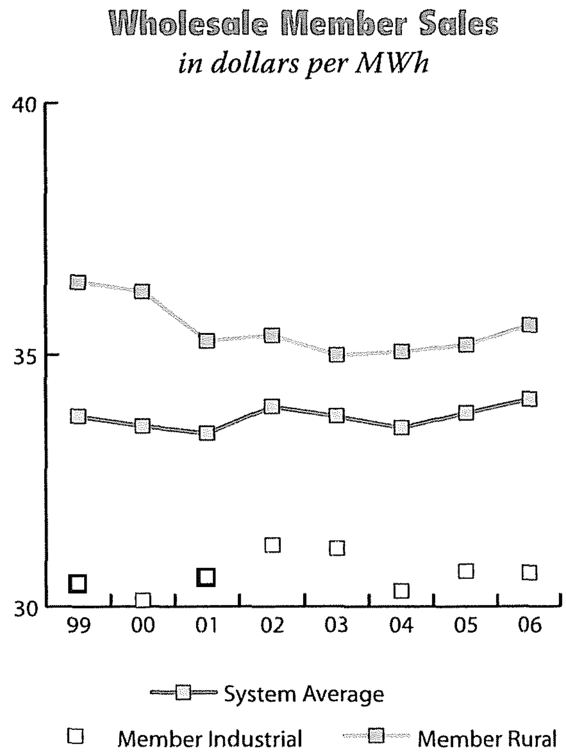
The average price for 3.2 million MWh of member power increased to $34.11 per MWh in 2006 from $33.84 per MWh in 2005. Member sales to rural loads were $35.58 per MWh in 2006, up from $35.19 in 2005. Large industrial sales reflected a slight decrease from the previous year. Big Rivers continued the 3.3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

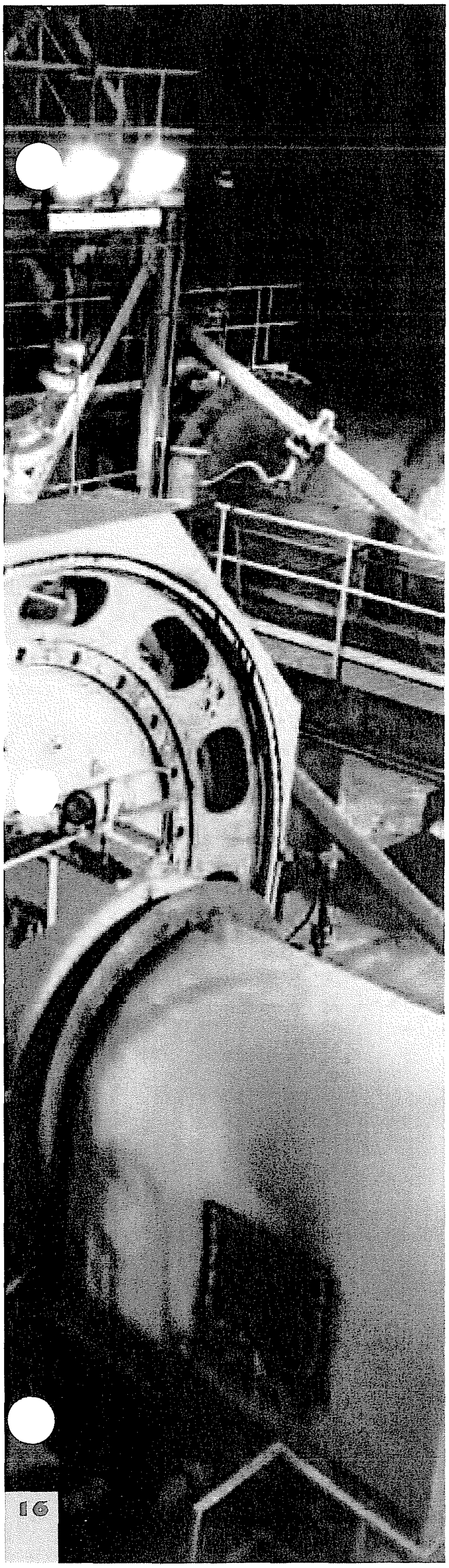
The slight decrease in member tariff load growth, -1.42 percent for 2006 vs. 3.32 percent in 2005, was due largely to more temperate weather conditions in 2006 and the closing of a small industrial customer. Heating and cooling degree-days for 2006 decreased by 3.6 percent and 13.1 percent, respectively,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

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 (3.49 percent for 2006 vs. 2.46 percent for 2005).







Big Rivers holds a line of credit with National Rural Utilities Cooperative Finance Corporation for $15 million as of December 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 temporary cash 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.

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

Balance Sheets

Big Rivers Electric Corporation

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

	2006	2005
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

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)

Big Rivers Electric Corporation

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

	Total Equities (Deficit)	Accumulated Deficit	Other Equities: Donated Capital and Memberships	Other Equities: 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

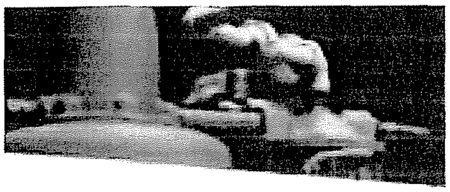
For the years ended December 31, 2006, 2005 and 2004 | (Dollars in thousands)

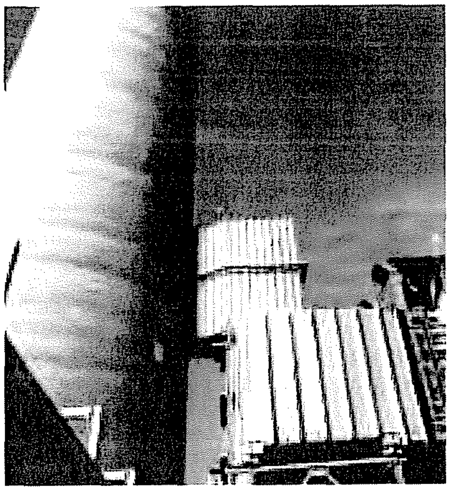
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 34,542	$ 26,343	$ 22,025
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	33,592	33,386	32,625
Increase in restricted investments under long-term lease	(6,040)	(5,955)	(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

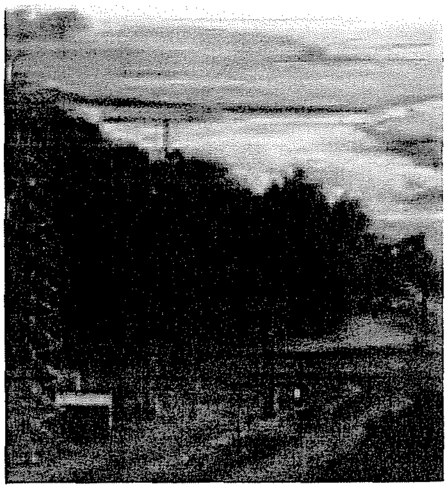
See notes to financial statements.

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.

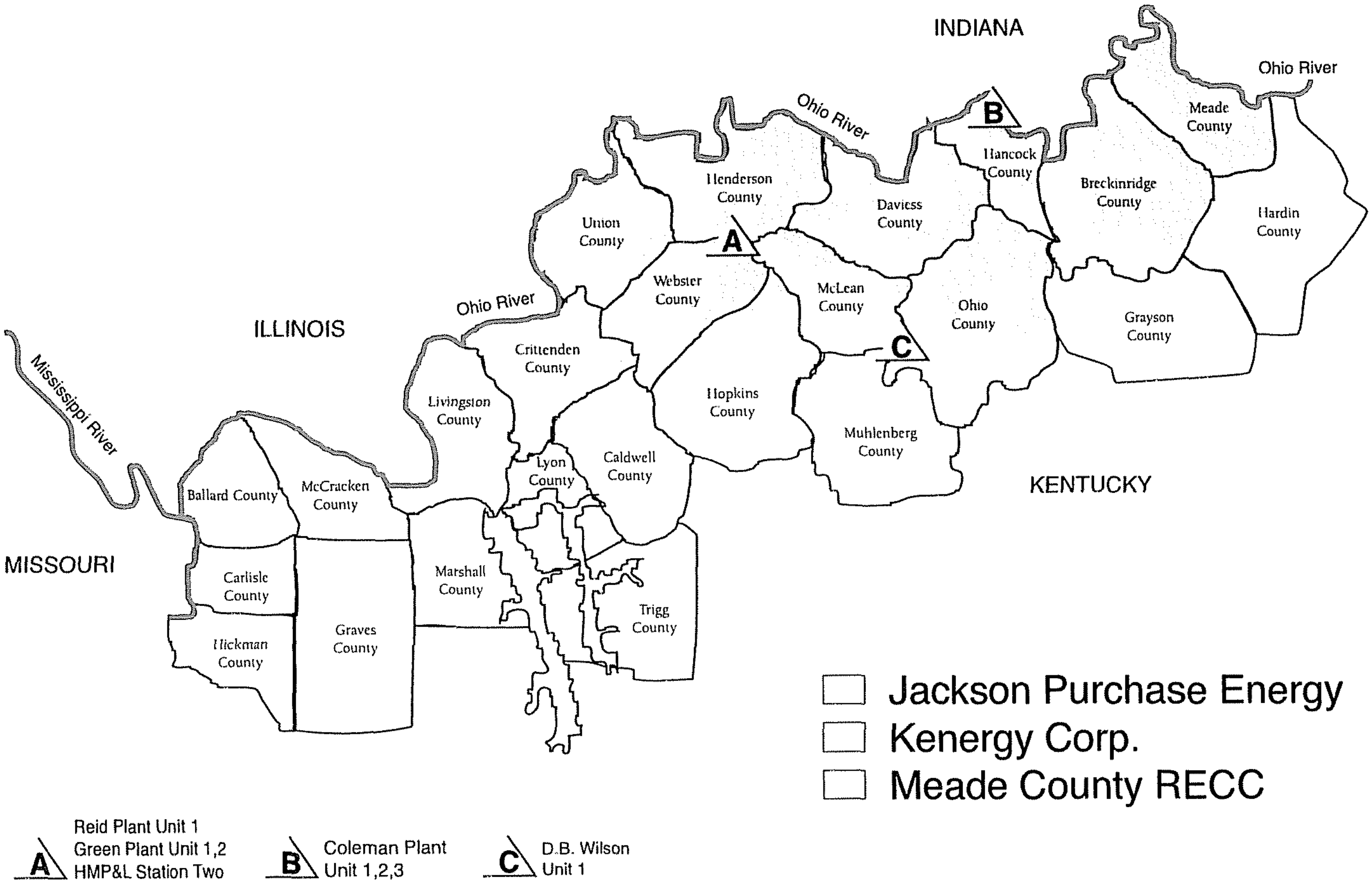
14. COMMITMENTS AND CONTINGENCIES

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.

15. 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

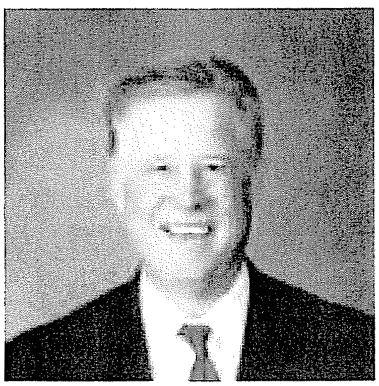
Mark Bailey, President & CEO
Kenergy Corp.

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 County RECC
- John Myers, Secretary-Treasurer
  Jackson Purchase Energy
- Dr. James Sills, Vice-Chair
  Meade County 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 Planning

- Bill Yeary, Manager Energy Marketing

SYSTEM OPERATIONS

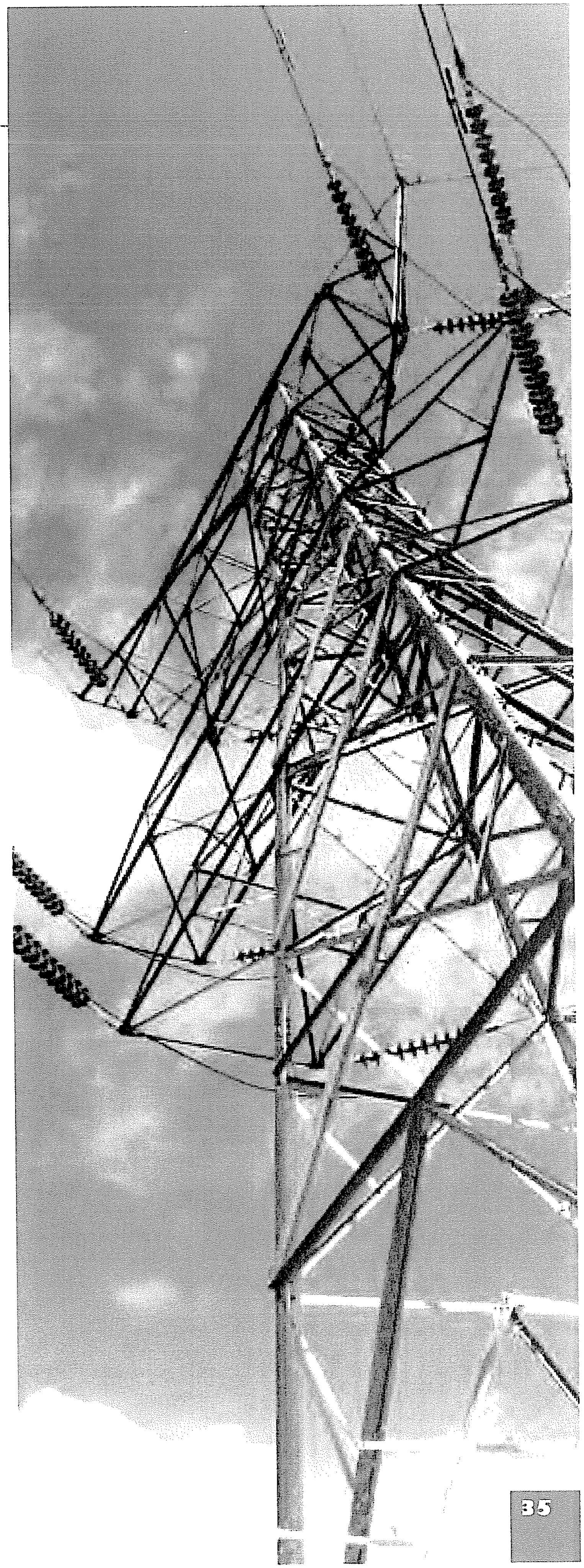
- David Crockett, Vice President

- Tim Tapp, Manager Transmission System

- Glen Thweatt, Manager Engineering & Energy Control

SPECIAL PROJECTS

- Travis Housley, Vice President



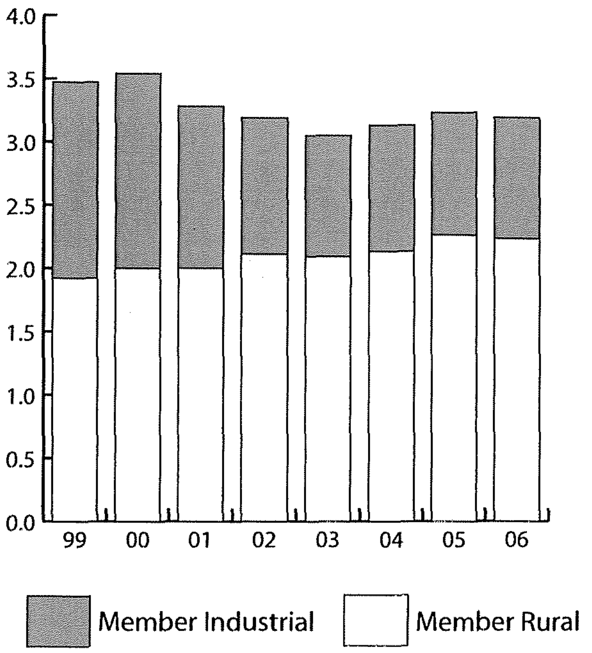
Five Year Review

Years Ended December 31 | (Dollars in thousands)

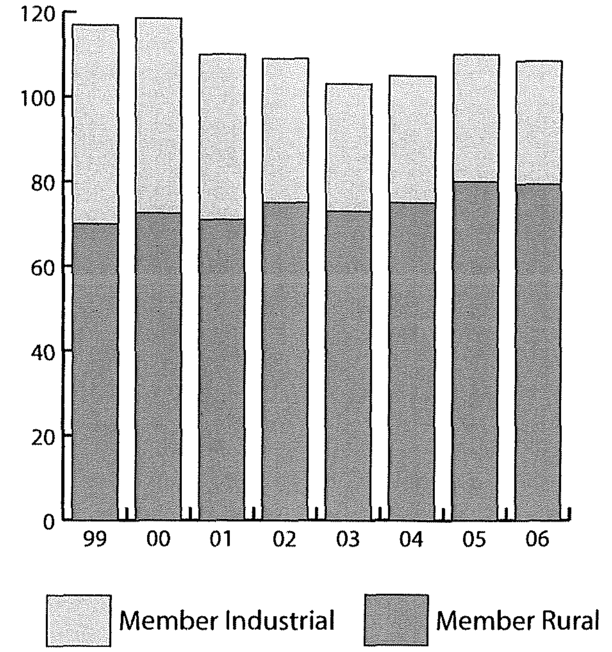
	2006	2005	2004	2003	2002
SUMMARY OF OPERATIONS					
Operating Revenue:					
Power Contracts Revenue	$ 200,692	$ 191,280	$ 175,777	$ 162,432	$ 146,548
Lease Revenue	57,896	57,675	56,753	53,040	51,094
Total Operating Revenue	258,588	248,955	232,530	215,472	197,642
Operating Expenses:					
Power Purchased	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	$1,731,230	$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	1,744,315	1,727,556	1,713,587	1,701,259	1,656,211
Accumulated Depreciation	826,647	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.*

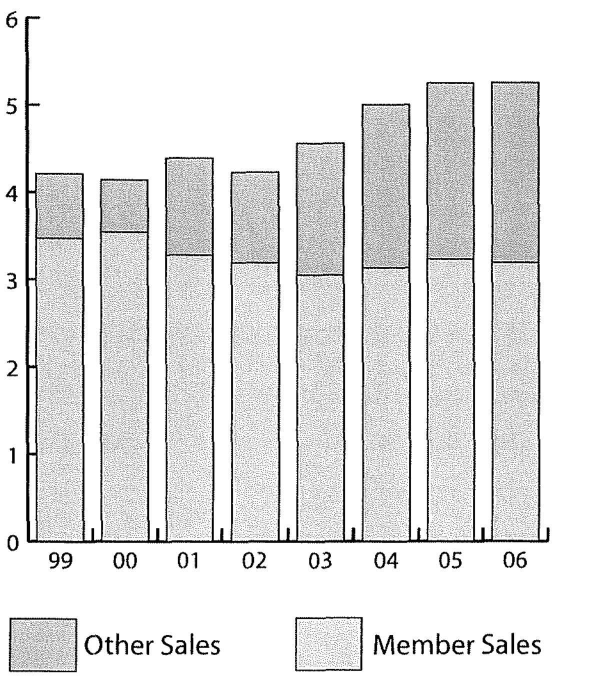
Energy Sales to Members
in millions of MWhs



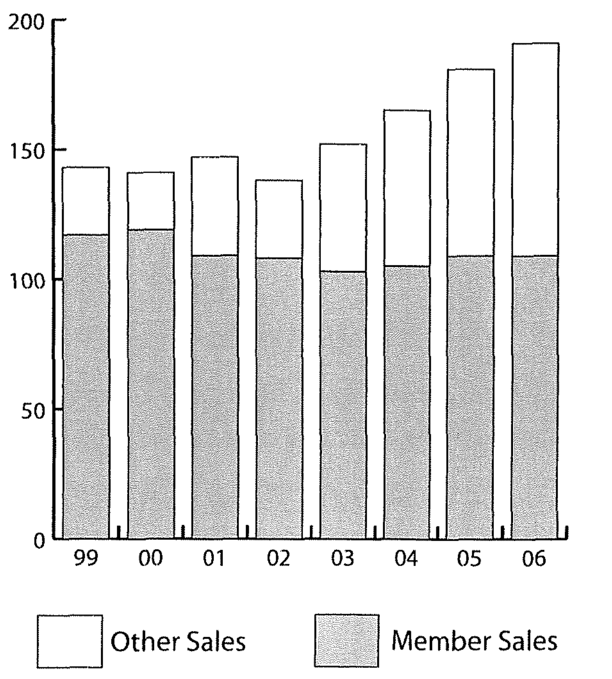
Energy Revenue from Members
in millions of dollars

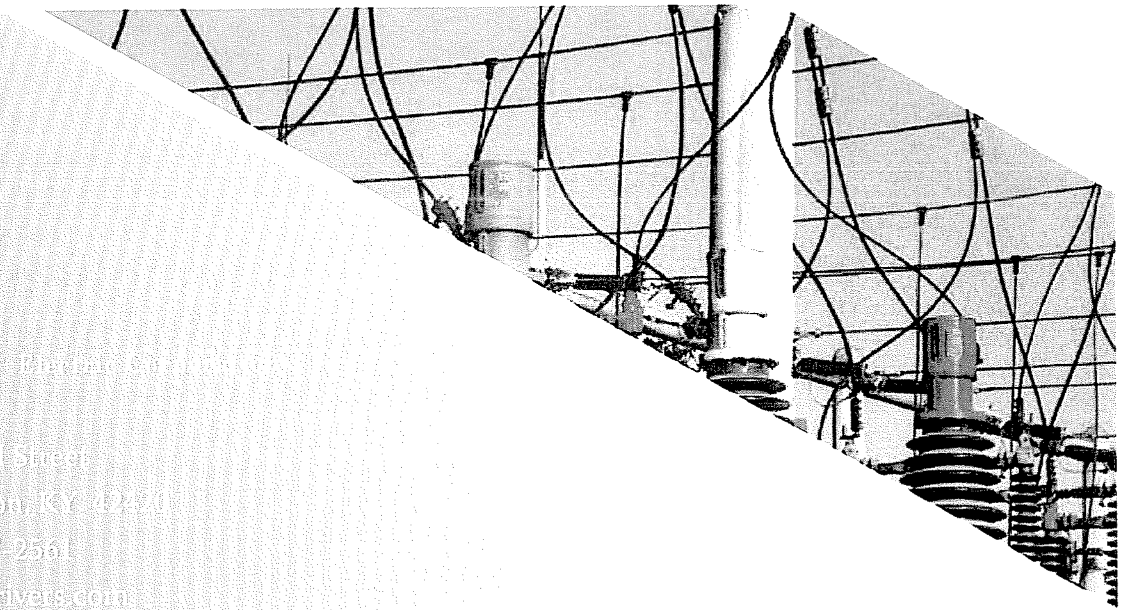


Total Energy Sales
in millions of MWhs



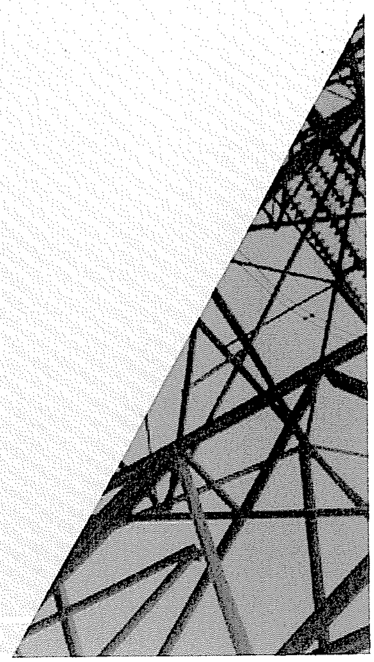
Total Energy Revenue
in millions of dollars





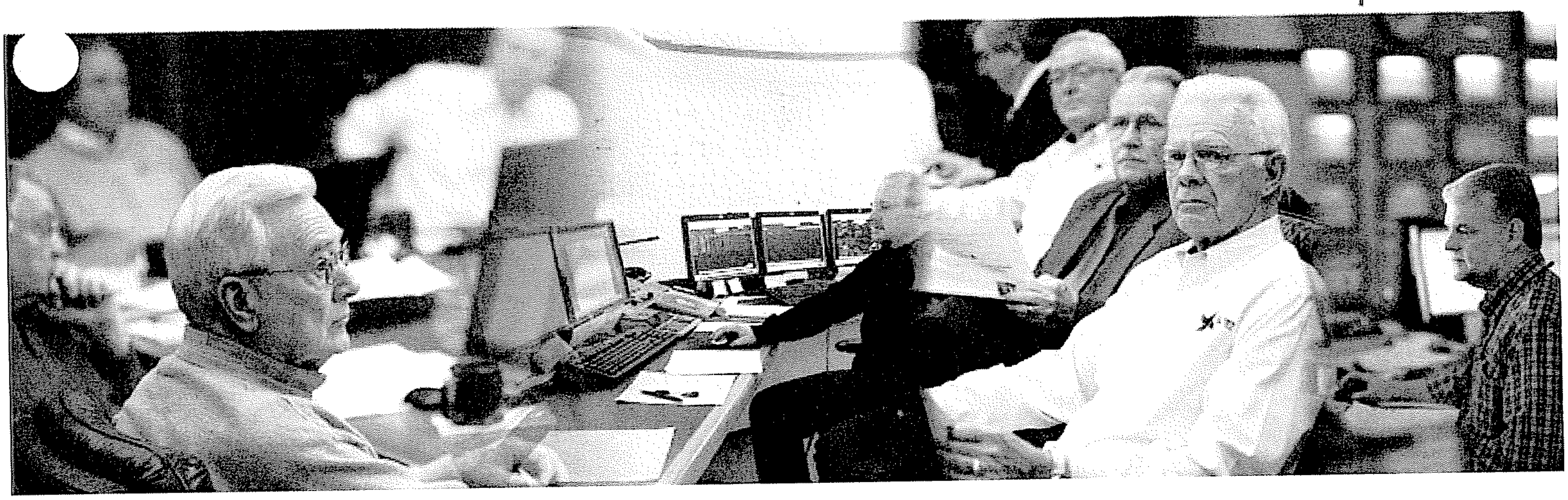
Electric Corporation

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



leadership THROUGH TEAMWORK

2005 Annual Report



Big Rivers Electric Corporation

Your Touchstone Energy® Cooperative
The power of human connections

board chair
AND CEO'S REPORT

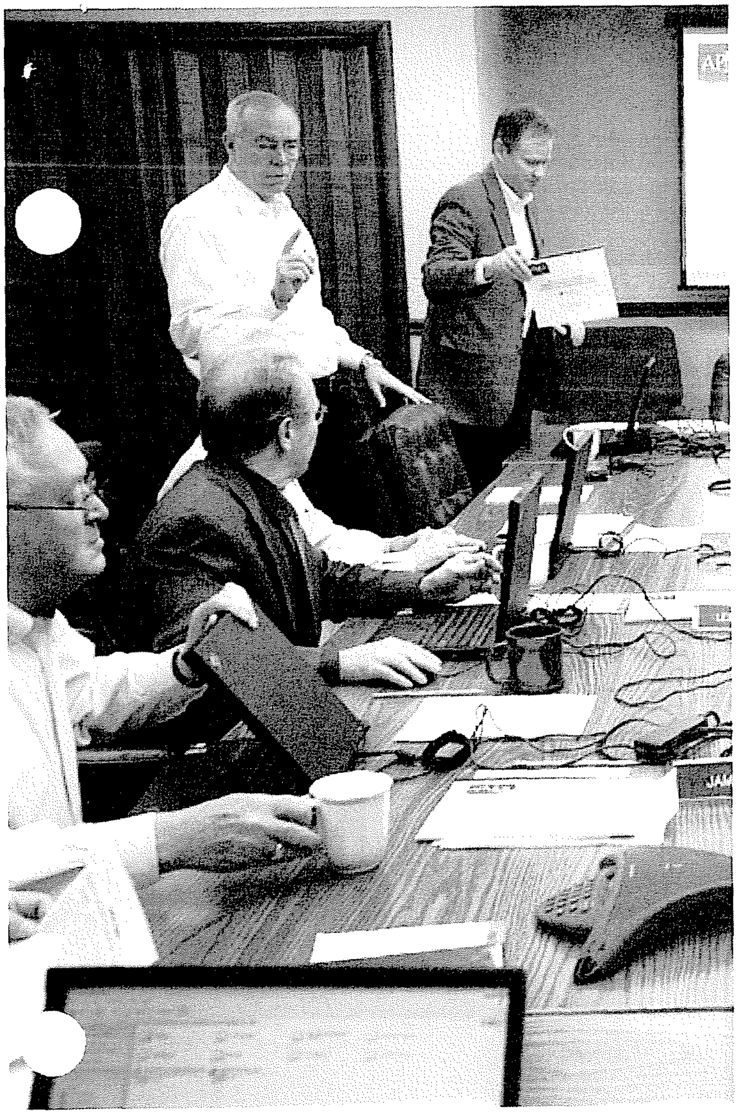
Michael Core, President and CEO
William Denton, Chair of the Board of Directors

It was another very good year for Big Rivers in 2005. We enjoyed our best year since our reorganization in 1998 with margins of $26.3 million. There are always many reasons behind any organization's success, but we would like to focus on what we believe has been a key throughout the last seven plus years; that is, leadership for the organization provided through teamwork.

The phrase "leadership through teamwork" seems to be an oxymoron as leadership implies singularity and teamwork implies more than one. But, clearly leadership at Big Rivers is not the result of any one single individual, but rather of many people working together. These include employees, board members, member-systems' boards and staffs. It also involves a number of people and organizations outside of Big Rivers that serve as an extension of our staff. These include, among others, the Kentucky Association of Electric Cooperatives (KAEC), the National Rural Electric Cooperative Association (NRECA), the National Rural Utilities Cooperative Finance Corporation (CFC), CoBank and ACES Power Marketing LLC (APM). In addition, outside legal counsels to Big Rivers as well as other consultants provide invaluable input that adds to expertise and depth of leadership that result from teamwork. Leadership through teamwork results in analyses, plans, strategies and day-to-day efforts that have brought us the success of the past seven plus years.

Teamwork begins with our board and member-systems. They have critical roles of input and direction, but they are not alone in this effort. Big Rivers' senior staff provides background, analyses and recommendations to its board and members that assist in setting the policies, budget, direction and leadership of the organization. From other staff members at Big Rivers comes additional teamwork efforts, supplemented by the outside entities referred to above, that provide the leadership in a myriad of projects.

Teamwork is also evidenced in the effort to create an even stronger Big Rivers for the future. After more than two years of intense work, Big Rivers announced in December that a Letter of Intent (LOI) was signed with E.ON U.S., LLC and certain of its affiliates (E.ON U.S. Parties), formerly LG&E Energy Corp., and one of its affiliates outlining the terms of an unwind of the 1998 transaction with those parties wherein Big Rivers leased its generating facilities and assigned its rights under the Henderson Municipal Power and Light (HMP&L) Station II arrangements to them. The 1998 transaction also included, among other things, a Purchase Power Agreement (PPA) between Big Rivers and an



affiliate of the E.ON U.S. Parties for power to supply to its members.

The signing of the LOI begins a process to seek all of the necessary approvals for an unwind by early 2007. At the same time, it was announced that a Memorandum of Understanding (MOU) with Century Aluminum of Kentucky LLC and Alcan Primary Products Corp. was signed to set the terms of a long-term power supply arrangement for their respective Hawesville and Sebree smelting operations.

The leadership for these efforts is underway through the work of a number of teams designed to pursue the various issues involved with obtaining the necessary unwind approvals, the development of final contracts for the smelters' power supply and the transition of taking back the operations of the plants. This is a monumental work effort that will take many months if the final goal is to be reached.

Big Rivers relies on many people and organizations to be successful and to chart its future. Future leadership at Big Rivers will continue to be the result of teamwork efforts in setting and reaching the goals necessary for success.

Michael Core, President and CEO

William Denton, Chair of the Board of Directors

leadership THROUGH TEAMWORK

Cooperatives, by their very nature, are teamwork entities. From the early days when neighbors worked together to seek solutions for bringing electricity to their homes, businesses and farms, the natural approach was to team up to accomplish these goals. This teamwork ultimately led to leadership and this leadership was always in touch with the team.

When the need for a long-term reliable power supply became apparent as the catalyst for economic growth in western Kentucky, Henderson-Union Rural Electric Cooperative, headquartered in Henderson, Green River Rural Electric Cooperative Corporation, headquartered in Owensboro, and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg, teamed together to find the solution. The answer was Big Rivers Rural Electric Cooperative Corporation which was founded in 1961 (later to become Big Rivers Electric Corporation) to become the wholesale power supplier to these systems and their emerging economic development loads. In 1984 Jackson Purchase Electric Cooperative Corporation, headquartered in Paducah, elected to become the fourth member of the team that owns Big Rivers. A later consolidation of Green River and Henderson-Union created Kenergy Corp., headquartered in Henderson.

Today the three members of Big Rivers serve approximately 109,000 member-consumers in 22 western Kentucky counties, with Kenergy being the largest single electric distribution cooperative in the United States in terms of megawatt hours (MWh) sales due to serving two large smelter loads.

Big Rivers owns the Robert A. Reid Plant (130 megawatts [MW]), the Kenneth C. Coleman Plant (455 MW), the Robert D. Green Plant (454 MW) and the D. B. Wilson Plant (420 MW) totaling 1,459 MW of generating capacity. In addition, it currently has rights to another 217 MW in a contractual arrangement with the E.ON U.S. Parties from the HMP&L Station Two Facility.

In July of 1998, Big Rivers leased its generating plants and assigned its rights to the capacity of HMP&L facility to the E.ON U.S. Parties. Big Rivers provides power to its members from a PPA, member allocations from the Southeastern Power Administration (SEPA) and the wholesale power market. Big Rivers owns, operates and maintains its 1,223 mile transmission system and provides for transmission of power to its member-systems as well as to other third-party entities served under the Open Access Transmission Tariff.

Big Rivers and the E.ON U.S. Parties announced in December of 2005 that both entities have signed an LOI to unwind this transaction. The result of this will be to return the operation of the Big Rivers' generating plants, including the HMP&L Station Two facility, to Big Rivers. At the same time, Big Rivers, Century Aluminum of Kentucky LLC and

Alcan Primary Products Corp. also announced the signing of a MOU, which set the terms for the development of a long-term power supply contract through Kenergy for their respective Hawesville and Sebree aluminum smelting operations.

While many months went into negotiating the LOI with the E.ON U.S. Parties and the MOU with the two smelters, much work remains. It will require a great effort on part of the many individuals who work in teams to achieve the necessary definitive documents, regulatory and creditor approvals and resolve a myriad of other issues relating to returning to Big Rivers the operation of its power plants and HMP&L Station Two. If the approvals and other work are successfully completed, it is anticipated that the unwind will occur in early 2007.

Management Team

Front row (left to right):

Richard Beck
V.P. of Marketing/Member Relations

David Spainhoward
V.P. of External Relations
Interim Chief Production Officer

Paula Mitchell
Executive Assistant

Back row (left to right):

C. William Blackburn
V.P. of Financial Services
Chief Financial Officer
V.P. of Power Supply

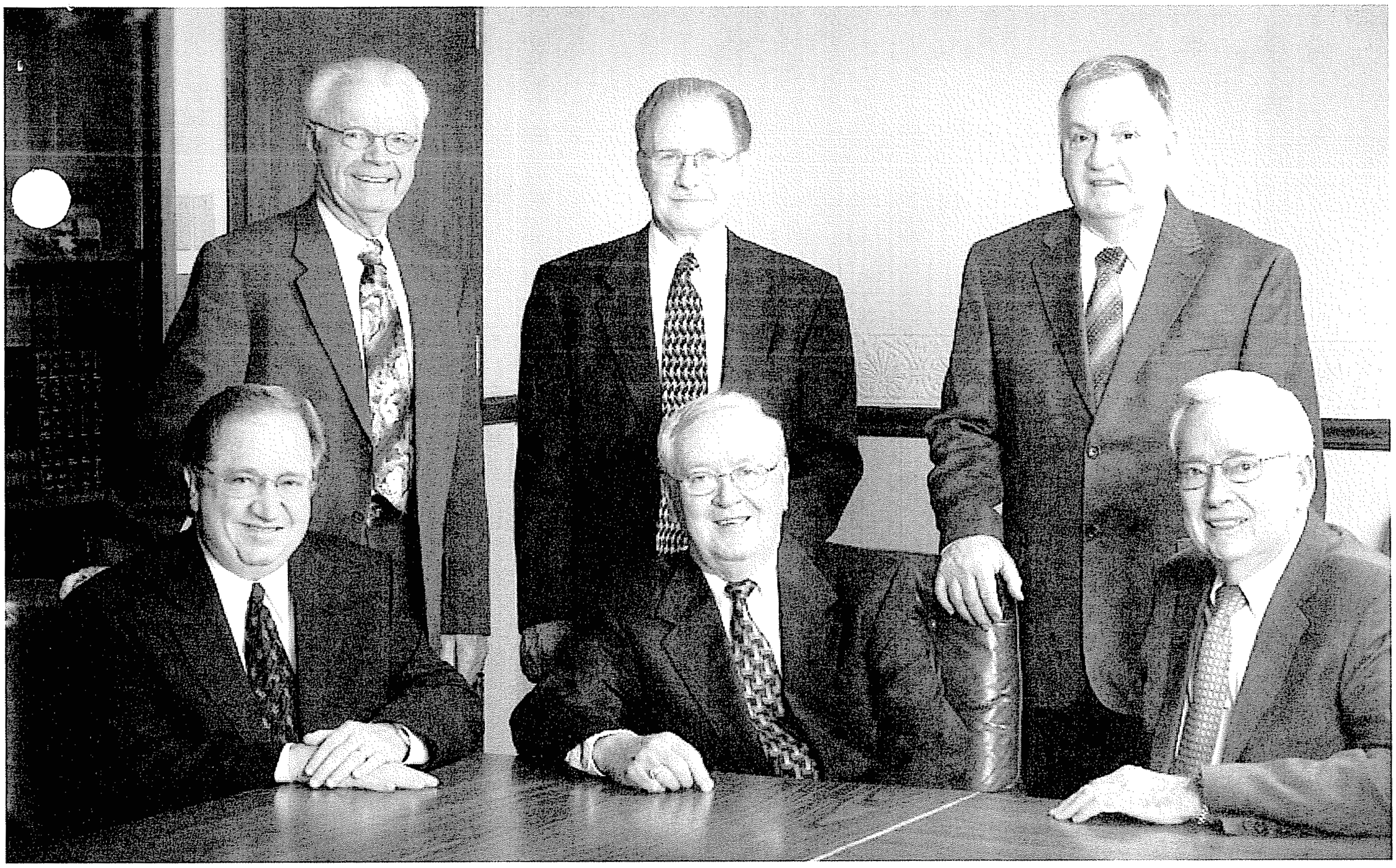
Travis Housley
V.P. of Special Projects

Michael Core
President/CEO

David Crockett
V.P. of System Operations

James Haner
V.P. of Administrative Services

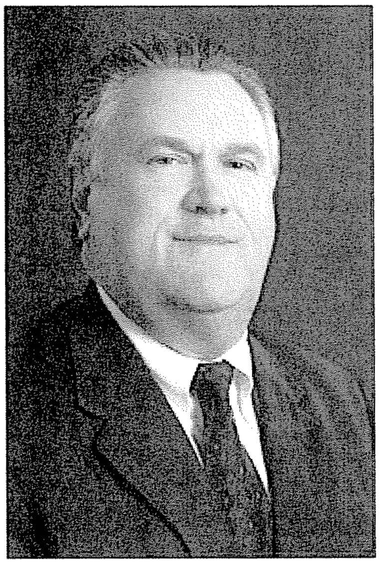
James Miller
Corporate Counsel

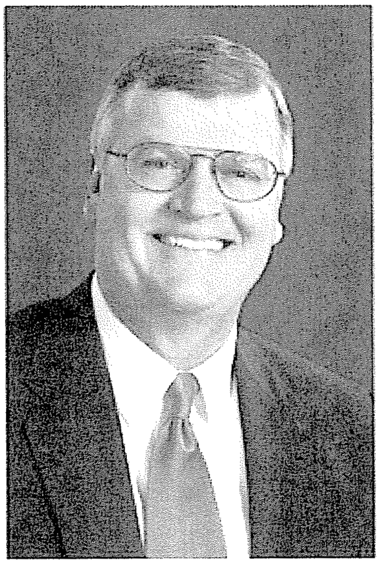


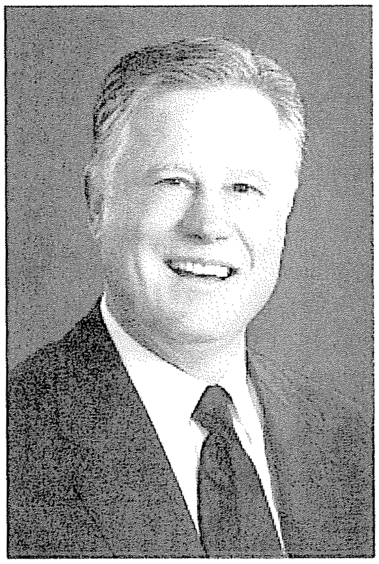
Board of Directors: *Standing (left to right): Paul Edd Butler, Lee Bearden, Larry Elder. Seated (left to right): William Denton, Chair, Dr. James Sills, Vice-Chair, John Myers, Secretary-Treasurer*

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

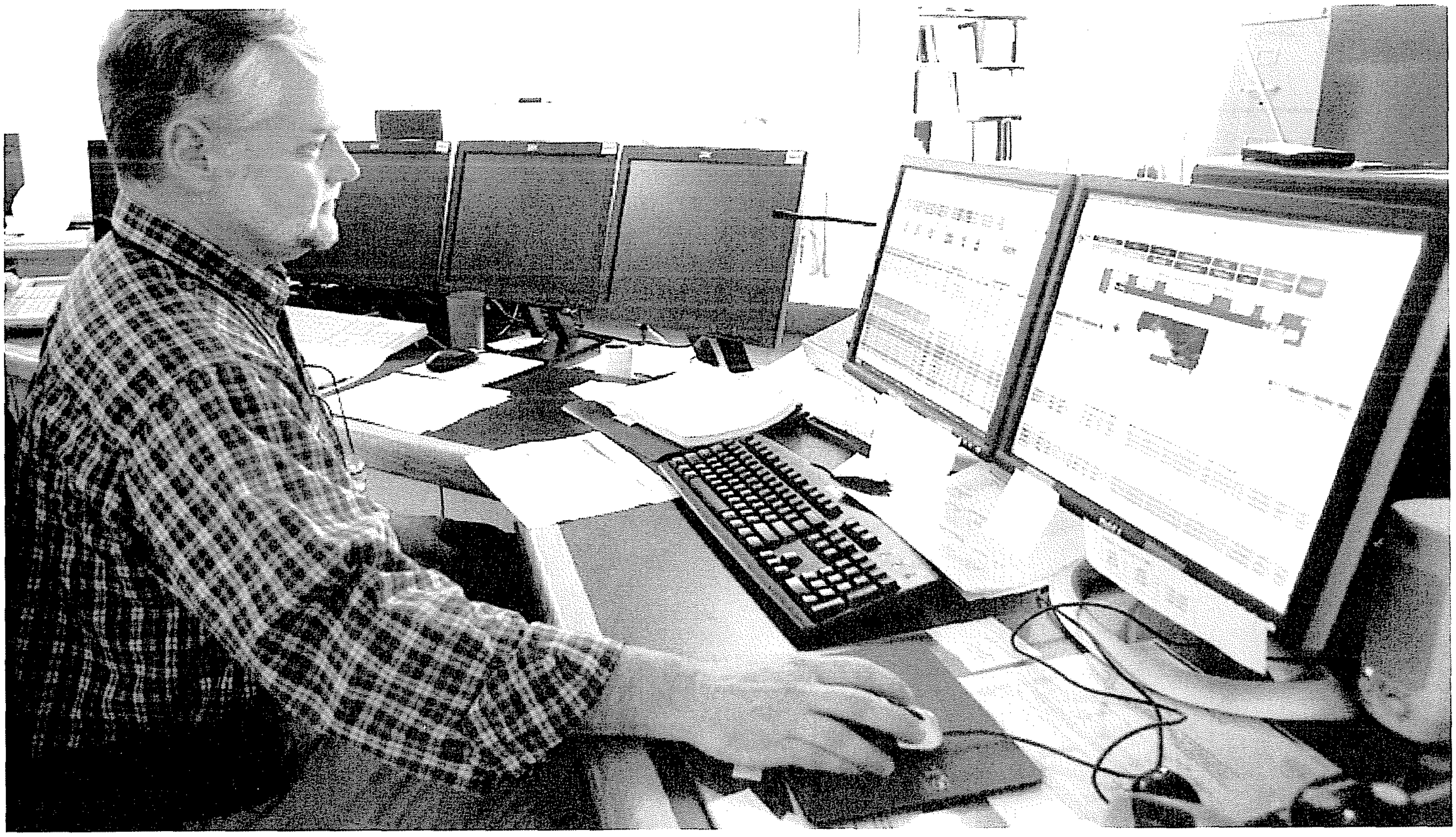
The internal Big Rivers' team was expanded in 2005 with the creation of the Administrative Services Department, which includes human resources, corporate insurance, safety, general services, and corporate files. This department was included in the finance department as human resources and corporate services 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.

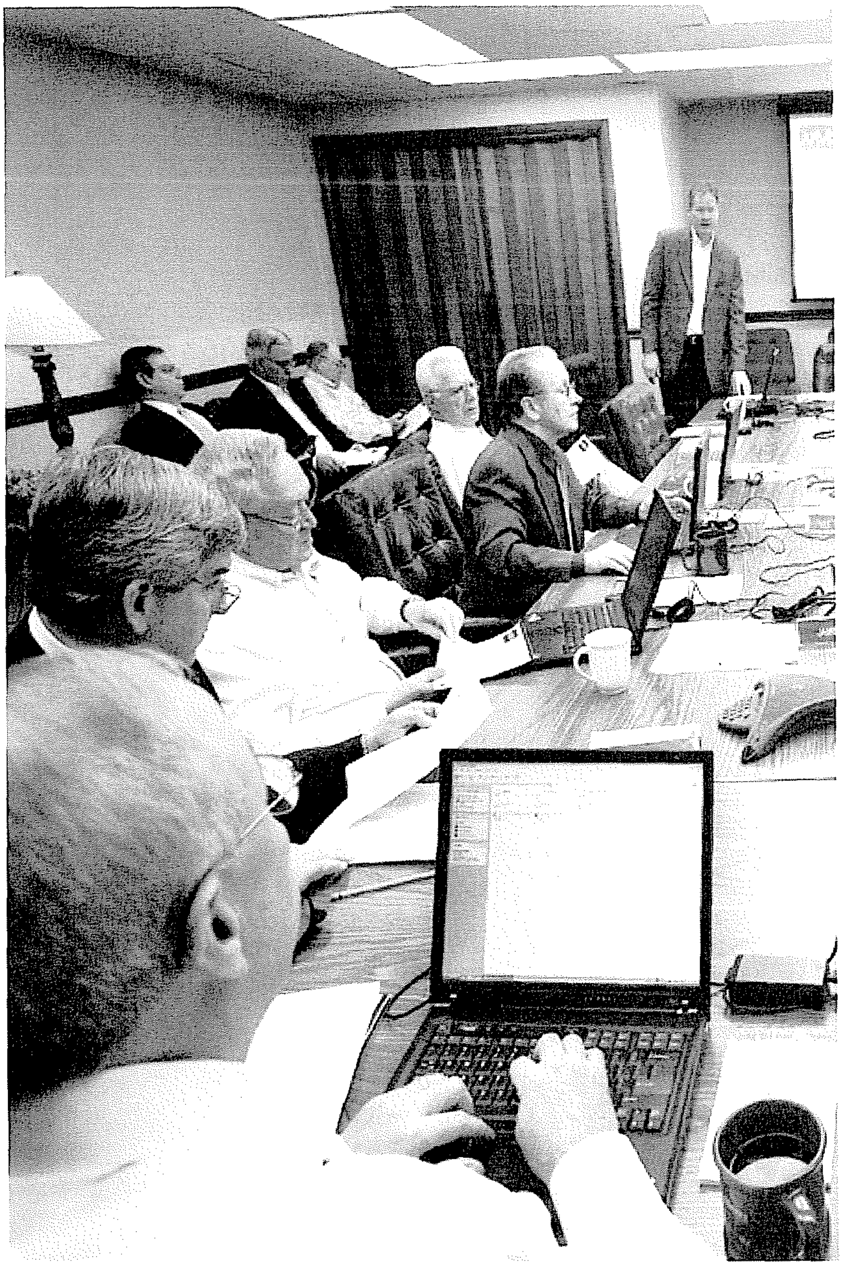
Additionally, certain affiliates of the E.ON U.S. Parties entered into contracts in 2004 to add sulfur dioxide (SO_2) scrubbers to Big Rivers' Coleman Station which will significantly reduce the SO_2 emitted by Coleman. The scrubber at Coleman was being tested and put in service at the time of this report. 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.

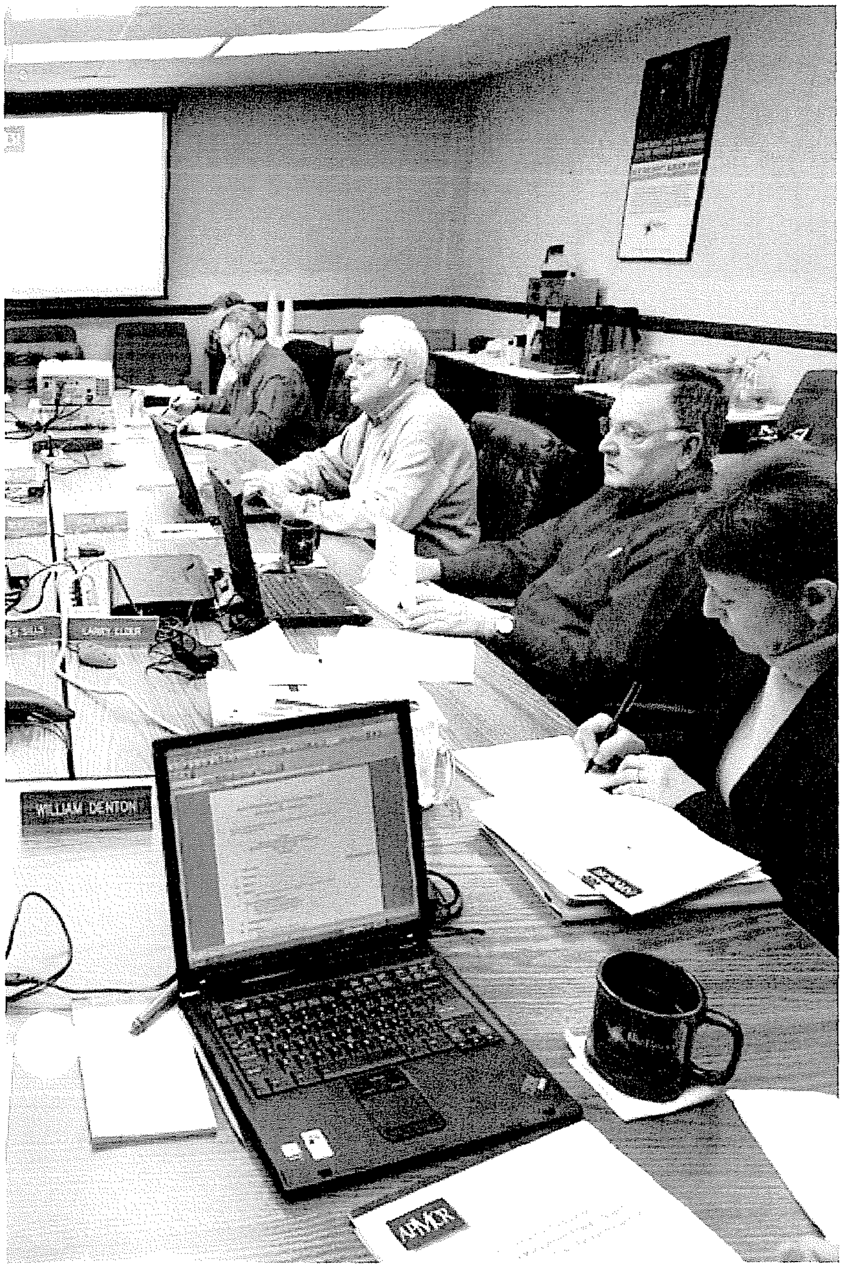


Big Rivers continues to monitor the implementation of EPA's Clean Air Mercury Rule (CAMR) and Clean Air Interstate Rule (CAIR). Both rules are expected to have significant impacts on utility emissions. At the time of this report, the EPA is reconsidering certain aspects of the March 2005 CAMR, which 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

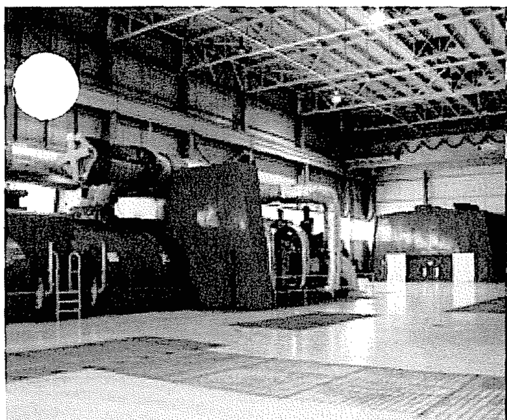
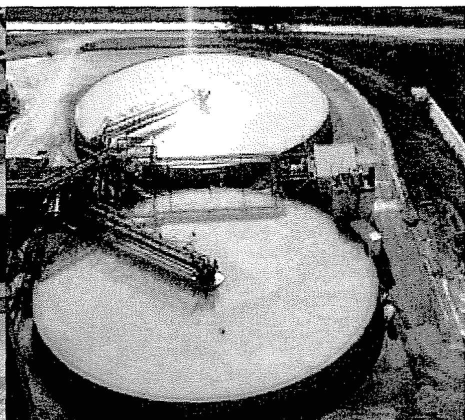
Big Rivers continues to monitor the development of the Midwest Independent System Operator (MISO). The company continues to believe it would incur additional costs from Regional Transmission Organization (RTO) membership without receiving corresponding benefits. As a cooperative, Big Rivers is concerned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

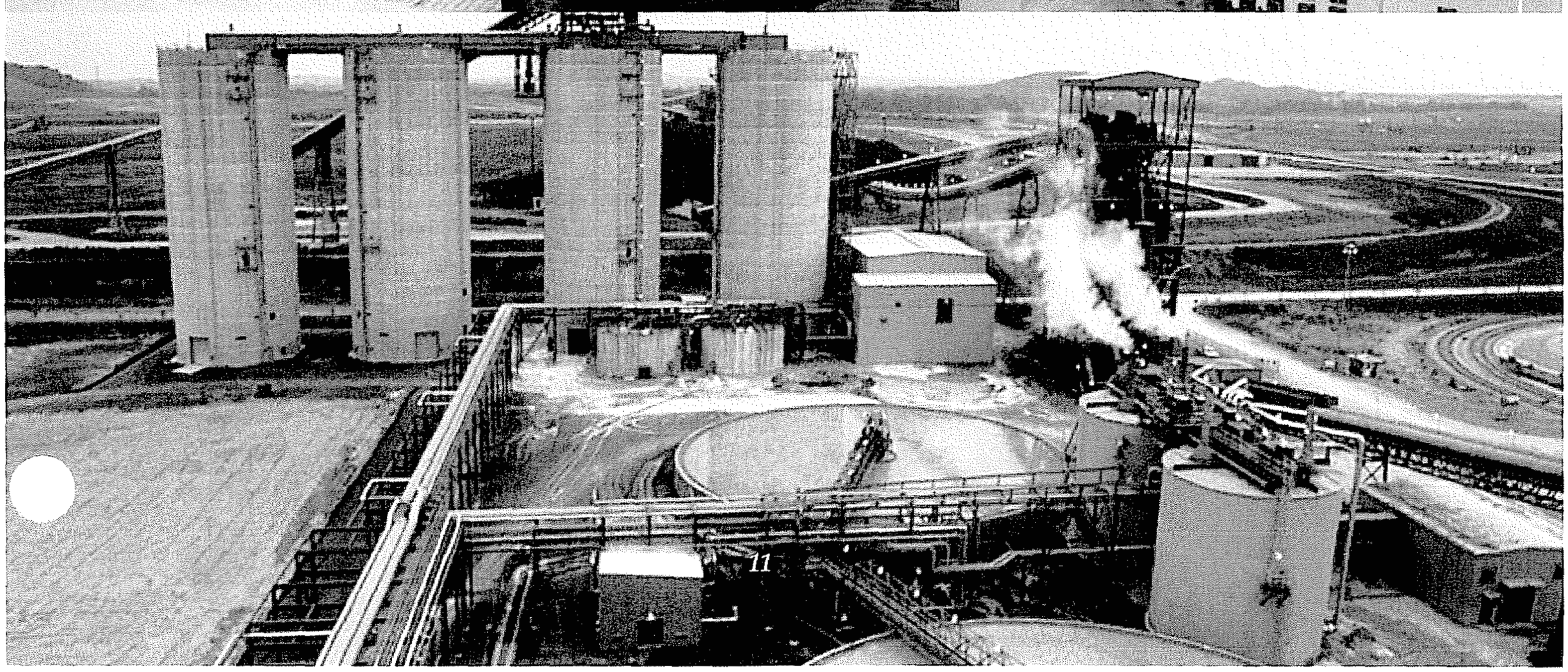
A state law that became effective in 2003 requires Kentucky utilities to operate their transmission facilities so that retail electric service to Kentucky customers and wholesale service to Kentucky electric distribution cooperatives have the highest priority during a transmission emergency. Big Rivers 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
(DOLLARS IN THOUSANDS)

	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

$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.

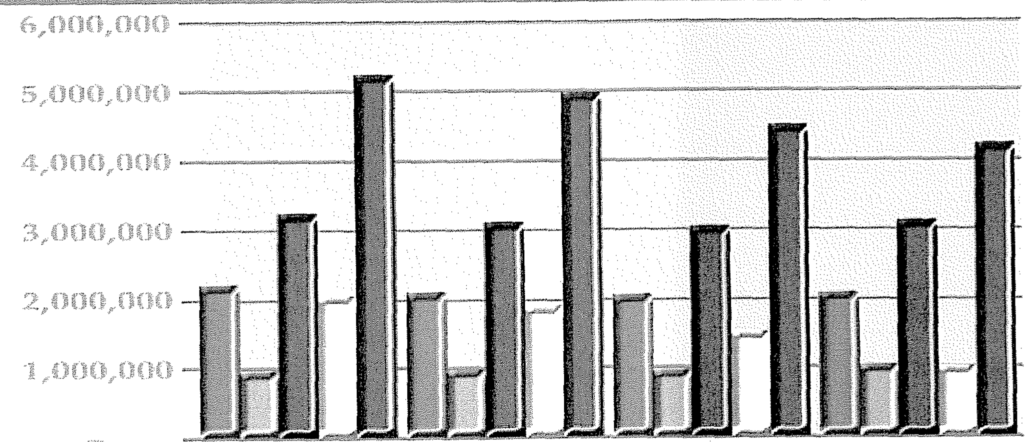
Big Rivers has a line of credit with National Rural Utilities Cooperative Finance Corporation (NRUCFC) as of December 31, 2005, in the amount of $15 million. The NRUCFC line of credit has an underlying $15 million master letter of credit facility for supporting off-system sales. In

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	

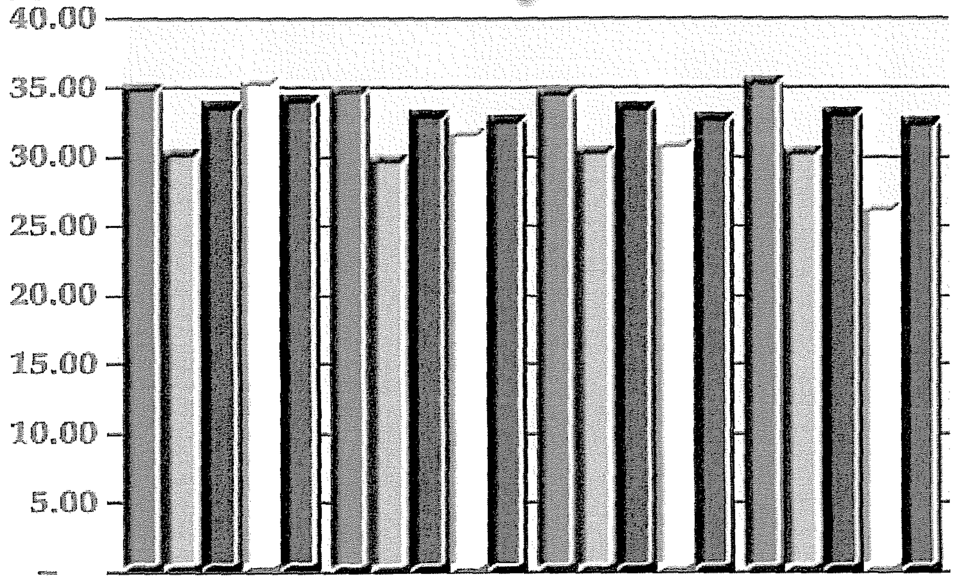
Big Rivers owns its 1,459 megawatts of electric generating facilities and it has rights to the HMP&L Station Two facility. All of these facilities and rights have been leased to certain affiliates of the E.ON U.S. Parties.

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



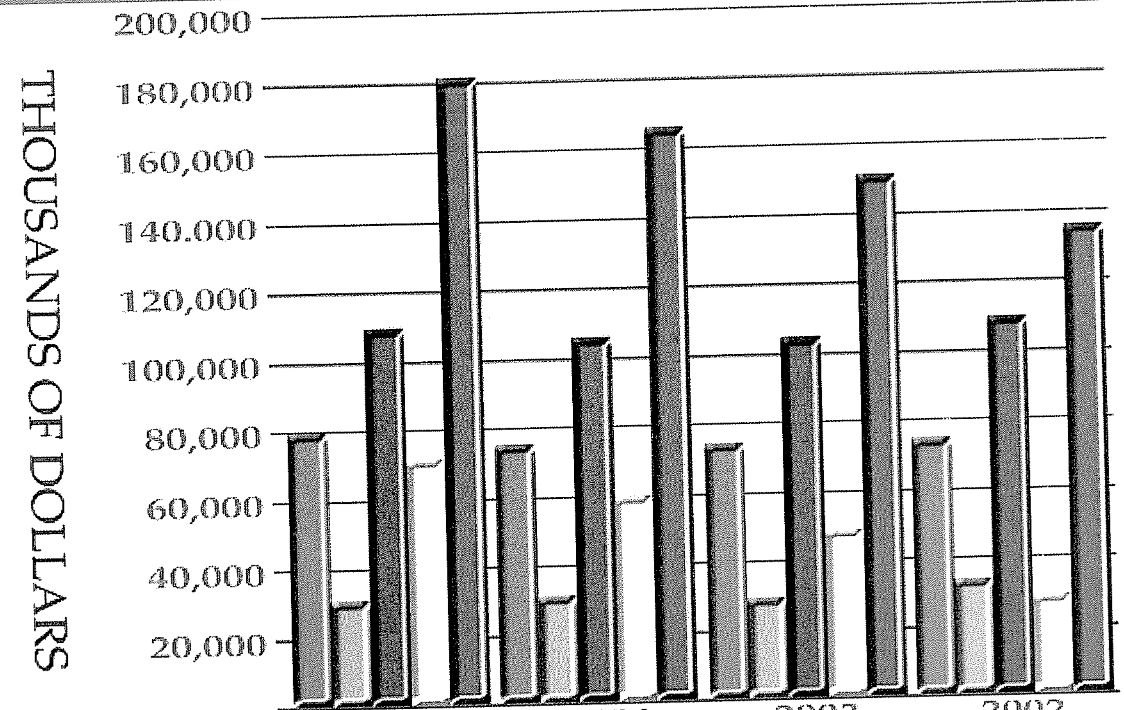
	2005	2004	2003	2002
Member Rural	35.19	35.06	34.99	35.38
Member Large Industrial	30.70	30.31	31.15	31.22
Total Member Tariff	33.84	33.55	33.78	33.97
Other Sales	35.58	32.00	32.38	26.78
Average	34.51	32.97	33.32	32.20

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.

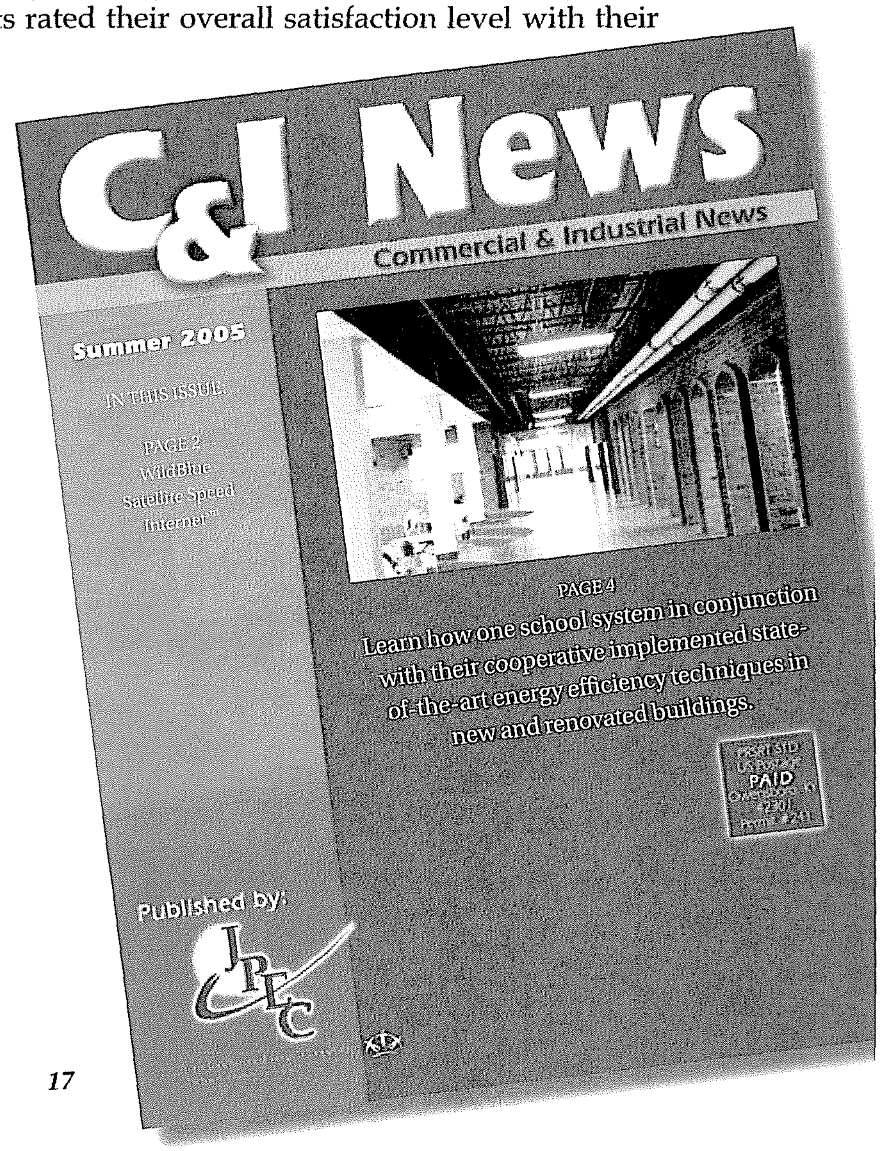
Big Rivers developed RUS Emergency Restoration Plan and Vulnerability Risk Assessment compliance reports as well as North American Reliability Council cyber security compliance. The development of those compliance reports indicated a plan be designed for building an off site location to be used in case 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.

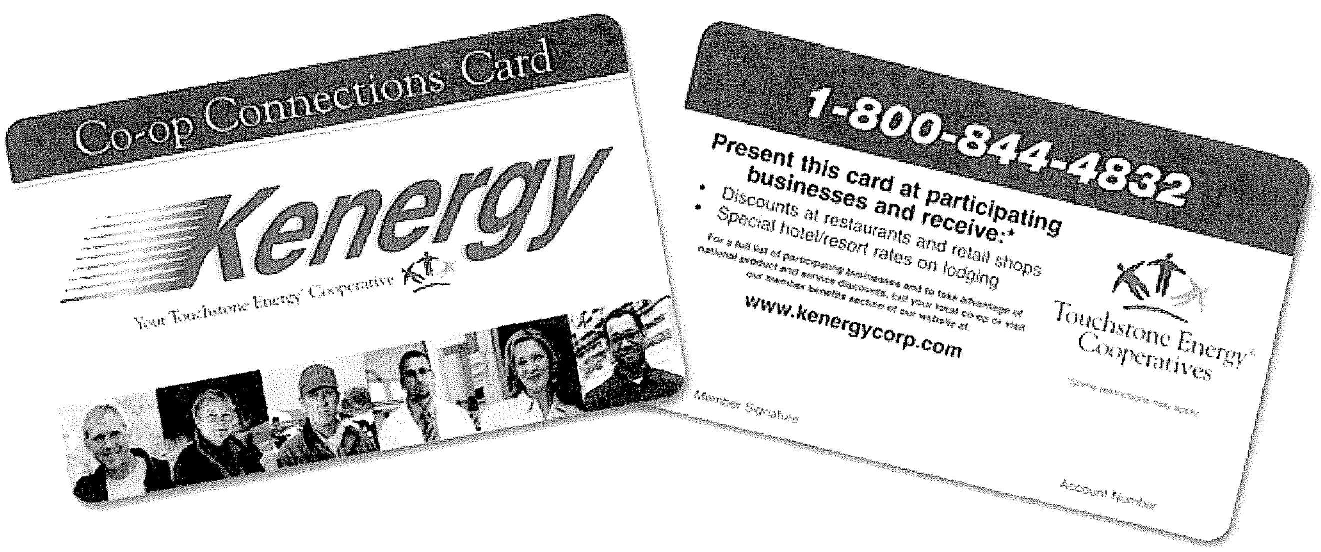
By ensuring programs and services support key performance attributes, each member-system has successfully established a progressively increasing customer satisfaction trend. The trend continued through 2005, as overall residential satisfaction scores increased for all three member-systems and as a result, 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.

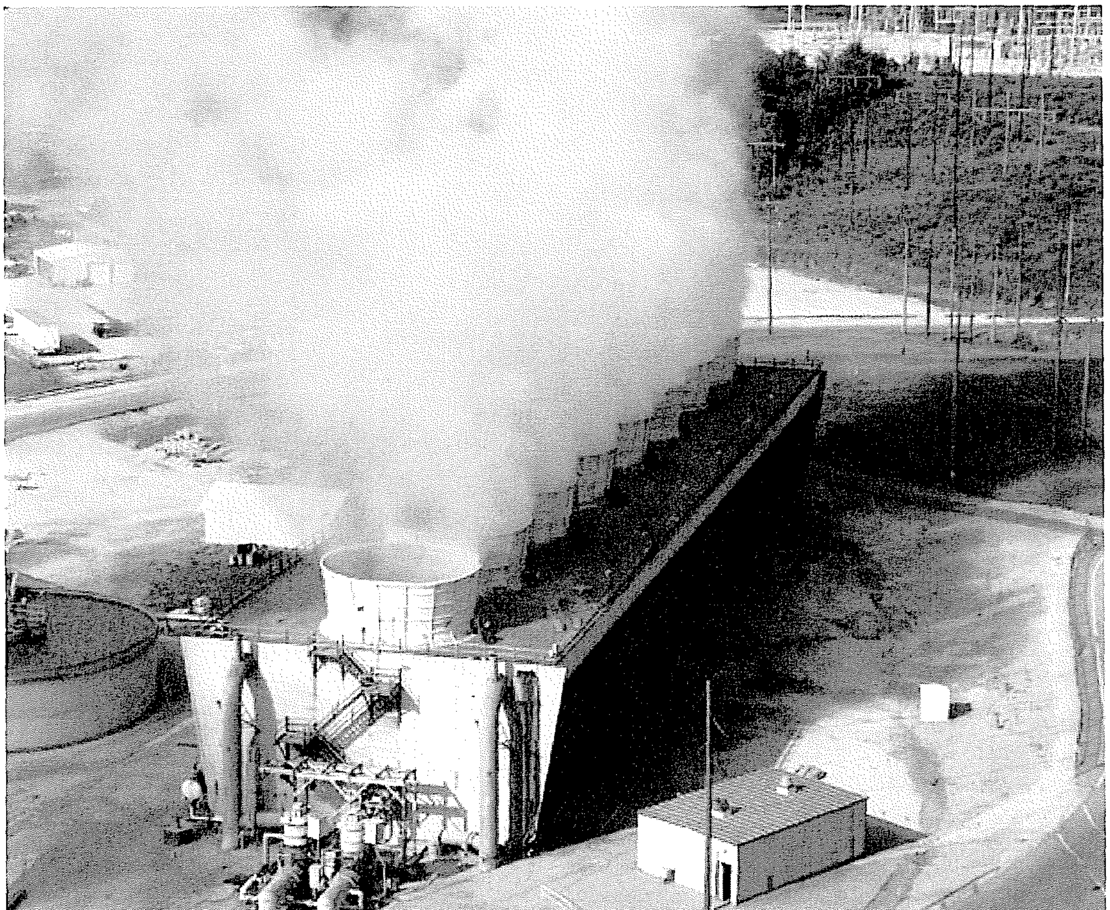
Big Rivers and its member-systems remained active members of Touchstone Energy during 2005. While Touchstone Energy provides added value to electric co-ops through a variety of resources, the brand is most recognized as a cost-efficient communication vehicle designed to increase awareness of the "cooperative 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.

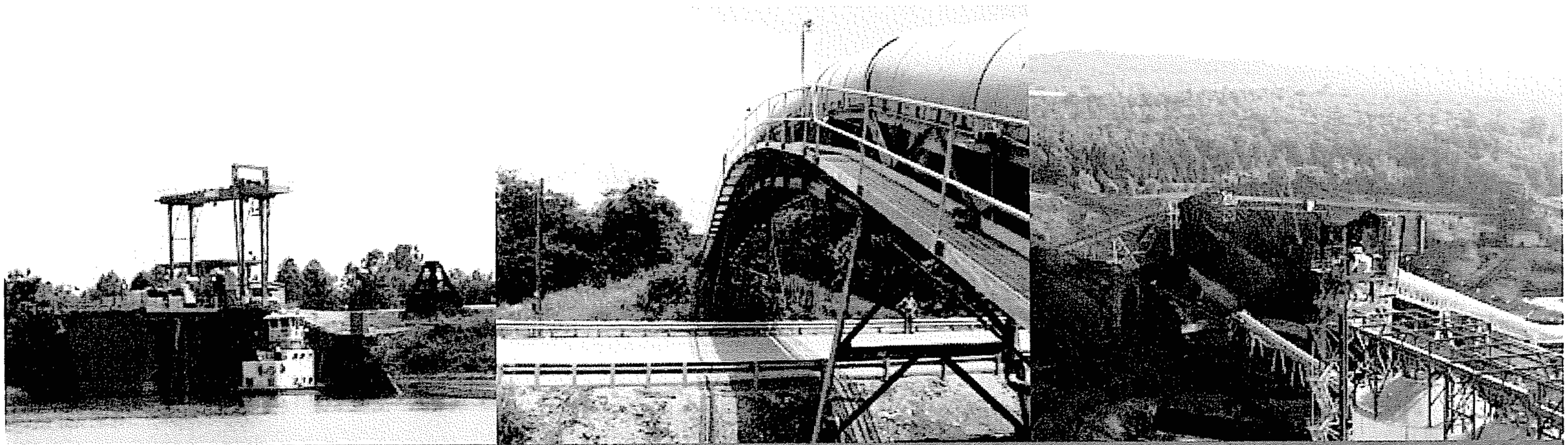
Big Rivers is a member and part owner of APM, which is headquartered in Indianapolis, Indiana, with a regional office in Cary, North Carolina. APM serves as an agent in marketing some of Big Rivers' excess power and also provides additional risk mitigation and power supply portfolio modeling services.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

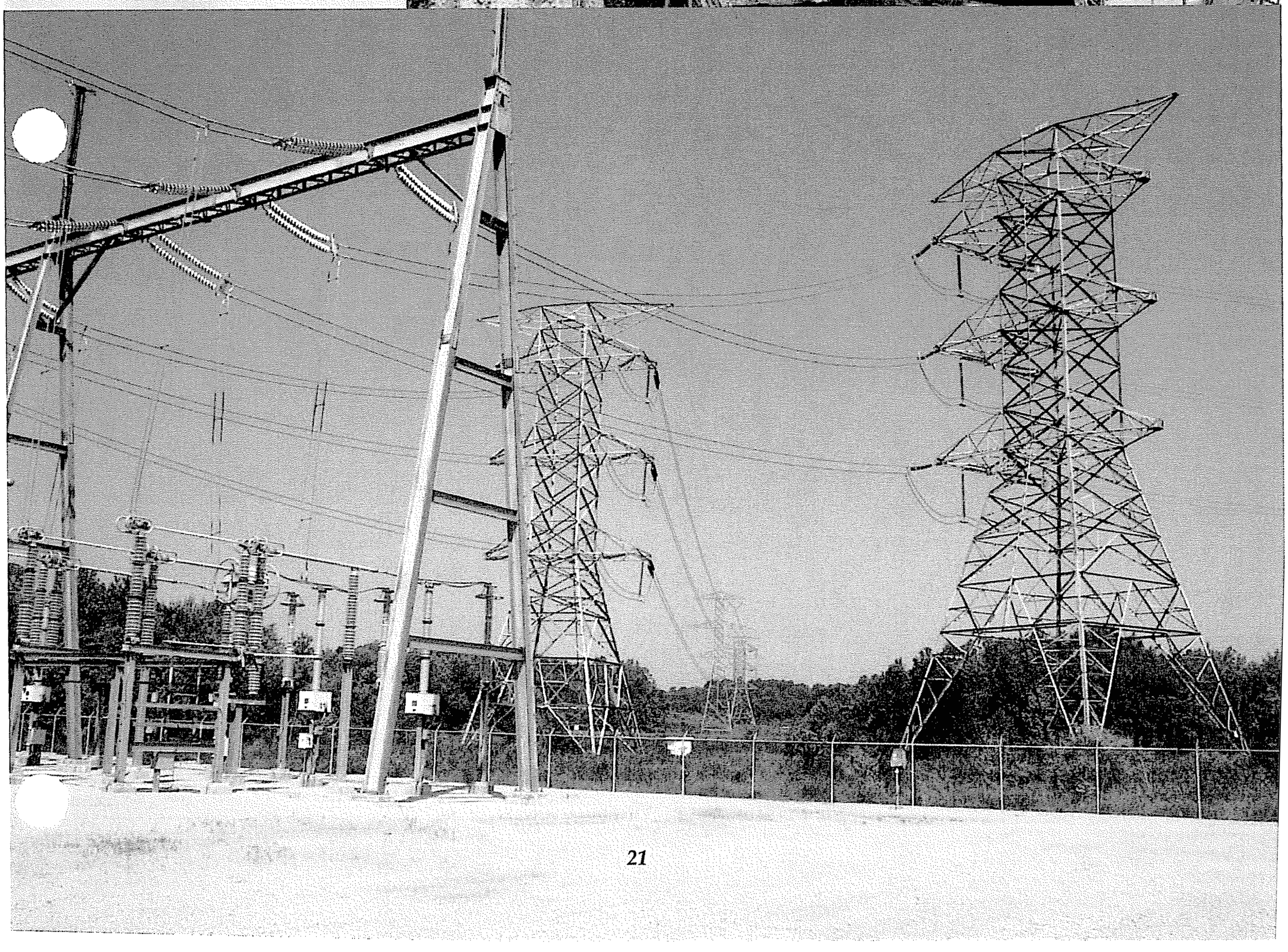
MISO implemented its wholesale electricity market on April 1, 2005. While Big Rivers is not a member of MISO, it determined it would be in its best interest to participate in the new market. Through APM, Big Rivers spent considerable time and effort in the training necessary to be a registered participant 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.

BIG RIVERS ELECTRIC CORPORATION

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

			Other Equities	
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	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

201 Third Street
Henderson, Kentucky
42420

270-827-2561

www.bigrivers.com

Your Touchstone Energy® Cooperative

The Success of Cooperation

Big Rivers
Electric Corporation

2004 Annual Report

Your Touchstone Energy Cooperatives
The power of human connections

THE SEVEN COOPERATIVE PRINCIPLES

1. Voluntary and Open Membership

2. Democratic Member Control

3. Members' Economic Participation

4. Autonomy and Independence

5. Education, Training and Information

6. Cooperation Among Cooperatives

7. Concern for Community

Chairman and President's Report

Michael Core
President and CEO

William Denton
Chair of the Board

The year 2004 was one of the best in Big Rivers' history. With margins of $22 million, Big Rivers was nearly $3.7 million ahead of 2003, which was the previous best year. We believe our recent solid financial performance is testimony to the results that are achieved through cooperation. The foundation of Big Rivers and its business focus is based on the seven cooperative principles (see opposite page).

These cooperative principles provide for an emphasis on the member-consumer and create a natural atmosphere for a customer-driven business venture. The listed principles that guide a cooperative and link the organization and its members in a partnership have stood the test of time, in both good and bad financial cycles. For nearly 70 years, the cooperative form of business has proven to be a perfect match for providing electric service in rural Kentucky and across 46 other states in this country.

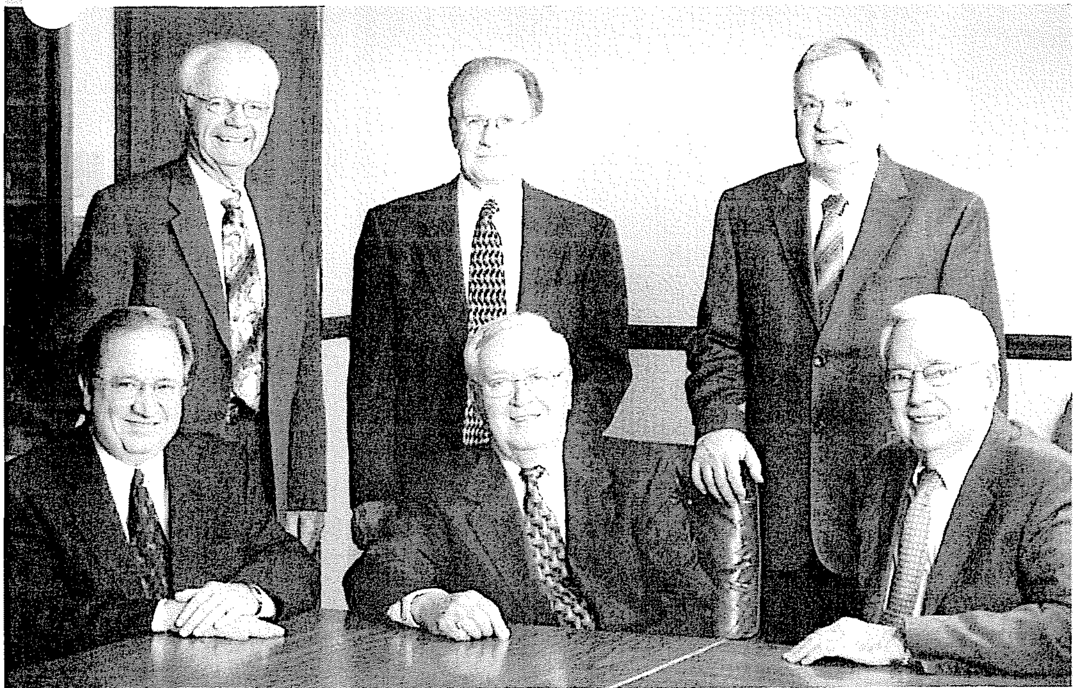
Clearly in 2002, which was a devastating year for many electric utilities, the focus on the member was the key for the cooperatives not only surviving, but thriving. It was tempting to follow so many down the path of deregulation and market-driven rates to unknown results. But with the cooperative-driven business focus on the member, we were able to select a direction that did not plunge head-on into a new business path that proved to have many bumps and potholes. We made only the proper changes on the existing path when it was obvious that the members' interests were not being served. Keeping an eye on the cooperative principles has a positive and settling effect that keeps the business compass calibrated in the right direction.

We believe the cooperative principles have not only served us well in the past, but are guidelines for the future. They provide not only the customer focus, but have the flexibility that enables cooperatives to keep pace with the ever-evolving and increasingly complex world in which we do business.

In 1996, the Big Rivers' board and its members reaffirmed their belief in the cooperative principles and chose to work together to resolve certain financial difficulties of Big Rivers. Eight years later, the success of cooperation is evident for Big Rivers and the future is bright.

March 17, 2005

Introduction



Board of Directors

Standing (l to r):
Paul Edd Butler,
Lee Bearden,
Larry Elder

Seated (l to r):
William Denton, Chair;
Dr. James Sills, Vice-Chair;
John Myers, Secretary-Treasurer

The first cooperative principle is voluntary and open membership. This was a driving factor in western Kentucky in 1936 and 1937 when neighbors and friends decided to work together to form Henderson Rural Electric Cooperative Corporation. Spurred by the need for electricity to improve the rural life style and economic benefits, these people voluntarily joined together to be better able to reach their dreams of electricity in their rural homes, farms and businesses. Soon, many people in western Kentucky and other parts of Kentucky and across the entire country were forming cooperative organizations to reach this same dream.

Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Once established with an infrastructure of wires, poles, transformers, meters, and members consuming electricity, the local cooperatives were viable economic business organizations facing the prospect of significant growth in numbers of members and their increasing appetite for electricity. To meet long-term power supply concerns, it only took a few years to see one of the next cooperatives to be formed. In 1961, three cooperatives, Henderson-Union RECC, headquartered in Henderson, Green River RECC, headquartered in Owensboro, and Meade County RECC, headquartered in Brandenburg, created Big Rivers Electric Corporation.

In keeping to the cooperative principles of open membership, in 1984 Jackson Purchase Electric, located in Paducah, joined as the fourth Big Rivers' member. A later consolidation of Green River and Henderson-Union created Kenergy Corp., headquartered in Henderson. Fulfilling the cooperative principle of democratic member control, each member has two seats on the Big Rivers' board of directors.

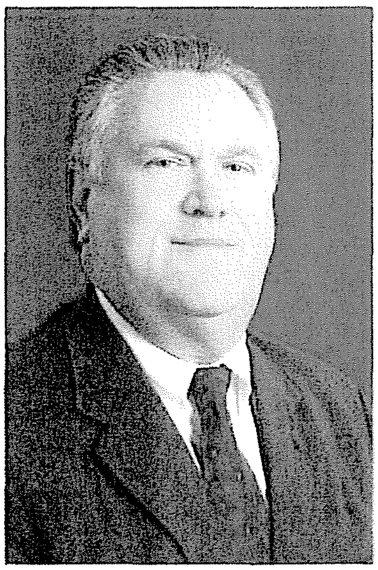
Today the three members of Big Rivers serve approximately 107,000 member-consumers in 22 counties and Kenergy is the single largest cooperative in the country in terms of MWh sales due to serving two large smelter loads.

Big Rivers owns the Robert A. Reid Plant (130 MW), the Kenneth C. Coleman Plant (455 MW), the Robert D. Green Plant (454 MW) and the D. B. Wilson Plant (420 MW) totaling 1,459 net MW of generating capacity. In addition, it currently has rights to another 217 MW in a contractual arrangement with the HMP&L Station Two facility.

In July of 1998, Big Rivers leased the operations of the generation and its rights to the HMP&L facility to the LG&E Parties. Big Rivers provides power to its members from a power purchase agreement with LEM, member allocations from SEPA and the wholesale power market. Big Rivers owns, operates and maintains its 1,223-mile transmission system and provides for transmission of power to its members as well as to the LG&E Parties and other third-party entities served under the Open Access Transmission Tariff.

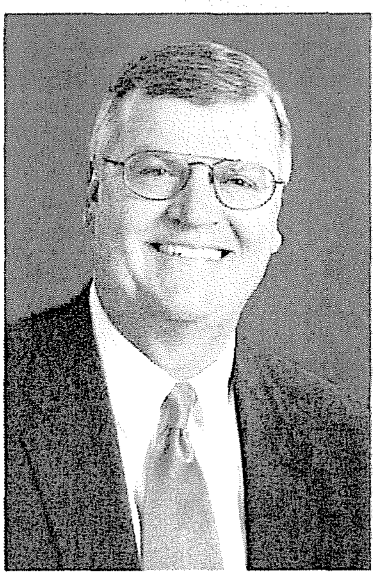
One of the strengths of the electric cooperative program is imbedded in the cooperative principle of cooperation among cooperatives. Throughout the nearly 70 years of electric cooperatives, the application of this principle has continued to deliver positive results. Through the Kentucky Association of Electric Cooperatives, the commonwealth's cooperatives have worked together for more than 60 years to bring economies and synergies of scale in legislative efforts, training programs, and power line supplies. The same is true of NRECA, the National Rural Utilities Cooperative Finance Corp., the National Rural Telecommunications

JPEC



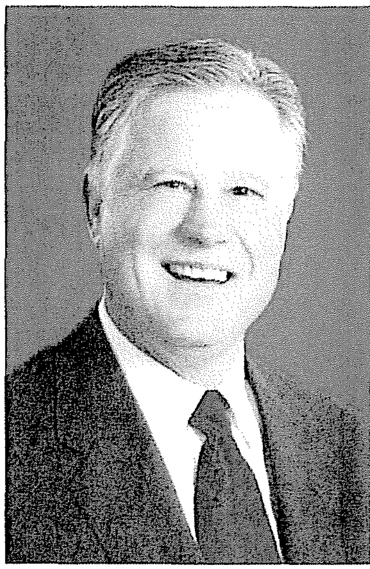
Kelly Nuckols
President/CEO
Jackson Purchase Energy Corp.

Kenergy



Mark Bailey
President/CEO
Kenergy Corp.

Meade County RECC



Burns Mercer
President/CEO
Meade County RECC

Cooperative, and the Federated Rural Electric Insurance Exchange to name a few.

Big Rivers and its members have found that working together better serves the member-consumers at each of their cooperatives. These efforts have resulted in sharing information technology, safety programs, substation inspections, compliance matters and economic development. Big Rivers and its members have consistently found that working together on these and other matters have reduced costs and added value for approximately 107,000 member-consumers. Other possible shared service projects are being studied.

Big Rivers' success in the seven years since reorganization is due to cooperation and hard work. The board, the members and employees of Big Rivers have put their faith in the cooperative principles and their efforts into the business of operating a G&T cooperative. It is the success of cooperation.

TERMINOLOGY REFERENCE GUIDE

APM	ACES Power Marketing, LLC
EMS	Energy Management System
EPA	Environmental Protection Agency
ESRI	Environmental Systems Research Institute
GIS	Geospatial Information System
G&T	Generation and Transmission
Hg	Mercury
HMP&L	Henderson Municipal Power and Light
KPSC	Kentucky Public Service Commission
kV	Kilovolt
LEC	LG&E Energy LLC
LEM	LG&E Energy Marketing, Inc.
LG&E Parties	LEC, LEM, WKEC, WKEC Station Two Inc.
MISO	Midwest Independent System Operator
MW	Megawatt
MWh	Megawatt hour
NOx	Oxides of Nitrogen NO & NO2
NRECA	National Rural Electric Cooperative Association
NREEA	National Rural Electric Environmental Association
PM	Particulate Matter
RECC	Rural Electric Cooperative Corporation
RTO	Regional Transmission Organizations
RUS	Rural Utilities Service
SCRs	Selective Catalytic Reduction units
SEPA	Southeastern Power Administration
SIP	State Implementation Plan
SO2	Sulfur Dioxide
TVA	Tennessee Valley Authority
WKEC	Western Kentucky Energy Corp.

Contract Administration and Regulatory Affairs

David Spainhoward
Vice President of
Contract Administration
& Regulatory Affairs

Autonomy and independence is one of the seven cooperative principles. As such, cooperatives are self-help organizations controlled by their members. Agreements are entered into with other organizations, including governments, on terms that ensure democratic control by their members. Big Rivers is an organization of contracts and is also a regulated cooperative. The Contract Administration and Regulatory Affairs Department is charged with seeing that the contracts are fairly administered and that Big Rivers is in compliance with those governmental agencies that have oversight authority.

In 1998, Big Rivers leased the operations of its generation assets and its rights to the HMP&L Station Two facility to the LG&E Parties. WKEC is responsible for operating and maintaining the Big Rivers' units and WKEC Station Two Inc. is responsible for operating and maintaining the HMP&L Station Two units.

Nearly $150 million of equipment has been installed to bring HMP&L's Station Two and Big Rivers' units into compliance under the new Kentucky NOx SIP call regulations that became effective May 31, 2004. 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, WKEC entered into contracts in 2004 to add SO2 scrubbers to Big Rivers' Coleman Station that, when complete, will significantly reduce the SO2 emitted by Coleman. The new scrubber is planned to be operational by 2006.

During the year, Big Rivers completed its fourth thorough review of the condition and operation of its owned and leased electric generating units. Big Rivers has communicated the results of this analysis to the LG&E Parties. 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 their age. This work concluded in 2004. Annual reviews of the condition of the units will continue.

On September 19, 2000, WKEC 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 EPA regarding utility compliance with new source review requirements under the Clean Air Act. Although the request was directed to WKEC, Big Rivers cooperated with WKEC in preparing a response. Big Rivers has had no further correspondence with the EPA since information was provided.

The EPA issued several regulatory proposals during 2004 that, if implemented, will have a significant impact on steam generating electric utilities. In January 2004, the agency published the Interstate Air Quality Rule, which seeks to reduce emissions of SO2 by 70 percent and NOx by 50 percent by 2015 from current levels, and on the same day issued its Utility Mercury Reductions Rule, which would impose a cap and trade system on Hg emissions similar to that used in the acid rain program. On June 10, 2004, the EPA published its Clean Air Interstate Rule, which provided additional details regarding the Interstate Air Quality Rule that are specifically intended to reduce the interstate transport of particulate matter and ozone. In addition, after publishing proposed non-attainment designations for PM2.5 earlier in the year, on December 17, 2004, EPA published its final designations. Big Rivers, in conjunction with NRECA and NREEA, continue to monitor the proposed rule changes as well as proposed changes in legislation. Impacts to Big Rivers from these potential changes are unknown at this time.

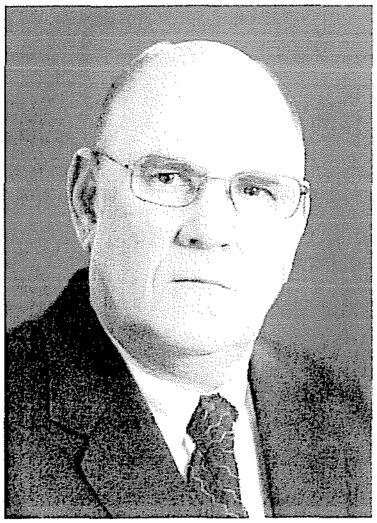
Autonomy and Independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including government or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

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 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 that 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 pending Big Rivers and Thoroughbred's efforts to negotiate an interconnection agreement that will adequately protect Big Rivers and its members and the outcome of negotiations to settle the other issues raised by the appeal.

On September 17, 2004, Big Rivers submitted an application to the KPSC for a certificate of public convenience and necessity to construct a 161 kV transmission line approximately 17.3 miles in length in Breckinridge and Meade Counties, Kentucky. The filing of this application was necessitated by the passage of Senate Bill 246 during the 2004 session of the General Assembly. Big Rivers participated in a public hearing held in Breckinridge County on January 20, 2005, and a technical hearing at the KPSC on January 31, 2005. The KPSC issued its order approving the project on February 28, 2005.



Travis Housley
Vice President
of System Operations

System Operations

The backbone of Big Rivers' service to its three members is the 1,223 mile 345 kV, 161 kV and 69 kV transmission system that spreads throughout their certified service territories in 22 western Kentucky counties. Ever-growing new load and continuing new technology upgrades keep the Engineering and System Operations Departments in a state of constant maintenance, modeling, planning, engineering and construction.

The year 2004 was a good example of this as only approximately three miles of line were actually constructed. However, much planning and engineering were underway that will result in more than 17 miles of 161 kV line and more than 14 miles of 69 kV line being constructed in 2005, with an additional seven miles of 69 kV line in the early stages of planning. These projects will not only aid in serving new load, but will improve reliability of delivery of wholesale power to the members.

In addition, there were three requests for interconnection and one request to improve export capability for the system. There was a request by Vectren for a 161 kV interconnection, one from East Kentucky Power Cooperative for a 161 kV interconnection, and a pending request from Peabody Coal for a 161 kV interconnection for the proposed Thoroughbred generating station. The request for improved export capability was internally generated and seeks a 345 kV tie with Kentucky Utilities near Owensboro. These projects are being studied and will carry forward into 2005 and beyond for completion.

Construction for a backup EMS center began in 2004 and will be completed in early 2005. The energy control system and its operating personnel passed the scrutiny of the East Central Area Reliability council compliance audit and the North American Energy Reliability Council readiness audit.

Efforts are underway to upgrade the Big Rivers' microwave communications system from analog to digital. This upgrade will allow for greater flexibility in system communications with faster and greater data transfer.

Other major projects in 2004 included the completion of the Caldwell County 161-69 kV substation and the 161 and 69 kV lines in Caldwell County. A second transformer was added to the Bryan Road Substation.

Cooperation Among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

While Big Rivers is not a member of the MISO, it, along with several other G&Ts, has retained a consultant to attend and monitor various MISO meetings to stay abreast of MISO operational progress and policy development. It also has been involved with other G&Ts and TVA studying the possible development of a public power regional transmission group.

Power Supply

Bill Blackburn
Vice President
of Power Supply

The Power Supply Department has the responsibility of making sure that Big Rivers' members' power needs are met as efficiently and economically as possible. This is accomplished by utilizing and managing three resources - the LEM Power Purchase Agreement, the member cooperatives' SEPA allocations, and the wholesale power market. Purchasing and selling power on behalf of the members occurs in a mix of the three supply resources available to Big Rivers.

A key to Big Rivers' successes in the past seven years has been not only selling to its members, but also selling to market the excess from the LEM Power Purchase Agreement. In 2004, Big Rivers had power sales margins of $19.7 million on 1.9 million MWh sold to third parties. Since July of 1998, these margins have totaled $87.6 million. Fueling the margin increase in 2004 was not only a relatively strong market, but was also Big Rivers' utilization of MWh available through its resources. During the 16 hours per day of the five peak days each week, Big Rivers utilized 93.7 percent of the MWh available. Of the MWh available every hour of every day, Big Rivers utilized 90.73 percent.

Democratic Member Control

Cooperatives are democratic organizations, controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights - one member, one vote - and cooperatives at other levels are organized in a democratic manner.

Member tariff sales totaled 3.1 million MWh bringing Big Rivers' total sales to 5.0 million MWh. This is a 9.6 percent increase over the 2003 sales and nearly an 18.05 percent increase over the 2002 sales. Several factors have driven this increase.

In 2004, Big Rivers initiated the use of a day-ahead load forecast model. Using historical weather and load data along with other information, Big Rivers was better able to forecast its next day loads and this permitted tighter scheduling of the resources. For the second full year in 2004, Big Rivers utilized APM, a cooperatively owned energy marketing and risk mitigation business that is the largest physical-flow marketing agency in the U.S. for off-system sales and purchases. It has proven to be of great value for Big Rivers, which is one of APM's 15 member-owners. Big Rivers was also able to assist Kenergy with its need for additional power for the two aluminum smelters it serves.

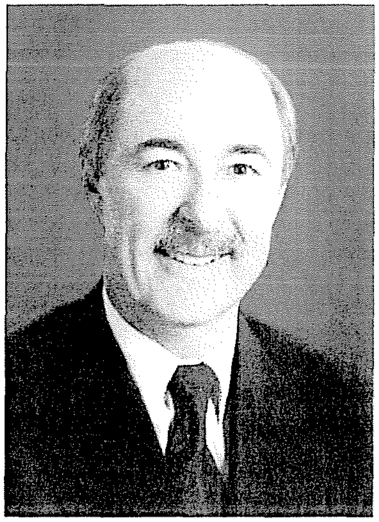
APM and Big Rivers have attended and completed several hours of MISO training and readiness seminars concerning the new market that will be implemented in April of

2005. MISO has reported to the KPSC that Big Rivers has completed all requirements and is ready to participate in the market.

Critical to the future of Big Rivers' power supply to its members is their 178 MW SEPA allocation. Big Rivers is working with the SEPA customers organization to resolve issues on funding requirements for renewals and replacements and capital improvements on the Cumberland River.

In 2004, Big Rivers submitted a request for proposals for renewable energy. Big Rivers and its members believe there is a market for renewable energy and plan to put a renewable energy tariff in place during 2005.

Looking to the long-term future, Big Rivers assisted in the formation of the G&T Power Supply Resources Planning Association in 2004. While Big Rivers is currently long on capacity, it realizes working together with other G&Ts will prove effective in addressing new capacity needs for the future. Cooperation with other cooperatives is one of the cooperative principles and will provide value in the power supply area.

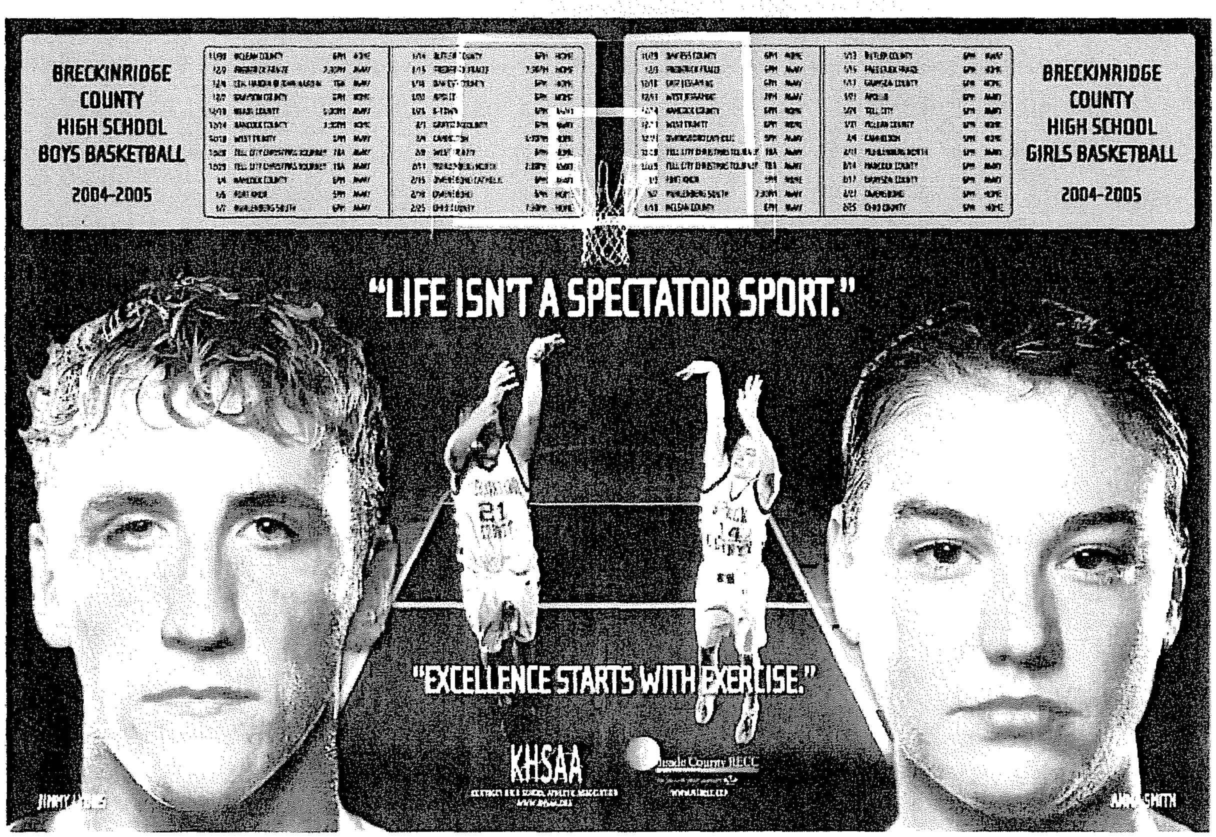


Richard Beck
Vice President
of Marketing

Marketing

Marketing programs are continually being refined to meet the evolving needs of our members. The cooperative principles that guide the development of our programs and initiatives have remained constant for many years. Meeting the needs of the member-consumers remains an ongoing priority for Big Rivers. Success requires a marketing philosophy that ensures concern for the community, education, training and information and last but not least, cooperation among cooperatives. These attributes represent three of the seven cooperative principles and serve as a benchmark for Big Rivers' marketing efforts.

During 2004, Big Rivers demonstrated its concern for community through a variety of diverse initiatives designed to support our members. As one of the initiatives, Big Rivers introduced in Kentucky a high school poster program designed to deliver an important health reminder to students, "Life Isn't A Spectator Sport, Excellence Starts With Exercise." The poster, which was distributed to local businesses, features a male and female student-athlete, the girls' and boys' basketball schedules, the Kentucky High School Athletic Association logo, as well as the logos of each respective distribution cooperative. The program demonstrates the added value cooperatives represent to



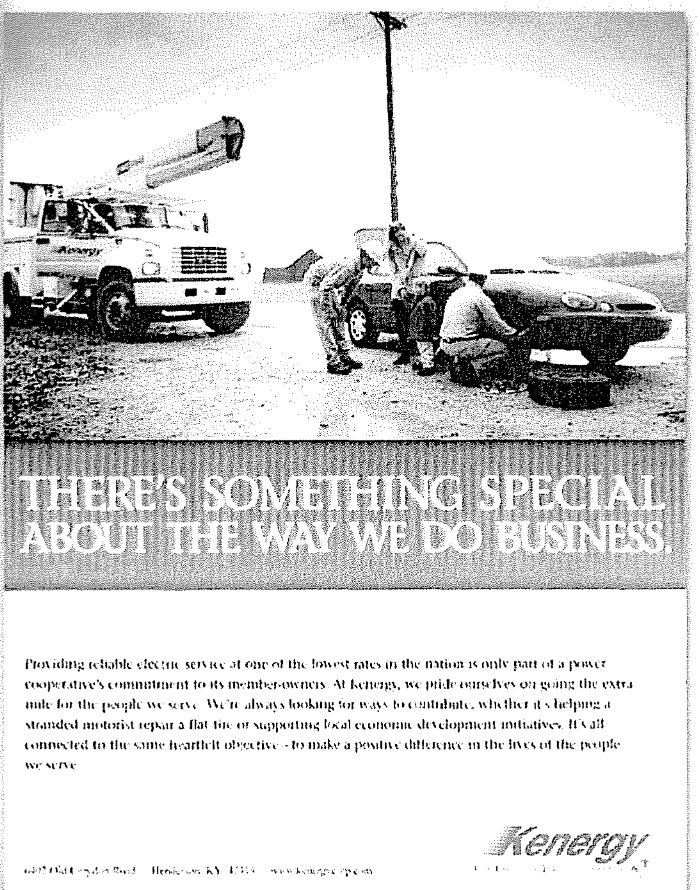
the community by reinvesting in community projects.

Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

Big Rivers was also proud to be a sponsor of other community-oriented programs during 2004 that included Touchstone Energy® scholarships for our member systems to award locally, the Newspapers in Education program that enables teachers to use newspapers as teaching aids for young students and the All "A" Classic, a statewide competition for rural high schools where students compete for scholarships in a variety of challenging venues.

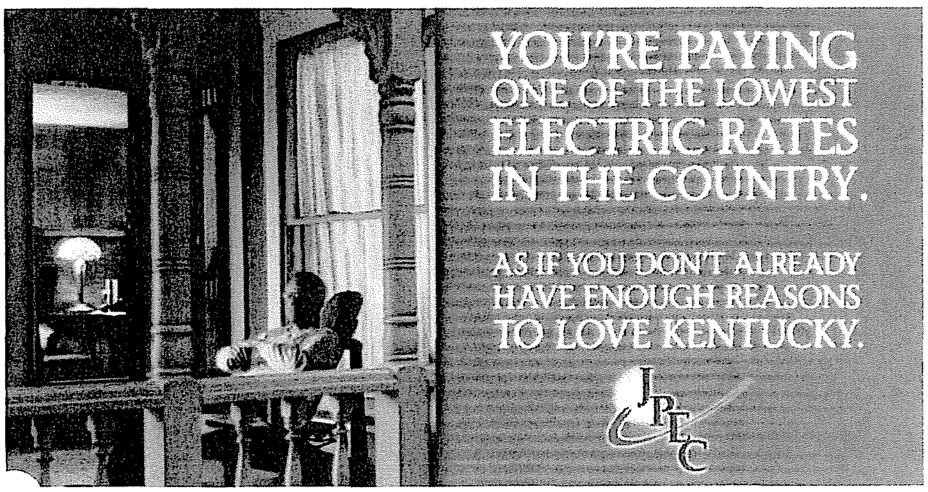
Providing education, training and information was also a priority for Big Rivers during 2004. While our market research indicates high levels of member-consumer satisfaction, national research indicates additional efforts should be devoted to increasing member-consumers awareness of the cooperative difference. In an effort to increase this awareness of the added value associated with cooperative membership, additional information ads were developed during 2004 that focused on several key value propositions, including rates, (our members charge some of the lowest electric rates in the nation,) state-of-the-art technology, system reliability and customer service.



In addition, Big Rivers continues to leverage Touchstone Energy® to communicate the cooperative difference. Touchstone Energy® is committed to establishing cooperatives as preferred providers of electricity and its membership is comprised of over 600 electric cooperatives across the country. Touchstone Energy®'s messages are designed to educate member-consumers about the unique advantages of cooperative membership. A clear understanding of those advantages is key to building long-term consumer loyalty. Some of the key messages communicated during 2004 included, "Local people serving you," "Reinvesting in our local communities," and "Earning your trust everyday. That's the cooperative difference."

Big Rivers remains a strong proponent for the efficient use of Kentucky's energy resources and is committed to helping our members educate their member-consumers about the importance of efficient energy usage. During 2004, Big Rivers worked with its members to develop several energy efficiency programs designed to communicate to member-consumers the reduced cost savings associated with energy efficient techniques. The programs are communicated through an assortment of collateral materials, and training is available for architects, builders and energy managers. In addition, Big Rivers continues to provide direct support to its members and their commercial and industrial customers to promote efficient and cost effective energy use. Additional education is provided to commercial and industrial accounts through on-site visits and the Commercial & Industrial News, a quarterly Big Rivers' publication.

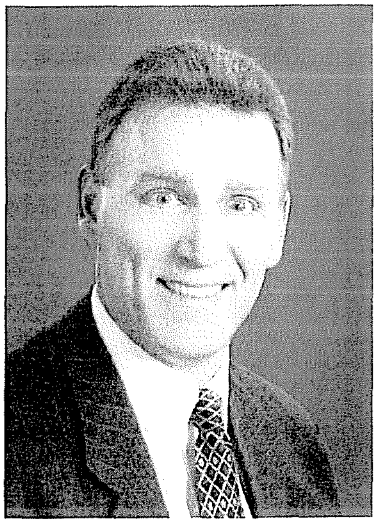
The value of cooperation among cooperatives is difficult to calculate, but the benefits are significant. As a direct result of cooperation, Big Rivers realized much greater Touchstone Energy® advertising efficiency by cost sharing radio and television advertising during 2004. Big Rivers also directly benefited from shared learning as it related to development of several projects and programs. Big Rivers remains committed to working closely with its members and other cooperatives to ensure the most effective use of financial resources, a benefit that is ultimately shared by everyone, most importantly the end-user.



A key cooperative principle is members' economic participation. Members contribute equitably to and democratically control the capital of their cooperative. While cooperatives are generally considered non-profit, sound business practices and financial stability are very important.

Members' Economic Participation

Members contribute equally to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.



Mark Hite,
Vice President of Finance
& Administrative Services

The 2004 results of operations were one of Big Rivers' best ever from a net margin perspective. Net margins were $22.0 million in 2004, a $3.7 million improvement over 2003, continuing the favorable net margin trend that began July 15, 1998, upon closing the 25-1/2 year LG&E Parties lease transaction. Big Rivers is optimistic this favorable trend will continue in 2005 and beyond. As was the case in 2003, the primary contributor to the 2004 net margin improvement was the sale of Big Rivers' surplus power, power excess to that of its member wholesale tariff requirements, at wholesale market prices (a $3.6 million favorable margin impact over 2003). These other sales, which are referred to as arbitrage sales, consisted of 1.9 million MWh at an average price of $32.00 per MWh, compared to 1.5 million MWh at $32.38 in 2003, a 23.87 percent volume increase coupled with

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**	

Although leased to WKEC, Big Rivers continues to own its 1,459 megawatts of electric generating facilities. Big Rivers has also assigned its rights to the City of Henderson's 312 megawatt Station Two facility to WKEC, currently 217 megawatts.

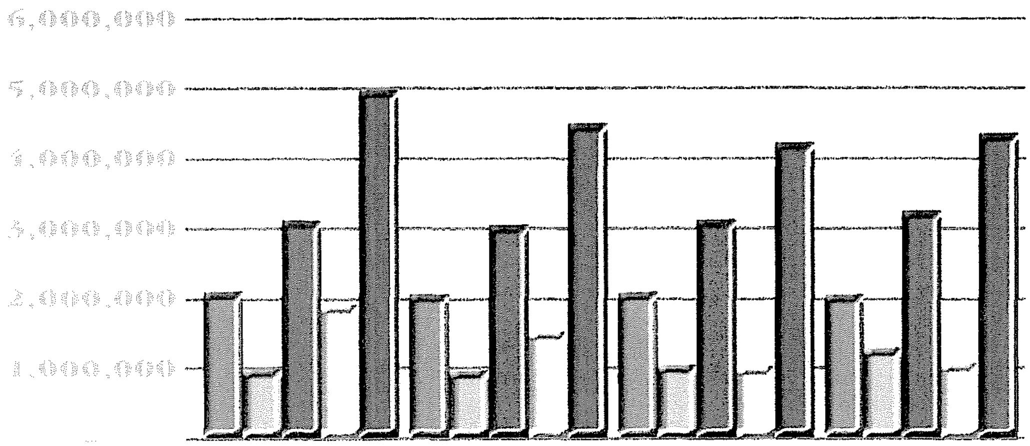
a 1.17 percent price reduction. Big Rivers' wholesale tariff rates to its members are among the lowest in the nation. While these low base member tariff rates have been in effect since September 1997, wholesale rates have been further reduced in connection with the April 2000 sale-leaseback. Big Rivers' wholesale tariff rates to its members averaged $33.55 per MWh during 2004 on sales of 3.1 million MWh, $35.06 for rural sales and $30.31 for large industrial sales. Big Rivers has no plans to change these low member wholesale rates for several years. Member tariff load grew 2.54 percent in 2004. Big Rivers' low embedded cost and today's wholesale market are a winning combination. While Big Rivers has made significant and steady progress the past six years, its negative equity position stands at $278.3 million at year-end 2004, resulting from a decade of losses prior to the reorganization that occurred July 1998.

Selected Historical Financial Information
(Dollars in Thousands)

	2004	2003	2002	2001
Margins	22,025	18,349	10,055	16,796
Equity	(278,256)	(300,281)	(319,013)	(328,685)
Capital Expenditures*	12,203	21,397	21,700	13,040
Cash & Investment Balance	54,891	15,802	20,061	59,209
New RUS Note Voluntary Prepayment Status	53,518	80,101	60,479	17,473
TIER	1.32	1.27	1.14	1.22
DSC	1.76	1.46	1.19	1.30
Cost of Debt	5.35%	5.34%	5.38%	5.68%
Cost of Capital	7.38%	7.36%	7.37%	7.66%

**Big River's share only; excludes WKEC's share*

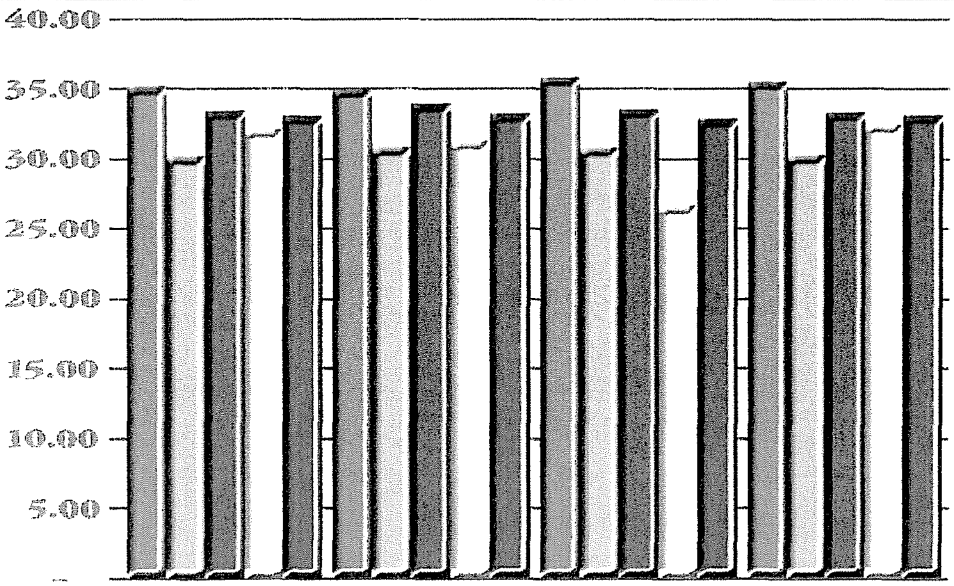
MWh Sales



	2004	2003	2002	2001
Member Rural	2,132,801	2,089,688	2,114,691	2,000,877
Member Large Industrial	997,202	962,670	1,077,322	1,283,445
Total Member Tariff	3,130,003	3,052,358	3,192,013	3,284,322
Other Sales	1,868,657	1,508,516	1,042,496	1,110,100
Total	4,998,660	4,560,874	4,234,509	4,394,422

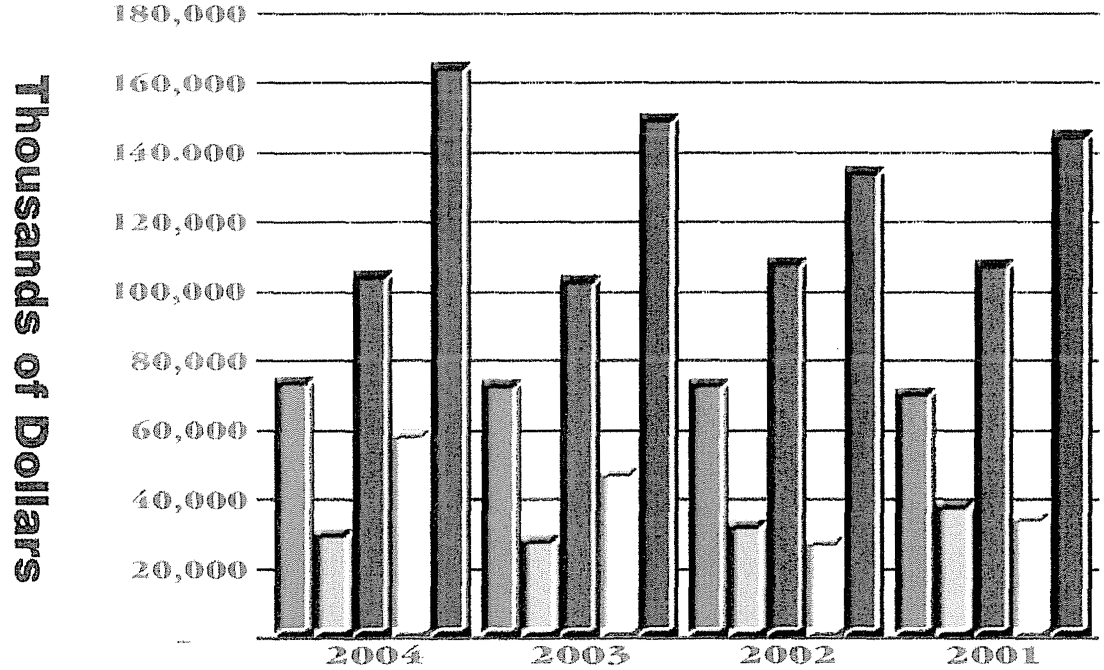
Three other items are noteworthy in comparing Big Rivers' 2004 financial results to those of 2003. First, based upon a favorable ruling from the United States Court of Appeals received in early 2004 concerning the examiner's fee matter (as discussed in prior years' annual reports), a $900,000 settlement was received from the examiner. Also associated with the examiner's fee, in 2003 Big Rivers reversed a $2.1 million contingent liability it had accrued in 1998. Second, income from the LG&E Parties lease transaction increased $3.7 million in 2004, primarily due to the NOx compliance assets being placed into service. The compliance effective date was May 31, 2004. In accordance with the LG&E Parties lease agreement, to the extent such capital costs were paid by an LG&E Party, such amounts are amortized to lease income over the 23-1/2 year period following the date such assets are placed into service. Depreciation and amortization expense increased to $31.1 million in 2004, an increase of $1.9 million over 2003, also primarily due to the NOx compliance assets. The depreciation and amortization expense, together with $24.7 million of plant additions, primarily various generation-related projects, resulted in a decrease in net utility plant of $6.3 million, for a total of $940.6 million. Note that in accordance with the lease, the LG&E Parties funded the majority of the generation plant additions. And third, in connection with the HMP&L Station Two 1972 bonds being retired in 2003, excess debt service reserve and renewal and replacement reserve funds of $900,000 were recognized as revenue in 2003.

Revenue - $/MWh



	2004	2003	2002	2001
Member Rural	35.06	34.99	35.38	35.27
Member Large Industrial	30.31	31.15	31.22	30.59
Total Member Tariff	33.55	33.78	33.97	33.44
Other Sales	32.00	32.38	26.78	32.68
Total	32.97	33.32	32.20	33.25

Electric Energy Revenue



	2004	2003	2002	2001
Member Rural	74,775	73,128	74,810	70,566
Member Large Industrial	30,229	29,990	33,630	39,265
Total Member Tariff	105,004	103,118	108,440	109,831
Other Sales	59,806	48,851	27,923	36,273
Total	164,810	151,969	136,363	146,104

As mentioned in last year's annual report, Big Rivers continues making several significant information technology improvements. Progress continues on installing the new GIS for both Big Rivers and its members. Data conversion for the real-time ESRI-based mapping system was completed during 2004, and installation of laptop computers in the service trucks is underway. Enhanced outage management via the GIS is scheduled for 2005. Big Rivers' new EMS went into service in July 2004 and continues to perform as anticipated. Construction of the new back-up/alternate business recovery facility is nearing completion. Big Rivers completed electronic bill presentment for its members' consumers in November 2004 and plans to roll out e-payment during 2005. Finally, Big Rivers' timeline for constructing a new headquarters facility has been deferred, that project remaining in the design phase.

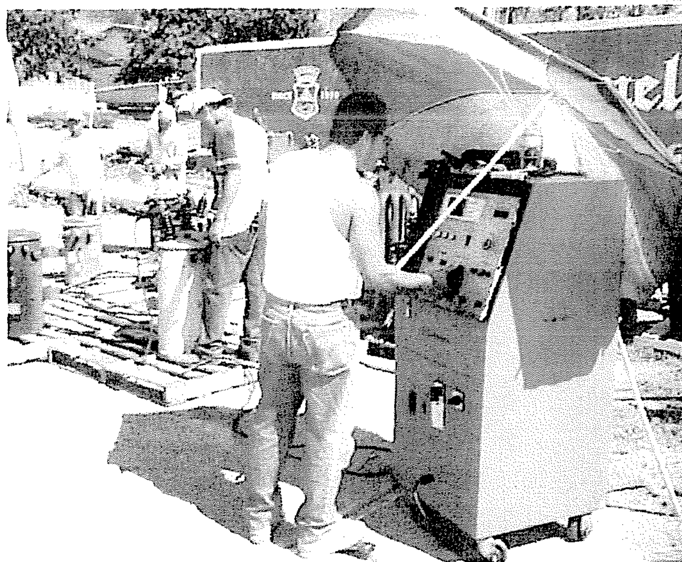
Philippine Project

NRECA International Fnd.

Concern for the Global Community

Big Rivers and its members have long practiced the cooperative principle of concern for the community by supporting numerous community efforts to raise the quality of life and growth of the areas that it serves in western Kentucky. Beginning in 2001, through the leadership efforts of Travis Housley, vice president of system operations, and in cooperation with NRECA's International Foundation, Big Rivers has supported efforts to electrify remote villages on the island of Mindanao in the Philippines, which Big Rivers calls the Philippine Project.

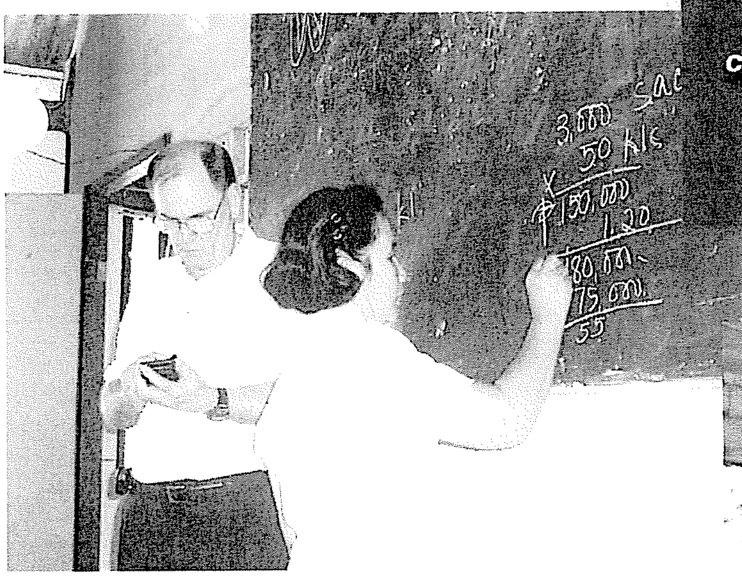
As we now have a global economy, we also have a global community and what happens in one part of the world can and does have direct impact on our nearby communities. Poor areas of the world can be breeding grounds for unrest and terrorism, as people who do not have the opportunity to improve their lives are easy targets for those who promote unrest. Contributing to the poverty of those areas is a lack of infrastructure and utilities. Since beginning the Philippine Project, some ten villages have received power, education and assistance in utilizing that power to improve their economic prospects and quality of life. Some have set up small cooperative economic ventures now that electricity is powering their efforts. Another ten villages on Mindanao are scheduled to be electrified in 2005 along with 150 interest-free loans for wiring houses and 25 transformers for commercial enterprises.

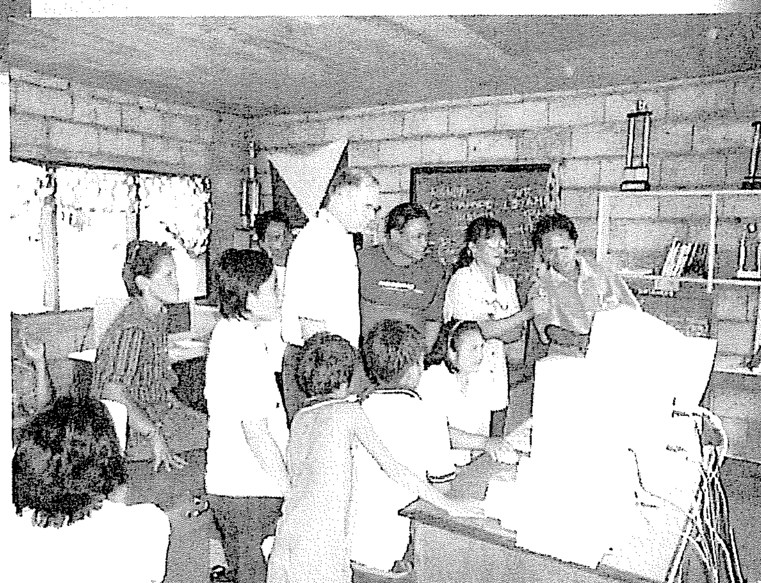


Believing in the principle of cooperation among cooperatives, Big Rivers has sought and received extensive cooperation in the form of contributions of funds and unneeded, but usable, power line equipment from cooperatives in several states. With the assistance of NRECA's International Foundation, the equipment is shipped to the Philippines and manpower is provided on site to assist the effort. In addition, many cooperative employees, directors, and friends have also contributed funds from their own pockets. This effort truly exemplifies the success of the cooperative principles.

Concern for Community

While focusing on member needs, cooperatives work for the sustainable development of their community through policies accepted by their members.





Big Rivers Electric Corporation

Financial Statements as of December 31, 2004, 2003, and 2002, for Each of the Three Years in the Period Ended December 31, 2004 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
Big Rivers Electric Corporation

We have audited the accompanying balance sheets of Big Rivers Electric Corporation (the "Company") as of December 31, 2004 and 2003, and the related statements of operations, equities (deficit) and cash flows for each of the three years in the period ended December 31, 2004. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, 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 2, 2005, 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. 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 2, 2005

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(Dollars in thousands)

ASSETS	**2004**	**2003**
UTILITY PLANT—Net	$ 940,649	$ 946,958
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	174,695	168,859
OTHER DEPOSITS AND INVESTMENTS—At cost	3,246	2,969
CURRENT ASSETS:		
Cash and cash equivalents	54,891	15,802
Accounts receivable	15,609	15,348
Materials and supplies inventory	555	588
Prepaid expenses	348	574
Total current assets	71,403	32,312
DEFERRED CHARGES AND OTHER	30,647	31,758
TOTAL	$ 1,220,640	$ 1,182,856
EQUITIES (DEFICIT) AND LIABILITIES		
CAPITALIZATION:		
Equities (deficit)	$ (278,256)	$ (300,281)
Long-term debt	1,079,688	1,053,598
Obligations related to long-term lease	164,704	158,597
Other long-term obligations	437	789
Total capitalization	966,573	912,703
CURRENT LIABILITIES:		
Current maturities of long-term obligations	781	747
Voluntary prepayment of long-term debt	-	8,404
Notes payable	-	10,000
Purchased power payable	9,204	8,654
Accounts payable	2,910	2,997
Accrued expenses	1,638	1,713
Accrued interest	8,004	6,470
Total current liabilities	22,537	38,985
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	26,090	30,357
Deferred gain on sale-leaseback	62,118	64,941
Residual value payments obligation	138,693	131,130
Other	4,629	4,740
Total deferred credits and other	231,530	231,168
COMMITMENTS AND CONTINGENCIES		
TOTAL	$ 1,220,640	$ 1,182,856

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(Dollars in thousands)

	2004	2003	2002
POWER CONTRACTS REVENUE	$ 175,777	$ 162,432	$ 146,548
LEASE REVENUE	56,753	53,040	51,094
Total operating revenue	232,530	215,472	197,642
OPERATING EXPENSES—Operations:			
Power purchased and interchanged	106,099	96,577	85,722
Transmission and other	18,674	17,383	14,669
MAINTENANCE	2,597	2,617	3,100
DEPRECIATION	29,732	28,257	27,745
Total operating expenses	157,102	144,834	131,236
ELECTRIC OPERATING MARGINS	75,428	70,638	66,406
INTEREST EXPENSE AND OTHER:			
Interest	56,923	57,645	59,801
Interest on obligations related to long-term lease	8,725	8,355	8,003
Other—net	158	136	147
Total interest expense and other	65,806	66,136	67,951
OPERATING MARGIN	9,622	4,502	(1,545)
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	11,278	10,894	10,527
Interest income and other	1,125	2,953	1,073
Total non-operating margin	12,403	13,847	11,600
NET MARGIN	$ 22,025	$ 18,349	$ 10,055

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(Dollars in thousands)

			Other Equities	
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	Consumers' Contributions to Debt Service
BALANCE—January 1, 2002	$ (328,685)	$ (333,130)	$764	$ 3,681
Net margin	10,055	10,055	-	-
Accumulated other comprehensive loss	(383)	(383)	-	-
BALANCE—December 31, 2002	(319,013)	(323,458)	764	3,681
Net margin	18,349	18,349	-	-
Accumulated other comprehensive income	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

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(Dollars in thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 22,025	$ 18,349	$ 10,055
Adjustments to reconcile net margin to net cash provided by operating activities:			
Depreciation and amortization	32,625	30,872	30,397
Increase in restricted investments under long-term lease	(5,836)	(5,605)	(5,240)
Amortization of deferred gain on sale-leaseback	(2,823)	(2,785)	(2,744)
Deferred lease revenue	(4,267)	(3,059)	6,141
Residual value payments obligation	(5,077)	(1,726)	329
Increase in RUS ARVP Note	4,807	4,546	4,298
Increase in New RUS Promissory Note	21,849	-	-
Increase in obligations under long-term lease	6,107	5,850	5,461
Changes in certain assets and liabilities:			
Accounts receivable	(261)	(628)	4,860
Materials and supplies inventory	33	(14)	(24)
Prepaid expenses	226	(398)	295
Deferred charges	(368)	1,602	(2,604)
Purchased power payable	550	1,016	178
Accounts payable	(87)	(4,633)	2,522
Accrued expenses	1,459	(6,177)	(531)
Other—net	(104)	3,107	(1,307)
Net cash provided by operating activities	70,858	40,317	52,086
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures—net	(12,203)	(21,397)	(21,700)
Other deposits and investments	(277)	5,733	(1,890)
Net cash used in investing activities	(12,480)	(15,664)	(23,590)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term obligations	(9,289)	(38,912)	(67,644)
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	(19,289)	(28,912)	(67,644)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,089	(4,259)	(39,148)
CASH AND CASH EQUIVALENTS—Beginning of year	15,802	20,061	59,209
CASH AND CASH EQUIVALENTS—End of year	$ 54,891	$ 15,802	$ 20,061
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 28,485	$ 57,103	$ 55,634
Cash paid for taxes	$ 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 RECC) 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
2005	$ 52,332
2006	52,332
2007	52,332
2008	52,332
2009	52,332
Thereafter	514,534
	$776,194

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, 2004 and 2003, the Company has recorded $12,641and $35,412, respectively, for such additions in utility plant. The Company has recorded $5,077, $1,726, and $(329), in 2004, 2003, and 2002, respectively, as related lease revenue (expense) 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, 2004, the cumulative Non-Incremental Capital Costs amounted to $6,601 (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 $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 2004, 2003 and 2002, the average composite depreciation rates were 1.86%, 1.83%, and 1.85%, 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 144 establishes one accounting model for all impaired long-lived assets and long-lived assets to be disposed of by sale or otherwise. SFAS 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 be not less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income. During 2004 and 2003, the Company made a patronage allocation of $-0- and $18,937, respectively, to its three member distribution cooperatives based on alternative minimum taxable patronage-sourced income in accordance with its bylaws. The Company anticipates no patronage allocation to its members in 2005 based on such calculations for tax year 2004.

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.

Reclassifications—Certain amounts in the prior years' financial statements have been reclassified to conform with current year presentation.

New Accounting Pronouncements—

In December 2003, FASB issued SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*", to improve financial statement disclosures for defined benefit plans.

The change replaces existing FASB disclosure requirements for pensions and postretirement plans. The guidance is effective for fiscal years ending after June 15, 2004. The adoption did not impact the Company's results of operations or financial condition. The incremental disclosure requirements are included in these financial statements in Notes 9 and 10.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.* SFAS No. 150 establishes standards for how an issuer classifies and measures three classes of freestanding financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for mandatorily redeemable financial instruments of non-public entities for the first fiscal period beginning after December 15, 2004. Management does not expect the adoption of SFAS No. 150 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 $109,831 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 $15,550. 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:

	2004	2003
Classified plant in service:		
Electric plant—leased	$ 1,494,222	$ 1,422,084
Transmission plant	192,601	205,795
General plant	11,629	11,810
Other	67	67
	1,698,519	1,639,756
Less accumulated depreciation	772,938	754,301
	925,581	885,455
Construction in progress	15,068	61,503
Utility plant—net	$ 940,649	$ 946,958

Interest capitalized for the years ended December 31, 2004, 2003 and 2002, was $221, $145, and $42, respectively.

The Company has not identified any legal obligations, as defined in SFAS No. 143, *Accounting for 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, 2004 and 2003, the Company had a regulatory liability of approximately $20,796 and $17,967, 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 $2,824, $2,785, and $2,744, in 2004, 2003, and 2002, respectively. Principal payments begin in 2009.

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

	2004	2003
Restricted investments under long-term lease	$ 174,695	$ 168,859
Obligations related to long-term lease	164,704	158,597
Deferred gain on sale-leaseback	62,118	64,941

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

	2004	2003	2002
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	11,548	11,140	10,747
Amortize gain on sale-leaseback	(2,823)	(2,785)	(2,744)
Net interest on obligations related to long-term lease	8,725	8,355	8,003
Interest income on restricted investments under long-term lease	11,278	10,894	10,527
Interest income and other (CoBank patronage allocation)	661	655	727

5. DEBT AND OTHER LONG TERM OBLIGATIONS

A detail of long-term debt is as follows at December 31:

	2004	2003
New RUS Promissory Note, stated amount, $839,071, stated interest rate of 5.75%, with an interest rate of 5.81%, maturing July 2021.	$ 834,601	$ 821,156
RUS ARVP Note, stated amount $256,301, no stated interest rate, with interest imputed at 5.81%, maturing December 2023.	85,814	81,143
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023.	17,603	17,999
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 1.27% and 1.06% in 2004 and 2003 respectively), maturing in October 2022.	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 1.27% and 1.06% in 2004 and 2003 respectively), maturing in June 2013.	58,800	58,800
Total long-term debt	1,080,118	1,062,398
Current maturities	430	396
Voluntary prepayments	-	8,404
Total long-term debt—net of current maturities and prepayments	$ 1,079,688	$ 1,053,598

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

Year	Amount
2005	$ 430
2006	29,102
2007	31,140
2008	39,182
2009	39,234
Thereafter	941,030
Total	$ 1,080,118

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 2004, 2003, and 2002, respectively. At December 31, 2004, the Company has a remaining liability of $789 payable over the next four years, of which $351 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, 2004. The line of credit bears interest at a variable rate. The average interest rate on the line of credit in 2004 was 2.90%. 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, 2005, 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 2005, Big Rivers plans to request the KPSC's approval to extend the adjustment through August 31, 2006.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31 were as follows:

	2004	2003
Deferred tax assets:		
Net operating loss carryforward	$ 88,875	$ 96,996
Alternative minimum tax credit carryforwards	3,965	3,582
Sale-leaseback	124,755	119,241
Lease agreement	(9,145)	(2,915)
Total deferred tax assets	208,450	216,904
Deferred tax liabilities:		
Fixed asset basis difference	(18,143)	(27,403)
Other accruals	1,727	1,146
Total deferred tax liabilities	(16,416)	(26,257)
Net deferred tax assets (pre-valuation allowance)	192,034	190,647
Valuation allowance	(188,069)	(187,065)
Net deferred tax asset	$ 3,965	$ 3,582

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, 2004 and 2003, Big Rivers had a non-patron net operating loss carryforward of approximately $216,771 and $236,576, respectively, for tax reporting purposes expiring 2005 through 2013, and an alternative minimum tax credit carryforward at December 31, 2004 and 2003 of approximately $3,965 and $3,582, 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, 2004 and 2003 is approximately $3,965 and $3,582, 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, 2004, 2003, and 2002 were $89,696, $79,136 and $73,905, 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:

	2004	2003
Projected benefit obligation	$ (15,931)	$ (13,164)
Fair value of plan assets	11,982	10,106
Funded status	$ (3,949)	$ (3,058)

The accumulated benefit obligation for all defined benefit pension plans was $11,359 and $9,087 at December 31, 2004, and 2003, respectively.

Amounts recognized in the statement of financial position at December 31:

	2004	2003
Prepaid benefit cost	$ 239	$ 351
Net amount recognized	$ 239	$ 351

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

	2004	2003	2002
Benefit cost	$ 954	$ 995	$ 735
Employer contribution	843	823	809
Benefits paid or transferred	103	937	426

Assumptions used to develop the projected benefit obligation were:

	2004	2003	2002
Discount rates	5.75 %	6.25 %	6.75 %
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.50	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 7.38%, which was rounded to 7.50%.

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, 2004, the investment allocation was 54% equities and 46% fixed income.

Expected retiree pension benefit payments projected to be required during the years following 2004 are:

Year	Amount
2005	$ 584
2006	675
2007	598
2008	1,342
2009	678
2010 - 2014	7,521
Total	$ 11,398

In 2005, the Company expects to contribute $923 to its pension plan trusts.

10. 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 introduces a Medicare prescription drug benefit, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least "actuarially equivalent" to the Medicare benefit. The underlying determination of whether an employer's plan qualifies for the federal subsidy is still subject to clarifying federal regulations related to the Medicare Act. When this guidance is issued, the Company will reassess if its plan qualifies for the subsidy. However, the Company currently believes that the benefits provided under the plan do not meet the definition of actuarially equivalent.

The discount rate used in computing the postretirement obligation was 6.25% for 2004 and 6.75% for 2003. A health care cost trend rate of 11.0% in 2004 declining to 5.5% in 2011 was utilized.

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

	2004	2003
Total benefit obligation	$ (3,440)	$ (3,122)
Unfunded accrued postretirement cost	(3,662)	(3,541)

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

	2004	2003	2002
Benefit cost	$ 310	$ 277	$ 267
Benefits paid	188	175	173

Expected retiree benefit payments projected to be required during the years following 2004 are:

Year	Amount
2005	$ 212
2006	209
2007	228
2008	240
2009	264
2010 - 2014	1,496
Total	$ 2,649

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 $259 and $231 at December 31, 2004 and 2003, respectively. The postretirement expense recorded was $28, $51 and $32 for 2004, 2003 and 2002, respectively, and the benefits paid were $-0-, $21, and $-0- for 2004, 2003, and 2002, respectively.

11. 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 $168, $160, and $155 for the years ended December 31, 2004, 2003, and 2002, respectively.

12. RELATED PARTIES

For the years ended December 31, 2004, 2003, and 2002, Big Rivers had tariff sales to its members of $105,004, $103,118, and $108,440, respectively. In addition, for the years ended December 31, 2004, 2003, and 2002, Big Rivers had certain sales to Kenergy for the Aluminum Smelters and Weyerhaeuser loads, of $43,017, $26,327, and $7,581 respectively.

At December 31, 2004 and 2003, Big Rivers had accounts receivable from its members of $12,128 and $11,359, respectively.

13. 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

Your Touchstone Energy® Cooperatives
The power of human connections

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201 Third Street
Henderson, KY 42419
(270) 827-2561

Innovation Through Technology...
Strong Emphasis on Service

Big Rivers
Electric Corporation

2003 Annual Report

PRESIDENT & CHAIRMAN'S REPORT

Upfront we will tell you that 2003 was a good year for Big Rivers. Margins were $18.3 million compared to $10.1 million in 2002. This was accomplished in spite of the fact that megawatt hour (MWh) sales to members were down 4.4 percent from 2002. More than making up the difference was the sale of excess power into the wholesale power markets that found more stability in 2003 than in 2002 as the electric utility industry returned to some semblance of order after the chaotic financial disasters that occurred in 2002. As we reported in last year's annual report, 2002 was a year we were able to ride out the storm which positioned us well for the improving 2003 business climate.

William Denton *Chair of the Board*

Michael Core *President & CEO*

We are proud of the record of Big Rivers for the past five years. We have been consistent and fiscally sound, generating margins totaling $59.7 million during those five years and paying total debt service of $696.7 million. We are also proud that the rates to our members have remained consistent over that time and that we have refunded $12.3 million to the members through a revenue discount that resulted from a sale-leaseback transaction in 2000.

This success has permitted us to focus on a future of providing even better service to our member systems and helping them do the same for their member consumers. The thrust of that focus is in the area of technology. Big Rivers is spending several million dollars updating its own technology and that used by its member systems in providing service to the member consumers at the end of the line. These updates include a change out of Big Rivers' energy management system (EMS); improved load forecasting; and, for the members and Big Rivers together, the installation of a Geospatial Information Computer System (GIS) that not only will advance an already solid service record to the member consumers, but will also save money on the installation by working together as a group rather than four separate entities.

Big Rivers has had a long history of working together with its members in meeting the service and energy needs of the 22 counties that the member systems serve in western

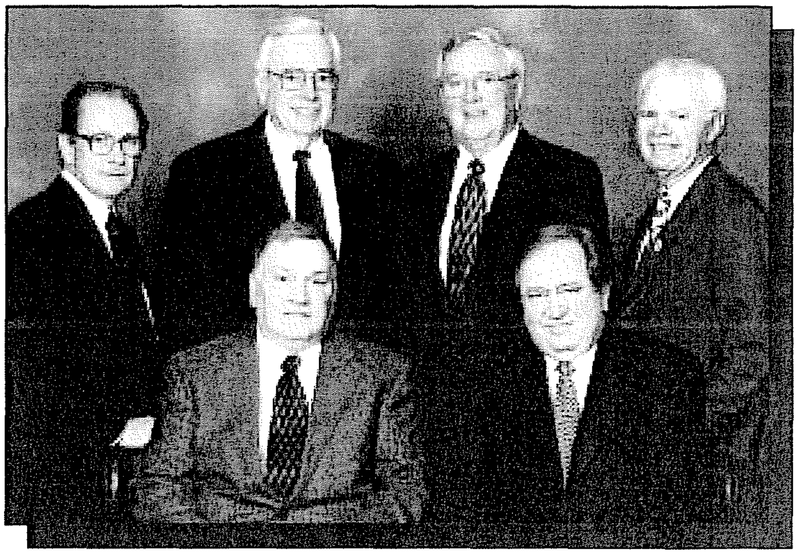
Kentucky. Careful planning and the economies of working together in many areas have resulted in significant savings to the approximately 105,000 members served by the Big Rivers' member systems.

Electric utility industry issues are as complex as ever. Even with less emphasis on retail deregulation, there remain many challenges in the generation and transmission areas. The electrical blackout and the ensuing disruptions suffered around Lake Erie and the northeast in August 2003 serve as a reminder of our dependence on electricity and how complex the business of providing it can be. We remain committed to working with our member systems in utilizing hard work, technology and cooperation to deliver the most economical and reliable electric service we can.

Judy Brown, mapping technician, Meade County RECC, demonstrates for Dave Titzer, manager of information systems, Big Rivers Electric Corporation, a new truck ruggedized personal computer for linemen.

As you can see, the mission and emphasis at Big Rivers and its member systems remain on the member consumers. It's our only reason for existence.

That we live in an information society is an accepted axiom today. Certainly, our access to information is unparalleled when compared to not just any time in our history, but to just 10 or 15 years ago. And the ability to reach that information is rapidly becoming non-jurisdictional from a geographical basis. That is, you can live in remote rural America, or the world, for that matter, and have access to the same information as anyone living in the largest metropolitan area. But the access to information is not the key. It is what is done with information that determines whether we believe we are the better for living in an information society.



Big Rivers' Board of Directors
Seated from left to right: Larry Elder and Bill Denton, Chair
Standing from left to right: Lee Bearden, John Myers, Secretary/Treasurer; James Sills, Vice-Chair; and Paul Edd Butler

While the access to information can tend to overload us, it can also create a much better life if we can use it properly. We can research a medical condition as well as any university medical school. We can determine what investments to make and how they are doing. We can enjoy our hobbies and share our experience and information with others enjoying the same hobby. We can locate hard-to-find purchases, bank and file taxes. More importantly, we can share photos and videotapes with loved ones and stay in contact with old friends. Information and the ability to compile it provide a much better life.

Big Rivers is owned by its three member distribution systems -- Jackson Purchase Energy Corporation, Paducah, Kentucky; Kenergy Corp., Henderson, Kentucky; and Meade County RECC, Brandenburg, Kentucky. Big Rivers is headquartered in Henderson, Kentucky. Big Rivers' Board of Directors, which has two representatives from each of its three member systems, and its member systems have long worked together developing and maintaining customer information systems and operational information systems. The synergies and economies of this consolidated effort have reduced costs to the member consumers and improved the reliability of the data.

A project concept was developed by Big Rivers and its three member systems in 2002 to begin the conversion to a GIS that would tie the operations and customer information systems together. The GIS approach would improve efficiencies in tracking data for both functions, keep data updates easier, and more importantly, enhance services to the member consumers. In 2003, work in this area moved from a concept to an implementation phase. Big Rivers' Information Systems staff is coordinating the work and developing the interface with the existing consumer information systems that are maintained by Big Rivers for its member systems.

Big Rivers is also updating its decade-old EMS that is used to control and dispatch its 1,207 miles of combined 69 kilovolt (kV), 138 kV, 161 kV and 345 kV transmission system. In addition to this, the new EMS will be replicated at an off-site facility that will be used for back up purposes. The same facility will also be available for backing up each member system's GIS as a business continuity function in case of loss of use at a member system's headquarters.

Big Rivers is spending $5.1 million on the GIS and EMS projects and the joint work with the members will save more than a total of $250,000 than if each of the four parties would have pursued this individually.

Big Rivers still owns the Reid Plant (130 megawatts [MW]), the Kenneth C. Coleman Plant (455 MW), the Robert D. Green Plant (454 MW) and the D.B. Wilson Plant (420 MW), totaling 1,459 MW of generating capacity. It addition, it currently has rights to another 217 MW in a contractual arrangement with Henderson Municipal Power and Light's (HMP&L) Station Two facility.

In July 1998, Big Rivers leased the operations of its generation and its rights to the HMP&L facility to LG&E Energy Corp. (LEC) and certain of its affiliates (LG&E Parties). Big Rivers provides power to its members from a power purchase agreement with LG&E Energy Marketing (LEM), member allocations from the Southeastern Power Administration (SEPA), and the wholesale power market. Big Rivers owns, operates and maintains its 1,207-mile transmission system and provides for transmission of power to its member systems as well as to the LG&E Parties and other third-party entities served under its Open Access Transmission Tariff (OATT).

Kelly Nuckols
President/CEO
Jackson Purchase Energy Corp.

Dean Stanley
President/CEO
Kenergy Corp.

Burns Mercer
President/CEO
Meade County RECC

POWER SUPPLY

The stabilization of the electricity markets and greater sales volume helped Big Rivers' Power Supply Department record its best year yet. The power supply for the member systems comes from three sources: the Power Purchase Agreement with LEM, SEPA allocations to the member systems, and wholesale market purchases. To the extent that the member systems' native load does not need all of the contractually available power, it is available for sale to others, primarily non-members, at market prices.

Total sales volume to member systems and non-members increased from 4.2 million megawatt hours (MWh) to 4.6 million MWh or 7.7 percent. When coupled with a $4.85 or 16.7 percent per MWh increase in the average price attained in the wholesale market for excess power sales, it resulted in Big Rivers achieving $16.5 million in margins on such sales. Since July 1998, these margins have totaled $68.3 million.

Volume increases in the sale of excess power was due to two factors. Big Rivers completed its first full year of utilizing ACES Power Marketing (APM), a cooperatively-owned energy marketing and risk mitigation business serving 14 member generation and transmission cooperatives and several other non-members. Big Rivers became a member of APM in late 2002. Secondly, the sales voluume increased through special contract sales to Kenergy for the two aluminum smelters, which are not served under Big Rivers' all requirements contracts, but are served by the Big Rivers' transmission system. Portions of these sales are interruptible and afforded Big Rivers additional opportunities in the market as well as cost avoidance. These types of sales have been extended to 2004 and beyond, ensuring Big Rivers of continued strong MWh sales volume and margins.

Bill Blackburn
VP of Power Supply

Big Rivers' relationship with APM has proven to be a great benefit, beyond the marketing of our surplus power. Big Rivers works closely with APM in other areas, including power supply portfolio modeling, credit issues with counter parties, risk assessment and mitigation, and Midwest Independent System Operator (MISO) transmission and market integration.

Critical to the future of Big Rivers' power supply to its members is the 178 MW SEPA allocation to the members, managed by and incorporated into power supply by Big Rivers. To that end, Big Rivers has been working with Southeast Federal Power Customers to resolve critical issues on funding requirements for renewals and replacements and capital improvements on the Cumberland River. Work is also being done with this organization and the U.S. Army Corps of Engineering on water withdrawal rights for Cumberland River projects.

Improving the use of technology is key to power supply activities. A new load forecasting system is being developed that will provide for improved forecasting capability, leading to better resource utilization, thereby improving power supply services to the members and non-members.

SYSTEM OPERATIONS

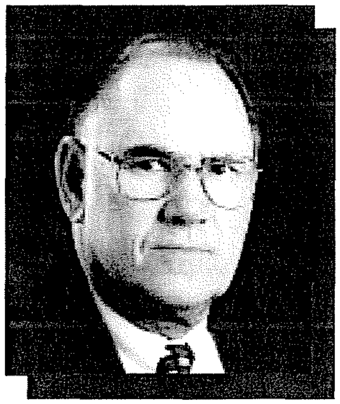
Service and technology remain constant priorities in system operations and engineering at Big Rivers. Service to our member systems is the paramount driver to activities in this area.

In 2003, Big Rivers designed and constructed three 69 kV line additions totaling 12 miles to serve general load growth. But just meeting growth is not enough when it comes to service; it's also providing reliability and quality in the transmission service to the member systems. To that end, Big Rivers engineered the addition of the second transformer to the Bryan Road 161-69 kV substation and developed a 161 kV ring bus. This will provide general reliability improvement and voltage support. Also, three remote terminal units were replaced.

To maintain single contingency reliability in the face of growing system load, Big Rivers began work on a 17-mile 161 kV transmission line on the Meade County RECC system. To improve the speed of restoring outages through line sectionalizing, 69 kV radio-controlled switching was installed at four additional locations.

On the technological side, system operations and engineering worked on the development of the shared GIS with the three members. Work on the replacement of the EMS continued in 2003. This also includes a back-up off-site EMS system as well. Big Rivers designed and prepared bid documents for replacing the analog microwave system with a fast digital microwave system and started an investigation of a shared two-way radio system for Big Rivers and the member systems.

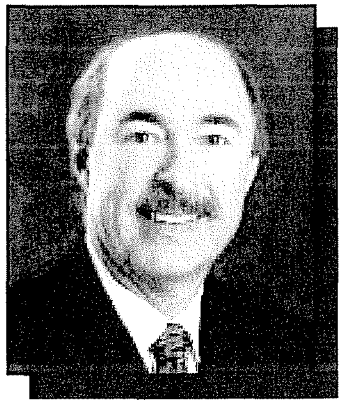
Big Rivers continues to monitor the regional transmission organization (RTO) developments while remaining independent. Much work was also done on Federal Energy Regulatory Commission (FERC) issues in an effort to remain compliant with ever-changing orders. The blackout of August 14, while not directly affecting Big Rivers, has had an impact through increased committee and panel work in the East Central Area Reliability Council (ECAR) and the National Electricity Reliability Council (NERC). Participation on ECAR committees and panels continued as reliability policies and rules migrate toward a mandatory compliance reliability system.



Travis Housley
VP of System Operations

In routine activities, 2,505 transmission poles were inspected and treated, with another 59 bad poles being changed out. Testing was completed on 116 revenue meters, 678 protective relays, 43 circuit breakers and 17 power transformers. Another 14 circuit breakers were overhauled.

MARKETING

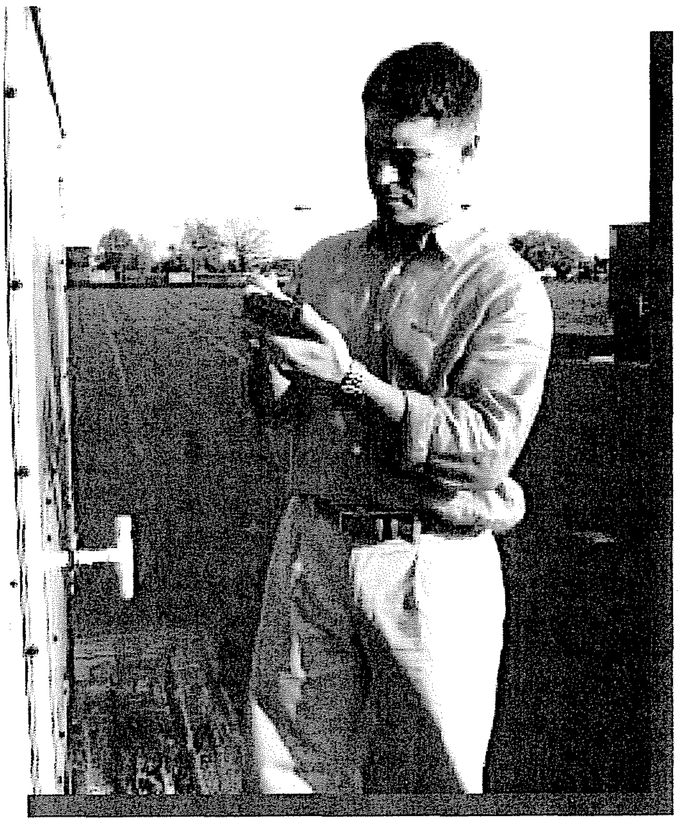


Richard Beck
VP of Marketing

In 2003, Big Rivers' commitment to helping our member systems meet the needs of customer owners through innovative solutions was never more evident. And, as a result, overall customer satisfaction and favorability scores increased to all-time highs.

Throughout the year, the member systems and Big Rivers routinely surveyed residential and commercial customer owners to assess attitudes and opinions regarding a variety of service-related topics. The information provided the knowledge base required to develop effective customer-centered service programs that accurately targeted customer needs. Our residential survey results were impressive in 2003 and indicated 73 percent of all survey respondents were "very satisfied" with the service they received from their member system. The score represents an unprecedented increase of six percentage points versus prior year. In addition, when respondents were asked to describe their overall opinion of their member system, 81 percent reported an opinion of "very favorable," compared to 76 percent in 2002.

Our commercial and industrial survey results were equally impressive. Respondents reported higher satisfaction levels in all key service categories (customer service, reliability, cost, customer transactions, loyalty and overall satisfaction) with increases that range from one to eight percentage points compared to the previous year. In addition, a study was designed to measure satisfaction levels of commercial and industrial customers served by 12 other utilities with service territories adjacent to or near the Big Rivers' member systems. Results indicated customer satisfaction within Big Rivers' member systems met or exceeded the averaged satisfaction levels of the other utilities in all six of the key service categories measured. Big Rivers and its member systems are very proud of the 2003 survey results and take great pride in supporting the member systems' ongoing commit-

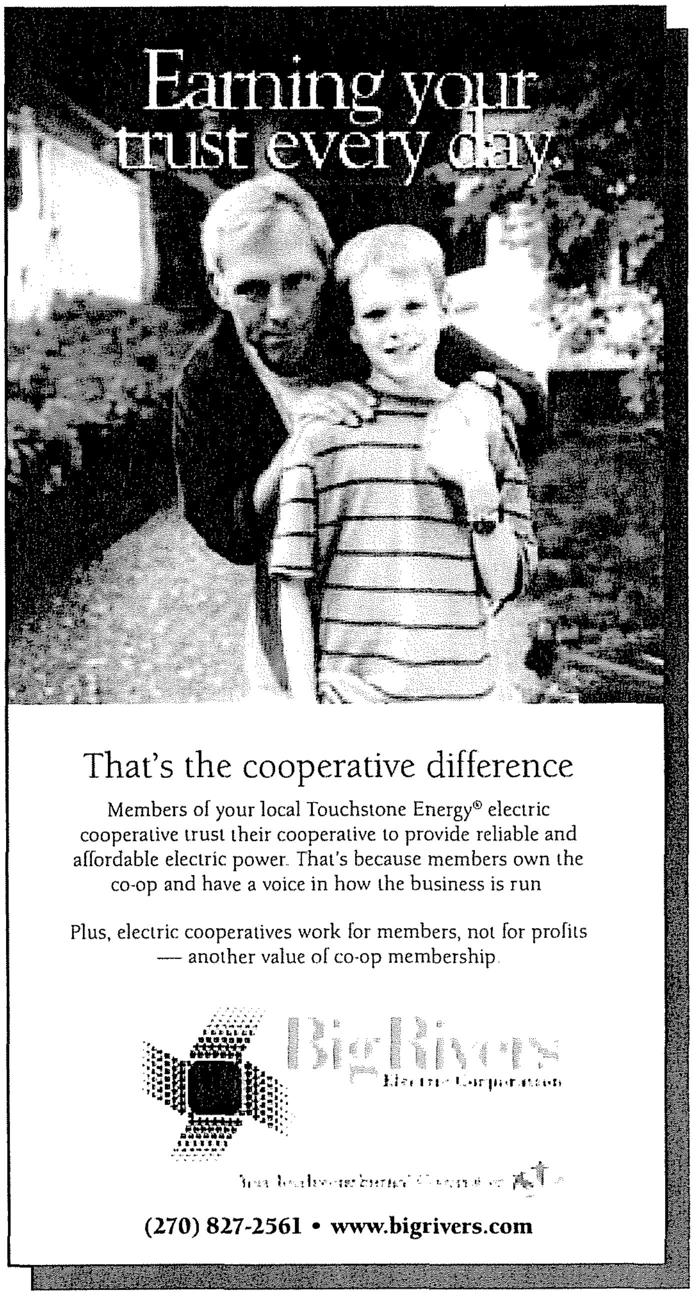


Marty Littrel, Commercial Account and Economic Development Specialist for Kenergy, performs an energy audit for a local company utilizing the Enerpath device.

ment to foster long-term relationships with their customer owners through low rates, reliability and unparalleled customer service.

As technology continues to change at an ever increasing rate, Big Rivers is constantly attempting to identify innovative and more efficient ways of leveraging new technology to improve and expand our customer service programs. Last year a new energy audit service was introduced that uses a hand-held pocket PC to provide customers a broad scope of energy recommendations, in addition to estimated costs for implementing suggested upgrades. The point-and-click technology significantly reduced the time required to complete on-site audits and prepare detailed customer reports. As a result, the free service can now be expanded to include a much broader scope of small to mid-size commercial accounts.

In addition to capitalizing on technology-based customer service opportunities, improving customer communication continued to be a key issue for the member systems and Big Rivers during 2003. To effectively build long-term customer loyalty, we recognize the importance of ensuring all customer owners have a clear understanding of the cooperative difference. As a result, communication strategies were designed to increase customer owner awareness and enhance the overall perception of the member systems. Several radio ads were developed to add focus and clarity to the numerous added-value advantages associated with cooperative membership. Also, Touchstone Energy® messages featuring the tag line "Earning Your Trust Everyday, That's the Cooperative Difference" were incorporated into the 2003 communication mix. Big Rivers is committed to the Touchstone Energy® co-branding strategy, which allows each member system to benefit locally from the brand equity generated by the Touchstone Energy® national advertising campaign.

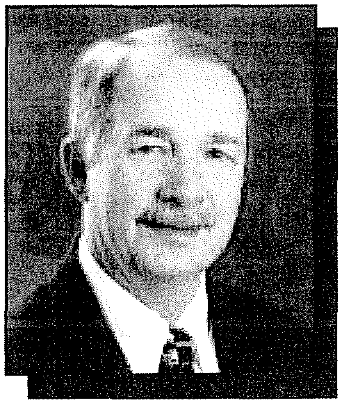


A series of new ads were designed to educate members on the value of cooperative membership.

CONTRACT ADMINISTRATION & REGULATORY AFFAIRS

In 1998, Big Rivers leased the operation of its generation assets and its rights to the HMP&L Station Two facility to LEC and the LG&E Parties. Western Kentucky Energy Corp. (WKEC) is responsible for operating and maintaining the Big Rivers' units and WKEC Station Two Inc. is responsible for operating and maintaining the HMP&L Station Two units.

The LG&E Parties continued their work to meet nitrous oxide (NOx) emissions limits on Big Rivers' units. Selective catalytic reduction units (SCRs) will be placed on the two units owned by the City of Henderson (Station Two) and have been completed on Big Rivers' Wilson unit. Structural erection of the SCR at Station Two Unit One is complete, while Unit Two will be complete by May 2004. All other units' NOx projects are on schedule to meet the May 2004 compliance date. Over $150 million is anticipated to be spent to bring Big Rivers and the Station Two units into compliance by May 31, 2004. During the year, Big Rivers completed its third thorough review of the condition and operation of its owned and leased electric generating units. Big Rivers has communicated the results of this review to the LG&E Parties. Additionally in 2003, Big Rivers retained Stanley Consultants, Inc. to begin a Base Line



David Spainhoward
VP of Contract Administration & Regulatory Affairs

Terminology Reference Guide

APM:	ACES Power Marketing, LLC
BRLC:	Big Rivers Leasing Corporation
CFC:	National Rural Utilities Cooperative Finance Corporation
ECAR:	East Central Area Reliability
EMS:	Energy Management System
EPA:	Environmental Protection Agency
FERC:	Federal Energy Regulatory Commission
FASB:	Financial Accounting Standards Board
FIN:	FASB Interpretation
GIS:	Geospatial Information System
HMP&L:	Henderson Municipal Power & Light
KPSC:	Kentucky Public Service Commission
KU:	Kentucky Utilities
KV:	Kilovolt
kW:	Kilowatt
kWh:	Kilowatt Hour
LEC:	LG&E Energy Corp.
LEM:	LG&E Energy Marketing, Inc.
LG&E Parties:	LG&E Energy Corp., LEM, WKEC, WKEC Station Two
MISO:	Midwest Independent System Operator
MW:	Megawatt
MWh:	Megawatt Hour
NERC:	National Electricity Reliability Council
NRECA:	National Rural Electric Cooperative Association
NREEA:	National Rural Electric Environmental Association
NOx:	Oxides of Nitrogen NO & NO2
NSR:	New Source Review
OATT:	Open Access Transmission Tariff
RTO:	Regional Transmission Organizations
RUS:	Rural Utilities Service
SCR:	Selective Catalytic Reduction
SEPA:	Southeastern Power Administration
SFAS:	Statement of Financial Accounting Standards
SO_2:	Sulfur Dioxide
WKEC:	Western Kentucky Energy Corporation

Technical Audit in order to "benchmark" the present condition of the units, considering their age. This work is scheduled to conclude in 2004. Annual reviews of the condition of the units will continue.

On September 19, 2000, WKEC 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 (NSR) requirements under the Clean Air Act. Although the request was directed to WKEC, Big Rivers cooperated with WKEC in preparing a response.

In August 2003, EPA issued final rules designed to clarify the new source review program. The new rules will allow plant components to be repaired and replaced so long as the basic design characteristics are not changed and the total cost of the project does not exceed 20 percent of the replacement cost of the plant.

In 2002, President Bush directed the federal EPA to revisit and propose rule changes to those sections of the Clean Air Act pertaining to NSR. In August 2003, the EPA issued final rules designed to clarify the NSR program. The new rules will allow plant components to be repaired and replaced so long as the basic design characteristics are not changed and the total cost of the project does not exceed 20 percent of the replacement cost of the plant. The effect of the revised rules on EPA's NSR enforcement initiative is unclear. Big Rivers has not exchanged correspondence with EPA regarding this issue since information was provided in 1999 and 2000.

Also during 2002, President Bush announced the administration's Clear Skies Initiative as a form of multi-pollutants bill to address potential reductions in mercury emissions, and further reductions in sulfur dioxide (SO_2) and NOx emissions in the United States. On December 4, 2003, the EPA announced that it intends to propose a new "Interstate Air Quality" to impose steep reductions in NOx and SO_2 emissions from states that significantly contribute to ozone and fine particle pollution in the eastern United States. During 2003, Big Rivers, in conjunction with the National Rural Electric Cooperative Association (NRECA) and the National Rural Electric Environmental Association (NREEA), continued to monitor the proposed rule changes as they develop and are debated. Because the method of implementation of these requirements is unclear, impacts to Big Rivers from these potential regulations are unknown at this time.

Big Rivers continues to monitor the development of the MISO. The company continues to believe it would incur additional costs from RTO membership without corresponding benefits. As a cooperative, Big Rivers is concerned about incurring the additional costs of RTO membership without having the ability to provide an offsetting economic benefit to its members.

The Kentucky General Assembly passed Senate Bill 257 that became law in 2002. The bill predominantly related to the siting of electric generation and transmission facilities in Kentucky. In addition to the siting provision, the bill provided a change to KRS Chapter 278 relating to service emergencies experienced on the transmission systems of jurisdictional electric utilities. The new law essentially requires jurisdictional utilities to operate their transmission facilities so that retail electric service to Kentucky customers has the highest priority during a transmission emergency. To comply with this law, Big Rivers revised its tariffs. On February 6, 2003, the Kentucky Public Service Commission approved Big Rivers' revised tariffs.

Thoroughbred Energy Company, a Peabody Energy Company 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. Thoroughbred appealed the final order of the Siting Board, contesting some of the Board's findings regarding Thoroughbred's responsibility for transmission network upgrade costs under Kentucky law. Big Rivers is participating in the appeal, defending the Siting Board's order, and the Siting Board's interpretation of Kentucky law.

FINANCIAL

Big Rivers continued to strengthen its financial position in 2003. Net margins for 2003 were $18.3 million compared to $10.1 million for 2002, an increase of $8.2 million. The cumulative net margins for the five years ended December 31, 2003 were $59.7 million. Other sales (arbitrage) proved to be the most significant factor contributing to the 2003 improved margins ($9.3 million). In addition, a favorable ruling from the United States Court of Appeals concerning the bankruptcy examiner's fee matter allowed Big Rivers to reverse a contingent liability accrued in 1998, resulting in a gain for 2003 ($2.1 million). Finally, income recognized from WKEC's capital contributions made to Big Rivers' leased generating facilities provided increased margins as compared to 2002 ($2.1 million). Member tariff sales margins were below the levels realized in 2002. The milder weather conditions of 2003 resulted in a decrease in member rural sales ($3.1 million) and economic conditions resulted in a reduction in certain industrial sales ($2.3 million).

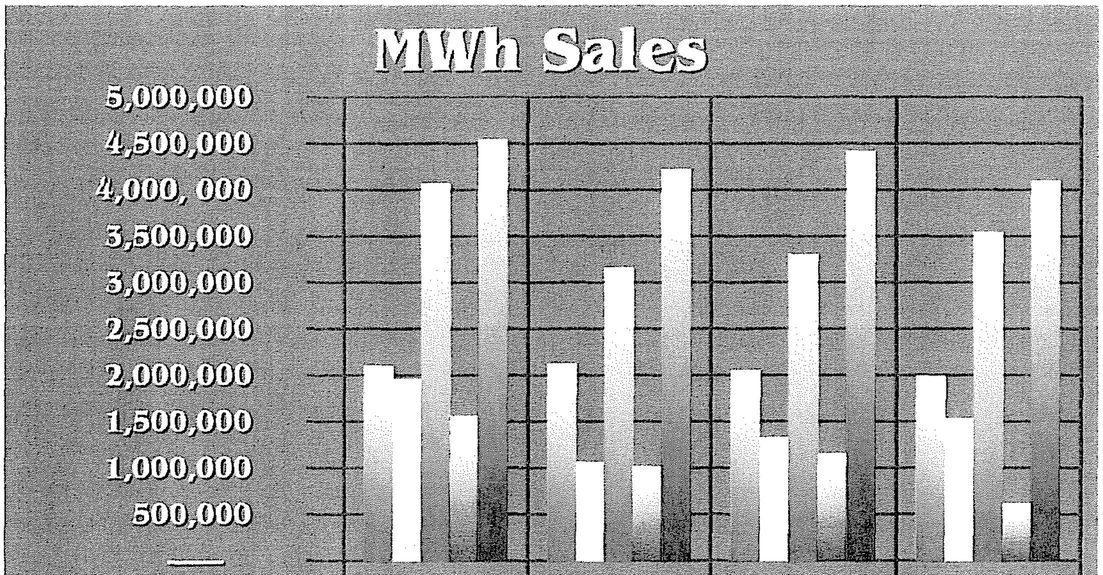
Mark Hite
VP of Finance & Adminstrative Services

Big Rivers had total sales of 4.6 million MWh in 2003, a 7.7 percent increase over 2002. Tariff sales to its three member distribution cooperatives decreased by 4.4 percent, while other sales increased by 44.7 percent. Big Rivers sold 3.1 million MWh to its members at an average rate of $33.78 per MWh, compared to $33.97 in 2002, $34.99 for rural sales and $31.15 for large industrial sales. These

Selected Historical Financial Information
(Dollars in Thousands)

	2003	2002	2001	2000
Margins	18,349	10,055	16,796	10.383
Equity	(300,281)	(319,013)	(328,685)	(345,481)
Capital Expenditures	21,397	21,700	13,040	11,112
Cash & Investment Balance	15,802	20,061	59,209	64,437
New RUS Note Voluntary Prepayment Status	80,101	60,479	17,473	12,691
TIER	1.27	1.14	1.22	1.13
DSC	1.46	1.19	1.30	1.39
Cost of Debt	5.34%	5.38%	5.68%	5.98%
Cost of Capital	7.36%	7.37%	7.66%	7.95%

MWh Sales

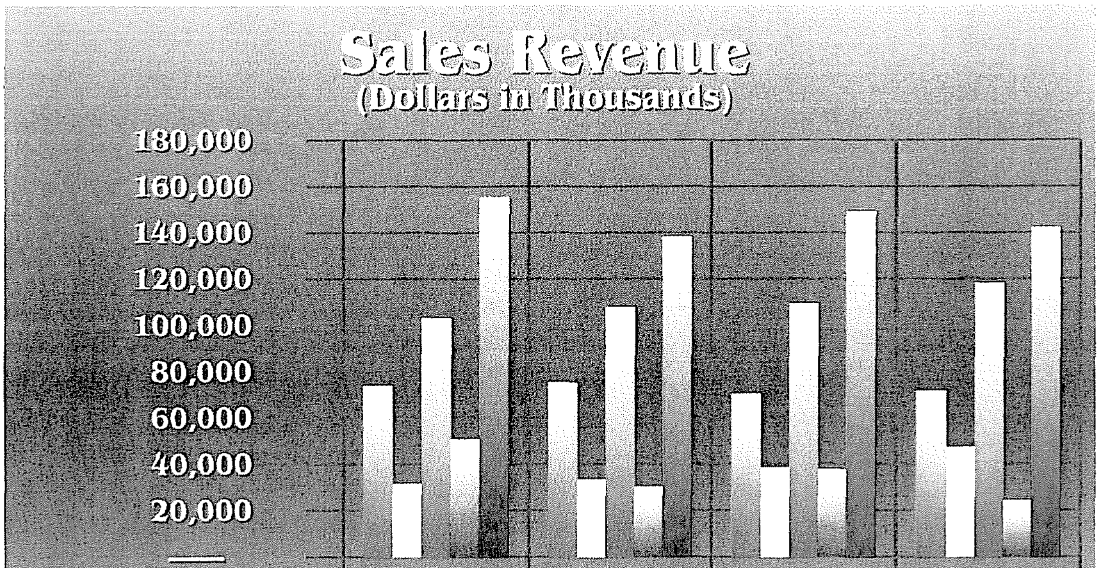


	2003	2002	2001	2000
Member Rural	2,089,688	2,114,691	2,000,877	1,999,539
Member Large Industrial	962,670	1,077,322	1,283,445	1,541,341
Total Member Tariff	3,052,358	3,192,013	3,284,322	3,540,880
Other Sales	1,508,516	1,042,496	1,110,100	598,474
Total	4,560,874	4,234,509	4,394,422	4,139,354

member tariff rates are among the lowest of all G&T cooperatives in the nation. The other sales of 1.5 million MWh were made at market prices, which averaged $33.94 per MWh, compared to $29.09 in 2002.

Net utility plant increased $24.8 million to $947.0 million during 2003 ($54.0 million net additions less $29.2 million depreciation and amortization); the generation capital additions were funded by Big Rivers and WKEC in accordance with the capital cost sharing provisions of the LG&E lease transaction. In return for WKEC's funding of its share of generation capital expenditures during the $25^1/_2$ year lease term (from July 1998 through December 2023), Big Rivers will pay a residual value payment upon lease termination, generally based upon straight-line amortization over the useful life of the associated assets. Currently, Big Rivers projects this residual value payment obligation to be $141.8 million on December 31, 2023. Since July 1998, Big Rivers' capital expenditures have been funded out of cash flow, and the company foresees the ability to do so prospectively. Management continues planning to seek creditor approval for the ability to borrow, but will borrow only when prudent.

During 2003, Big Rivers received the necessary approvals to extend its $15 million line of credit through the National Rural Utilities Cooperative Finance Corporation (CFC) for short-term working capital needs. The approvals included Big Rivers' related and underlying CFC $15 million master letter of credit facility for the purpose of supporting its off-system power sales. In the current low interest rate environment, Big Rivers has utilized the CFC line of credit to prepay higher-cost, long-term debt.



	2003	2002	2001	2000
Member Rural	73,128	74,810	70,566	72,482
Member Large Industrial	29,990	33,630	39,265	46,417
Total Member Tariff	103,118	108,440	109,831	118,899
Other Sales	51,204	30,321	38,226	22,263
Total	154,322	138,761	148,057	141,162

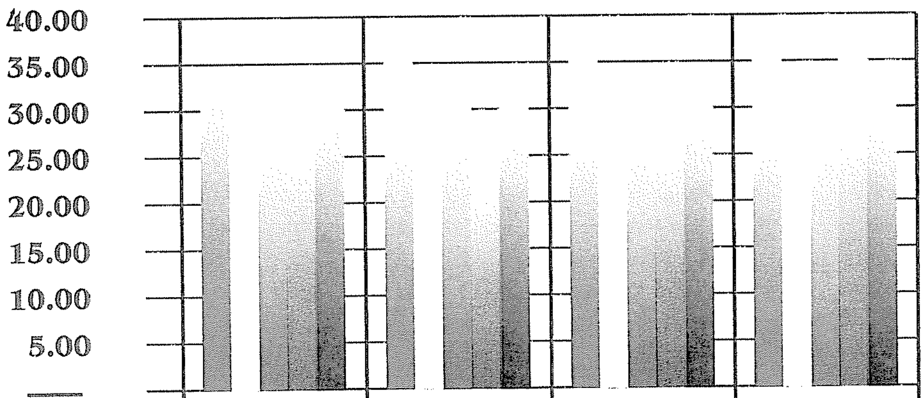
Several significant information technology improvements are being made at Big Rivers. For example, the company is in the midst of installing a GIS for it and its member distribution cooperatives. It will allow for real-time mapping information and be integrated with other business applications. Also, Big Rivers is replacing its aging EMS. The events of September 11, 2001, brought to the forefront the need for disaster recovery preparedness. As a result, Big Rivers is in the process of designing and constructing a back-up/alternate business recovery facility, enhancing its compliance with security standards. Big Rivers continued to improve its members' e-commerce capabilities during 2003 whereby consumers can now view their bills for the past 18 months via the Internet. Big Rivers is heavily involved in all cyber-security efforts for itself and its members. The company is also planning to construct a new headquarters facility, replacing the existing 30-year-old facility with a new one that will meet the security and technological needs of today and the future.

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	

Although leased to WKEC, Big Rivers continues to own 1,459 MWs of electric generating facilities. Big Rivers has also assigned its rights to the City of Henderson's 312 MW Station Two facility to WKEC, currently 217 MWs.

Rate - $/MWh



	2003	2002	2001	2000
Member Rural	34.99	35.38	35.27	36.25
Member Large Industrial	31.15	31.22	30.59	30.12
Total Member Tariff	33.78	33.97	33.44	33.58
Other Sales	33.94	29.09	34.43	37.20
Total	33.84	32.77	33.69	34.10

Big Rivers Electric Corporation

Financial Statements as of December 31, 2003 and 2002 and for Each of the Three Years in the Period Ended December 31, 2003 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, 2003 and 2002, and the related statements of operations, equities (deficit) and cash flows for each of the three years in the period ended December 31, 2003. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, 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 10, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

Indianapolis, Indiana
March 10, 2004

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND 2002
(Dollars in thousands)

ASSETS	2003	2002
UTILITY PLANT—Net	$ 946,958	$ 922,135
RESTRICTED INVESTMENTS UNDER LONG-TERM LEASE	168,859	163,254
OTHER DEPOSITS AND INVESTMENTS—At cost	2,969	8,702
CURRENT ASSETS:		
Cash and cash equivalents	15,802	20,061
Accounts receivable	15,348	14,720
Materials and supplies inventory	588	574
Prepaid expenses	574	176
Total current assets	32,312	35,531
DEFERRED CHARGES AND OTHER	31,758	34,910
TOTAL	$1,182,856	$1,164,532

EQUITIES (DEFICIT) AND LIABILITIES		
CAPITALIZATION:		
Equities (deficit)	$ (300,281)	$ (319,013)
Long-term debt	1,053,598	1,085,500
Obligations related to long-term lease	158,597	152,747
Other long-term obligations	789	1,140
Total capitalization	912,703	920,374
CURRENT LIABILITIES:		
Current maturities of long-term obligations	747	11,254
Voluntary prepayment of long-term debt	8,404	11
Notes payable	10,000	-
Purchased power payable	8,654	7,638
Accounts payable	2,997	7,630
Accrued expenses	1,713	3,494
Accrued interest	6,470	10,866
Total current liabilities	38,985	40,893
DEFERRED CREDITS AND OTHER:		
Deferred lease revenue	30,357	33,416
Deferred gain on sale-leaseback	64,941	67,726
Residual value payments obligation	131,130	97,444
Other	4,740	4,679
Total deferred credits and other	231,168	203,265
COMMITMENTS AND CONTINGENCIES	-	-
TOTAL	$1,182,856	$1,164,532

See notes to financial statements

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Dollars in thousands)

	2003	2002	2001
POWER CONTRACTS REVENUE	$ 162,432	$ 146,548	$ 155,488
LEASE REVENUE	53,040	51,094	53,672
Total operating revenue	215,472	197,642	209,160
OPERATING EXPENSES—Operations:			
Power purchased and interchanged	96,577	85,722	88,570
Transmission and other	17,383	14,669	14,151
MAINTENANCE	2,617	3,100	2,439
DEPRECIATION	28,257	27,745	27,449
Total operating expenses	144,834	131,236	132,609
ELECTRIC OPERATING MARGINS	70,638	66,406	76,551
INTEREST EXPENSE AND OTHER:			
Interest	57,645	59,801	66,508
Interest on obligations related to long-term lease	8,355	8,003	7,679
Other—net	136	147	101
Total interest expense and other	66,136	67,951	74,288
OPERATING MARGIN	4,502	(1,545)	2,263
NON-OPERATING MARGIN:			
Interest income on restricted investments under long-term lease	10,894	10,527	10,187
Interest income and other	2,953	1,073	4,346
Total non-operating margin	13,847	11,600	14,533
NET MARGIN	$ 18,349	$ 10,055	$ 16,796

See notes to financial statements.

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Dollars in thousands)

			Other Equities	
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	Consumers' Contributions to Debt Service
BALANCE—January 1, 2001	$(345,481)	$(349,926)	$ 764	$ 3,681
Net margin	16,796	16,796	-	-
BALANCE—December 31, 2001	(328,685)	(333,130)	764	3,681
Net margin	10,055	10,055	-	-
Accumulated other comprehensive loss	(383)	(383)	-	-
BALANCE—December 31, 2002	(319,013)	(323,458)	764	3,681
Net margin	18,349	18,349	-	-
Accumulated other comprehensive income	383	383	-	-
BALANCE—December 31, 2003	$(300,281)	$(304,726)	$ 764	$ 3,681

See notes to financial statements, including Note 1 regarding Patronage Capital.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(Dollars in thousands)

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 18,349	$ 10,055	$ 16,796
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:			
Depreciation and amortization	29,807	29,357	28,500
Increase in restricted investments under long-term lease	(5,605)	(5,240)	(4,307)
Amortization of deferred gain on sale-leaseback	(2,785)	(2,744)	(2,706)
Deferred lease revenue	(3,059)	6,141	6,385
Increase in RUS ARVP Note	4,546	4,298	4,074
Increase in New RUS Promissory Note	-	-	17,574
Increase in obligations under long-term lease	5,850	5,461	4,505
Changes in certain assets and liabilities:			
Accounts receivable	(628)	4,860	2,208
Materials and supplies inventory	(14)	(24)	76
Prepaid expenses	(398)	295	(66)
Deferred charges	1,602	(2,604)	1,395
Purchased power payable	1,016	178	(6,184)
Accounts payable	(4,633)	2,522	(3,551)
Accrued expenses	(6,177)	(531)	(10,295)
Other—net	2,446	62	(2,272)
Net cash provided by operating activities	40,317	52,086	52,132
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturity of investments	-	-	34,003
Capital expenditures—net	(21,397)	(21,700)	(13,040)
Other deposits and investments	5,733	(1,890)	573
Net cash provided by (used in) investing activities	(15,664)	(23,590)	21,536
CASH FLOWS FROM FINANCING ACTIVITIES:			
Costs of bond refunding	-	-	(3,300)
Principal payments on long-term obligations	(38,912)	(67,644)	(41,593)
Principal payments on short-term notes payable	(7,500)	-	-
Proceeds from short-term notes payable	17,500	-	-
Net cash used in financing activities	(28,912)	(67,644)	(44,893)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,259)	(39,148)	28,775
CASH AND CASH EQUIVALENTS—Beginning of year	20,061	59,209	30,434
CASH AND CASH EQUIVALENTS—End of year	$ 15,802	$ 20,061	$ 59,209
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 57,103	$ 55,634	$ 54,470
Cash paid for taxes	$ 400	$ -	$ 3,319

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 the power needs of its three member distribution cooperatives, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"), Kenergy Corp, Jackson Purchase Energy Corporation and Meade County RECC, 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. Big Rivers has wholesale power contracts with each of its members which require the members to buy and receive from Big Rivers all power and energy requirements, other than for the Aluminum Smelters. 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 2003 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 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 Statement of Financial Accounting Standards ("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**
2004	$ 52,332
2005	52,332
2006	52,332
2007	52,332
2008	52,332
Thereafter	566,867
	$ 828,527

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 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, 2003 and 2002, the Company has recorded $48,244 and $74,405, respectively, for such additions in utility plant. The Company has recorded $1,726, $(329), and $2,131, in 2003, 2002, and 2001, respectively, as related lease revenue (expense) in the accompanying financial statements.

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 2003, 2002 and 2001, the average composite depreciation rates were 1.69%, 1.72%, and 1.75%, 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.

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 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 be not less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income. In accordance with the bankruptcy plan, all patronage capital claims were extinguished and discharged on July 15, 1998. During 2003 and 2002, the Company made a patronage allocation of $18,937 and $18,722, respectively, to its three member distribution cooperatives based on alternative minimum taxable patronage-sourced income in accordance with its bylaws. In 2004, the Company anticipates a patronage allocation to its members based on such calculations for tax year 2003 of approximately $22,611.

New Accounting Pronouncements—SFAS No 133, *Accounting for Derivative Instruments and Hedging Activities*, was effective for the Company on January 1, 2001. This statement, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and interpreted, establishes accounting and reporting standards for derivative instruments and for hedging activities. In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 is effective for contracts entered into after June 30, 2003. It amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities under SFAS No, 133. Management has reviewed the requirements of SFAS No. 133, 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.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. As a result of the adoption of SFAS 143, no legal obligations, as defined, were identified and accordingly, the adoption of this statement had no impact on the Company's results of operations. 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, 2003, the Company has a regulatory liability of approximately $17,967 related to non-legal removal costs included in accumulated depreciation.

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, was issued in August 2001 and addresses accounting for and reporting of the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 31, 2001. The adoption of SFAS No. 144 did not have a significant impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 establishes standards for how an issuer classifies and measures three classes of freestanding financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for mandatorily redeemable financial instruments of non-public entities for the first fiscal period beginning after December 15, 2004. Management does not expect the adoption of SFAS No. 150 to have a significant impact on its financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 expands upon the disclosure requirements to be made by a guarantor in its interim and annual financial statements regarding its obligations under certain guarantees that it has issued. Additionally, FIN No. 45 requires that the guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 is effective prospectively for guarantees issued or modified after December 31, 2002. Footnote disclosures were required for financial statements ending after December 15, 2002. The adoption of FIN No. 45 did not have a significant impact on the Company's financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities, an *Amendment of ARB No. 51*. FIN No. 46 addresses consolidation of business enterprises of certain variable interest entities, and is effective for variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. The adoption of FIN No. 46 is not expected to have a significant impact on the Company's financial position or results of operations.

Reclassifications—Certain amounts in the prior years' financial statements have been reclassified to conform with current year presentation.

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 $126,932 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 $15,963. 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:

	2003	2002
Classified plant in service:		
Electric plant—leased	$ 1,478,553	$ 1,438,710
Transmission plant	205,795	203,677
General plant	11,810	11,735
Other	67	67
	1,696,225	1,654,189
Less accumulated depreciation	754,301	734,076
	941,924	920,113
Construction in progress	5,034	2,022
Utility plant—net	$ 946,958	$ 922,135

Interest capitalized for the years ended December 31, 2003, 2002 and 2001, was $145, $42, and $95 respectively.

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 $2,785, $2,744, and $2,706, in 2003, 2002, and 2001, respectively. Principal payments begin in 2009.

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

	2003	**2002**
Restricted investments under long-term lease	$ 168,859	$ 163,254
Obligations related to long-term lease	158,597	152,747
Deferred gain on sale-leaseback	64,941	67,726

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

	2003	**2002**	**2001**
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	$ 11,140	$ 10,747	$ 10,385
Amortize gain on sale-leaseback	(2,785)	(2,744)	(2,706)
Net interest on obligations related to long-term lease	$ 8,355	$ 8,003	$ 7,679
Interest income on restricted investments under long-term lease	$ 10,894	$ 10,527	$ 10,187

5. DEBT AND OTHER LONG TERM OBLIGATIONS

A detail of long-term debt is as follows at December 31:

	2003	2002
New RUS Promissory Note, stated amount, $824,705, stated interest rate of 5.75%, recorded at fair value, with an interest rate of 5.81%, maturing July 2021.	$ 821,156	$ 848,612
RUS ARVP Note, stated amount $256,720, no stated interest rate, recorded at fair value, with interest imputed at 5.81%, maturing December 2023.	81,143	76,800
LEM Advances, interest rate of 6.98%, payable in monthly installments from August 2000 through July 2003.	-	10,536
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023.	17,999	18,366
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 1.06% and 1.50% in 2003 and 2002 respectively), maturing in October 2022.	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 1.06% and 1.45% in 2003 and 2002 respectively), maturing in June 2013.	58,800	58,800
Total long-term debt	1,062,398	1,096,414
Current maturities	396	10,903
Voluntary prepayments	8,404	11
Total long-term debt—net of current maturities and prepayments	$ 1,053,598	$ 1,085,500

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

Year	Amount
2004	$ 396
2005	1,258
2006	29,284
2007	31,315
2008	39,351
Thereafter	960,794
Total	$ 1,062,398

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 Advances—Beginning in August 1998 (the first month after the Effective Date) and ending in July 2000, LEM made payments totaling \$50,000 to the RUS on behalf of the Company. Beginning in August 1998 and ending in July 2003, the Company made payments totaling \$59,309 to LEM. The payments made by LEM to the RUS were applied to the New RUS Promissory Note. The Company recognized interest expense over the five-year life of the LEM Advances at 6.98% per annum.

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 \$367 during 2003, 2002, and 2001, respectively. At December 31, 2003, the Company has a remaining liability of \$1,140 payable over the next five years, of which \$351 is included in current maturities of long-term obligations.

Notes Payable—Notes payable at December 31, 2003 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 the amount outstanding on the line of credit at December 31, 2003 was \$10,000. The line of credit bears interest at a variable rate. The average interest rate on the line of credit in 2003 was 2.88%. 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, 2004, 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 February 2004, Big Rivers requested the KPSC's approval to extend the adjustment through August 31, 2005.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31, 2003 and 2002 were as follows:

	2003	**2002**
Deferred tax assets:		
Net operating loss carryforward	$ 96,996	$ 99,965
Alternative minimum tax credit carryforwards	3,582	3,319
Sale-leaseback	119,241	115,125
Lease Agreement	(2,915)	650
Total deferred tax assets	216,904	219,059
Deferred tax liabilities:		
Fixed asset basis difference	(27,403)	(30,283)
Other accruals	1,146	(24)
Total deferred tax liabilities	(26,257)	(30,307)
Net deferred tax assets (pre-valuation allowance)	190,647	188,752
Valuation allowance	(187,065)	(185,433)
Net deferred tax asset	$ 3,582	$ 3,319

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, 2003 and 2002, Big Rivers had a non-patron net operating loss carryforward of approximately $236,576 and $243,818, respectively, for tax reporting purposes expiring 2004 through 2012, and an alternative minimum tax credit carryforward at December 31, 2003 and 2002 of approximately $3,582 and $3,319, 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, 2003 and 2002 is approximately $3,582 and $3,319, 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, 2003, 2002, and 2001 were $72,141, $73,905 and $72,697, 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:

	2003	2002
Projected benefit obligation	$ (13,164)	$ (12,699)
Fair value of plan assets	10,106	8,640
Funded status	$ (3,058)	$ (4,059)

Amounts recognized in the statement of financial position at December 31:

	2003	2002
Prepaid benefit cost	$ 351	$ 456
Accrued benefit liability	-	(366)
Intangible asset	-	49
Accumulated other comprehensive loss	-	383
Net amount recognized	$ 351	$ 522

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

	2003	2002	2001
Benefit cost	$ 995	$ 735	$ 682
Employer contribution	823	809	974
Benefits paid or transferred	937	426	302

Assumptions used to develop the projected benefit obligation were:

	2003	*2002*	*2001*
Discount rates	6.25 %	6.75 %	7.50 %
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.50	7.50	8.50

At December 31, 2002, an additional minimum pension liability of $383 was recorded as accumulated other comprehensive loss and is reflected in the Company's Equities (deficit). At December 31, 2003 there was no additional minimum pension liability.

10. 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.

The discount rate used in computing the postretirement obligation was 6.75% for 2003 and 7.5% for 2002. A health care cost trend rate of 12.0% in 2003 declining to 5.5% in 2011 was utilized.

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

	2003	2002
Total benefit obligation	$ (3,122)	$ (2,859)
Unfunded accrued postretirement cost	(3,541)	(3,438)

The components of net periodic postretirement benefit costs for the years ended December 31 were as follows:

	2003	2002	2001
Benefit cost	$ 277	$ 267	$ 159
Benefits paid	175	173	238

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 $231 and $201 at December 31, 2003 and 2002, respectively. The postretirement expense recorded was $51, $32 and $30 for 2003, 2002 and 2001, respectively, and the benefits paid were $21, $0, and $0 for 2003, 2002, and 2001 respectively.

11. RELATED PARTIES

For the years ended December 31, 2003, 2002, and 2001, Big Rivers had sales to its members, including certain sales to Kenergy for the Aluminum Smelters and Weyerhaeuser loads, of $129,445, $116,021, and $115,613 respectively.

At December 31, 2003 and 2002, Big Rivers had accounts receivable from its members of $11,359 and $10,866, respectively.

12. 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 was involved in an ongoing dispute with its bankruptcy examiner regarding the hourly fees charged and the bonus sought by the examiner. The hourly fees for which the examiner was seeking final approval had already been paid by Big Rivers and the issue was how much of those fees, if any, should be refunded to Big Rivers. The $2,110 bonus initially awarded to the examiner by the bankruptcy court and accrued by Big Rivers in 1998, had been reversed by the district court, but management anticipated that the examiner would appeal further and seek reinstatement of the bonus. On January 8, 2004, a three judge panel of the Sixth Circuit Court of Appeals unanimously affirmed the ruling of the district court that the examiner must disgorge all fees received from Big Rivers. On March 1, 2004, Big Rivers and the examiner entered into an agreement to settle the ongoing litigation. Pursuant to the settlement agreement, Big Rivers received from the examiner a payment of $910.

* * * * * *

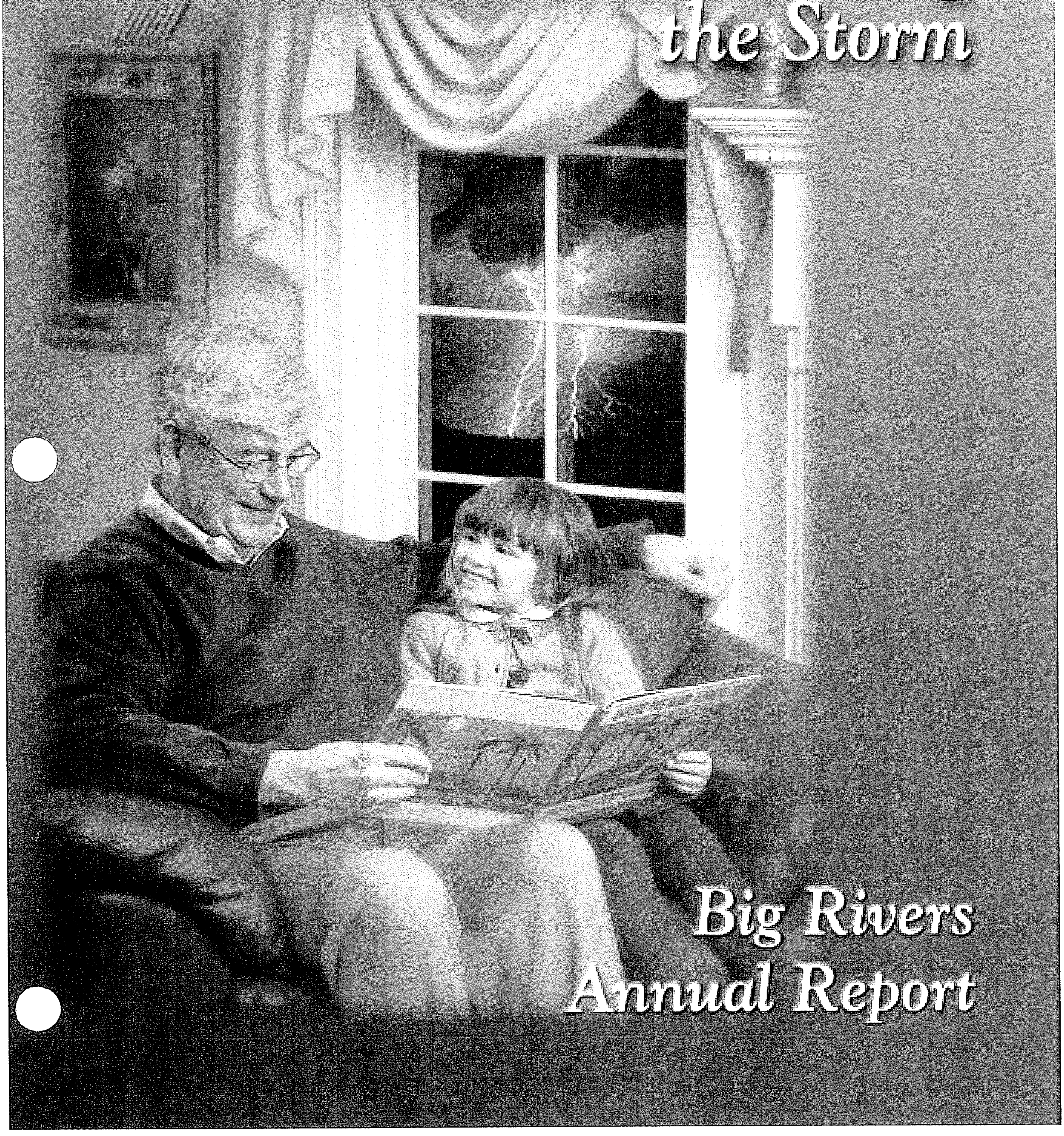
Big Rivers
Electric Corporation

Your Touchstone Energy Cooperative

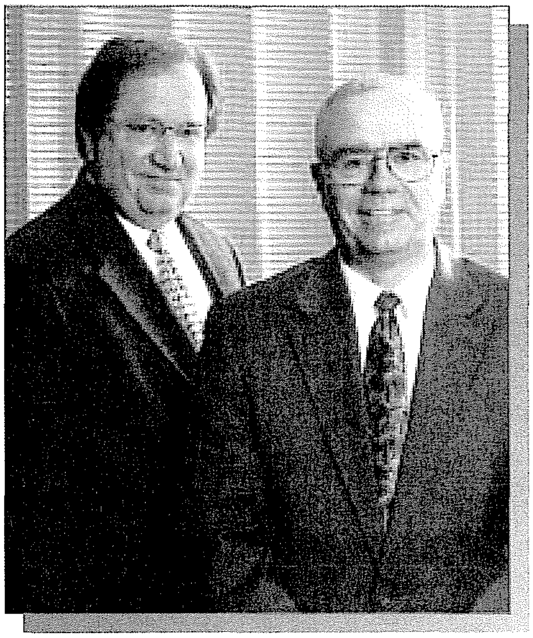
P.O. Box 24 • 201 Third Street • Henderson, KY

Big Rivers
Electric Corporation

2002 Avoiding the Storm



Big Rivers Annual Report



William Denton Chair of the Board

Michael Core President & CEO

2002 - Avoiding the Storm

What a difference a year makes! At the start of 2002, we had only a hint of what was to come as the implosion of Enron was well underway. Soon after, the entire wholesale energy market was in turmoil as more and more revelations indicated the depth of gaming, deception and downright fraud that had taken place in the name of restructuring and profit.

But while 2002 brought shame for many in the electric utility industry, it actually represented a year of pride for Big Rivers and the cooperative program overall. Standing above the morass were the electric cooperatives. Instead of arrests, billions of dollars in write-downs and downgrade or loss of credit, cooperatives were seen as bellwethers in the industry. The financial, regulatory and legislative communities have recognized and praised cooperatives as rock solid organizations.

What did we do differently than those that struggled? It's simple, we kept our focus on the end consumers and worked in their best interests. What did we do differently than what we had done in the past? Nothing. We always have focused on the member-consumers. As the old adage says, we stuck to our knitting. We didn't lead the charge to reorganize and deregulate. We have participated in the debates and kept asking what's in this for the consumers. And we will continue to do the same in these discussions and debates that are still ongoing.

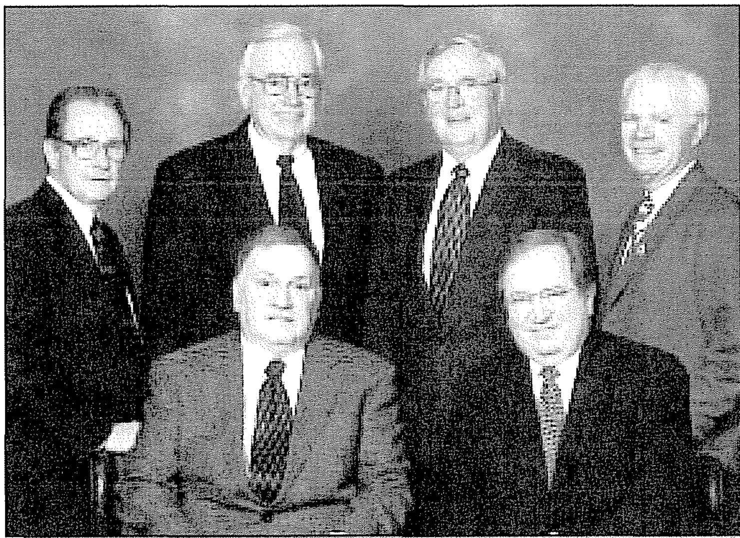
We stuck to our cooperative business principles that are built around concern for the consumers and their communities. It was easy for us because we also live in those communities and are consumers as well. Our planning is based, not on return on investment, but on reliability and economic impacts on member-consumers.

Yes, Big Rivers and its member-systems had a solid year in 2002; not a spectacular year, but a very solid year in the face of industry problems, a slowing economy and mild weather that hampered sales. Those things happen and good businesses plan for that and move on. We understand the cyclical nature of business and have organizations whose focus remains on the reason for our existence, the member-consumer.

Deregulation is not dead and certainly change is never dead. There will be significant challenges going forward, as there have always been. But what will not change going forward are the focus on and dedication to those we serve. This has been proven time and time again to be the formula for our successes.

Storm Warnings

A storm was brewing on the horizon of the electric utility industry in the latter part of 2001. It started with a lightning strike at Enron. Reports of fraudulent actions that may have taken place in the company ignited a firestorm that eventually consumed Enron, a behemoth power and gas marketing organization. As we moved into 2002, it was soon apparent that Enron was not an isolated incident. The storm intensified into the "perfect storm," resulting in revelations of wash trades, overstated incomes and other questionable business practices that engulfed many of those involved in the speculative trading side of the industry.



Big Rivers' Board of Directors

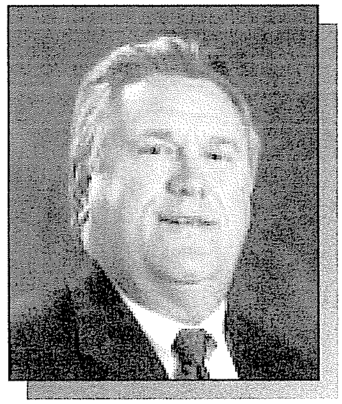
Seated from left to right: Larry Elder and Bill Denton, Chair
Standing from left to right: Lee Bearden, John Myers, Secretary/Treasurer; James Sills, Vice-Chair; and Paul Edd Butler

The storm's power was evident as wholesale market liquidity and wholesale power prices dropped. Its wrath was far from over. Soon dozens of credit downgrades followed, making life miserable for the unregulated side of the industry that had spent profusely on new generation projects. By the time the fire had cleared, there were left only the ashes of many powerful non-regulated companies involved in the marketing and power generation businesses. Even the regulated side of the investor-owned electric utility industry had been hard hit.

But like any firestorm, there were areas spared by the flames. Standing above the ashes as havens in the storm are the structures of the community-based Touchstone Energy cooperatives, such as Big Rivers Electric Corporation. Big Rivers and the other cooperatives, working in the best interests of their member-owners, have stuck to the job of delivering reliable and economical power while others were rushing to embrace the new market structure being created by those now in ashes. As a result, there were no charges of misstated earnings, questionable accounting entries or other devious practices. There were just electric cooperatives doing the job they do best, serving their member-owners, and sticking to that business.

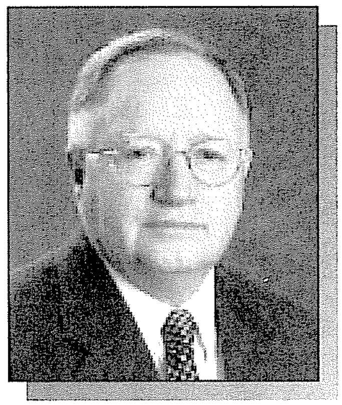
Big Rivers weathered the storm very well. It had margins in 2002 of $10.1 million, down from 2001, but still a good year in the middle of a firestorm engulfing many of the other electric industry participants. What's more, Big Rivers looks forward to more years of stable rates and improving financial position.

Big Rivers is nearly four and one-half years removed from its reorganization. During that time, it has paid down its Rural Utilities Service (RUS) debt by $256.3 million and paid the RUS $475.8 million in total debt service. Rates are stable and $3.7 million per year has been returned to the member-ratepayers through a revenue discount adjustment in place for more than two years.



Kelly Nuckols
President/CEO
Jackson Purchase Energy Corp.

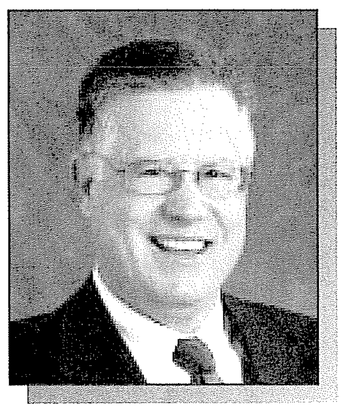
Big Rivers is owned by its three member distribution systems - Jackson Purchase Energy Corporation, Paducah, Kentucky; Kenergy Corp., Henderson, Kentucky; and Meade County RECC, Brandenburg, Kentucky. Big Rivers is headquartered in Henderson, Kentucky. Each of its three member-systems has two representatives on Big Rivers' Board of Directors.



Dean Stanley
President/CEO
Kenergy Corp.

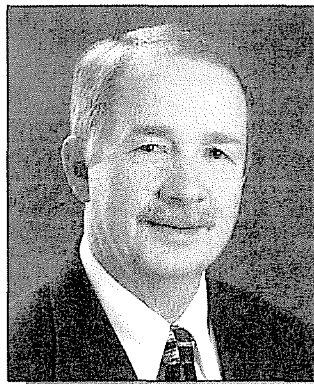
Big Rivers still owns the Robert A. Reid Plant (coal-fired and one combustion turbine, 130 MW), the Kenneth C. Coleman Plant (455 MW), the Robert D. Green Plant (454 MW) and the D.B. Wilson Plant (420 MW), totaling 1,459 MW of generating capacity. In addition, it currently has the rights to another 217 MW in a contractural arrangement with Henderson Municipal Power and Light's (HMP&L) Station Two facility.

In July 1998, Big Rivers leased the operation of its generation, and its rights in the output of the HMP&L facility to certain LG&E Energy Corp. affiliates (LG&E Parties). Big Rivers provides power to its members from a power purchase agreement with LG&E Energy Marketing (LEM), member allocations from the Southeastern Power Administration (SEPA) and the wholesale power market. Big Rivers owns, operates and maintains its 1,195-mile transmission system and provides for transmission of power to its member systems as well as to the LG&E Parties and other third-party entities served under Big Rivers' Open Access Transmission Tariff.



Burns Mercer
President/CEO
Meade County RECC

Contract Administration & Regulatory Affairs



David Spainhoward
VP of Contract Administration & Regulatory Affairs

In 1998, Big Rivers leased the operation of its generation assets and its rights to the output of the HMP&L Station Two facility to the LG&E Parties. Western Kentucky Energy (WKE) is responsible for operating and maintaining the Big Rivers' units and WKE Station Two Inc. is responsible for operating and maintaining the HMP&L Station Two units.

The LG&E Parties continued working to meet nitrous oxide (NOx) emissions limits on Big Rivers and the Station Two units. Selective catalytic reduction units (SCRs) will be placed on HMP&L Station Two's two units and the Big Rivers' Wilson unit. Other methods of reducing NOx emissions are being utilized on the other plants. It's anticipated that $143.6 million will be spent to bring Big Rivers' and the Station Two units into compliance by May 2004, of which Big Rivers' share is $26.2 million. The SCR and other compliance modifications at Wilson are nearly complete. Structural erection of the SCR at Station Two is scheduled to begin early 2003. All NOx projects are on schedule to meet the May 2004 compliance date.

During the year, Big Rivers completed its second thorough analysis of the condition of its owned and leased electric generating plants. Big Rivers has communicated the results of the analysis to the LG&E Parties.

On September 19, 2000, WKE 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 is part of a national investigative effort by the federal Environmental Protection Agency (EPA) regarding utility compliance with New Source Review (NSR) Requirements under the Clean Air Act. Although the request was directed to WKE, Big Rivers cooperated with WKE in preparing a response. Big Rivers has had no further correspondence with the EPA since information was provided.

In 2002, President Bush directed the EPA to revisit and propose rule changes to those sections of the Clean Air Act pertaining to NSR. Big Rivers, in conjunction with the National Rural Electric Cooperative Association (NRECA) and the National Rural Environmental Association (NREEA), is monitoring the proposed rule changes as they develop.

Also during 2002, President Bush announced the administration's Clear Sky Initiative as a form of multi-pollutants bill to address potential reductions in mercury emissions, and further reductions in sulfur dioxide and NOx emissions in the United States. Big Rivers, in conjunction with NRECA and NREEA, is monitoring the proposed rule changes as they develop.

During 2001, Kentucky's governor established an Energy Policy Advisory Board to plan and develop a coordinated statewide energy policy. The advisory board was directed to identify opportunities for Kentucky in managing its future energy requirements. Throughout 2002, Big Rivers participated on various subcommittees and attended meetings of the board to assist in the study of the energy markets and in creating statewide energy policy. In December 2002, the Kentucky Energy Policy Advisory Board issued an interim report to the governor.

Big Rivers continues to monitor the development of the Midwest Independent System Operator (MISO) and the Tennessee Valley Authority (TVA) Public Power Transmission Grid. The company would incur additional costs from membership in a regional transmission organization (RTO) or RTO look-alike without corresponding benefits. As a cooperative, Big Rivers is concerned about incurring the additional costs of RTO membership without having the ability to provide an offsetting economic benefit to its members.

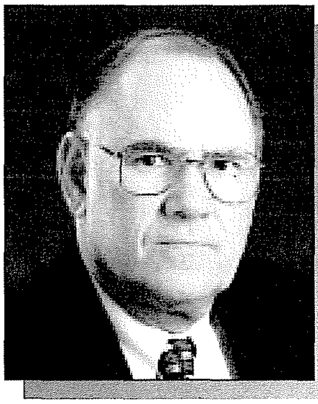
Terminology Reference Guide

APM:	ACES Power Marketing LLC
CFC:	National Rural Utilities Cooperative Finance Corporation
EPA:	Environmental Protection Agency
FERC:	Federal Energy Regulatory Commission
G&T:	Generation & Transmission Cooperative
HMP&L:	Henderson Municipal Power & Light
IRP:	Integrated Resource Plan
KPSC:	Kentucky Public Service Commission
LEM:	LG&E Energy Marketing, Inc.
LG&E Parties:	LG&E Energy Corp., LEM, WKE, WKE Station Two Inc.
MISO:	Midwest Independent System Operator
NRECA:	National Rural Electric Cooperative Association
NREEA:	National Rural Electric Environmental Association
NOPR:	Notice of Proposed Rulemaking
NOx:	Oxides of Nitrogen NO & NO_2
NSR:	New Source Review
RTO:	Regional Transmission Organizations
RUS:	Rural Utilities Service
SCR:	Selective Catalytic Reduction Units
SEPA:	Southeastern Power Administration
SMD:	Standard Market Design
TVA:	Tennessee Valley Authority
WKE:	Western Kentucky Energy

The Federal Energy Regulatory Commission (FERC) issued a Notice of Proposed Rulemaking (NOPR) on July 31, 2002, regarding Standard Electricity Market Design (SMD). Big Rivers has followed the events, participated in conferences, and submitted comments regarding this SMD NOPR. As a non-public entity, Big Rivers desires that the FERC's reciprocity requirement for cooperatives be reasonable. Additionally, Big Rivers wants to avoid any adverse financial impacts on it and its members that may result from adoption of a SMD rule.

The 2002 session of the General Assembly passed, and the governor signed into law, Senate Bill 257. The bill predominantly related to the siting of electric generation and transmission facilities in Kentucky. In addition to the siting provision, the bill provided a change to KRS Chapter 278 relating to service emergencies experienced on the transmission systems of jurisdictional electric utilities. The new law essentially requires jurisdictional utilities to operate their transmission facilities so that retail electric service to Kentucky customers has the highest priority during a transmission emergency. To comply with this law, Big Rivers revised its tariffs. On February 6, 2003, the Kentucky Public Service Commission (KPSC) approved Big Rivers' revised tariffs.

System Operations



Travis Housley
VP of System Operations

Continued growth of member-system loads provided the impetus for a busy year in system operations. Big Rivers' 1,195-mile transmission system is operated and maintained primarily to deliver power to its members. Available transmission capacity is sold through the Open Access Same Time Information Systems to third parties for moving power into, out of or through the Big Rivers' control area.

In 2002, the System Operations and Engineering Department designed and installed 12 miles of 69 kV transmission line to connect new or increased capacity for member delivery point substations. The Bryan Road Substation 161-69 kV expansion was designed and installed. A second transformer was added to the Meade County 161-69 kV, along with a bank of 69 kV capacitors for purposes of general reliability improvement and voltage support. Also completed in 2002 were the planning and development of a Transmission System Long-Range Plan and an accompanying three-year work plan.

Other engineering and construction work included replacing three remote terminal units for the energy management system and one power line carrier installation. Radio-controlled switches were installed at two locations. Big Rivers' planners worked on six interconnection studies for independent power producers or neighboring system interconnections. Work on three of these studies was completed, with the other three carried into 2003 with limited activity.

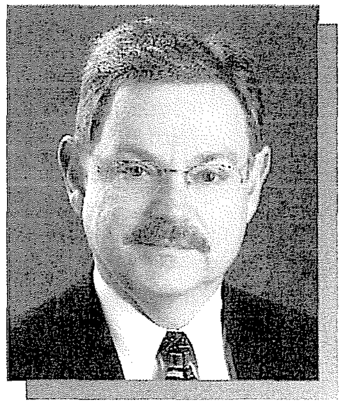
Big Rivers also worked to monitor and evaluate the MISO activities and participated in discussions concerning a possible public power RTO. Thus far, Big Rivers has chosen not to join a RTO until it is clear of the benefits to the member systems. Along these lines, Big Rivers also participated in the ongoing discussions of the FERC's NOPR for a SMD. Comments were filed with the FERC on this NOPR and Big Rivers continues to monitor these fluid topics. In 2002, TVA became the security coordinator for Big Rivers' transmission system, replacing the East Central Area Reliability Council efforts that were being phased out in 2002.

In routine maintenance, testing and repair, 2,235 poles were inspected and treated. Some 73 poles found to be bad were changed out. Testing was completed on 125 revenue meters. Also tested were 1,298 protective relays, 39 power transformers and 37 circuit breakers. There were 15 circuit breakers that were overhauled.

Other maintenance activity included the replacement of four switches and the Wilson generator disconnect switches. Big Rivers also moved 161 kV breakers to Meade County and Bryan Road substations.

Big Rivers continued a gradual downsizing of the department through natural attrition and chose not to replace two employees who left the organization during 2002.

Power Supply



Bill Blackburn
VP of Power Supply

The chaotic electric utility industry of 2002 certainly made for interesting times for Big Rivers' Power Supply Department. Strong growth in the sales to rural customers of the Big Rivers' member-systems helped to offset reduced sales to large industrial customers and non-members. The increase in rural sales was nearly 6 percent from 2.001 million MWh in 2001 to 2.115 million MWh in 2002.

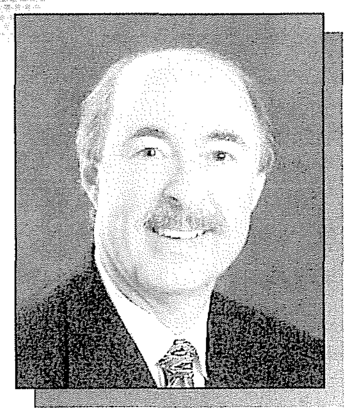
Power supply for the member-systems comes from three sources: the Purchase Power Agreement with LEM, SEPA allocations to the member systems and wholesale market purchases. To the extent that native load does not need all of the contractually available power, it is sold to non-members at market prices. Margins from sales to non-members were down in 2002 compared to 2001 because wholesale power market prices were down due to extra capacity in the market and lower sales from a slowing economy.

For the third straight year, Big Rivers did not hit a new peak demand. This was partly due to no extreme weather and to the installation of approximately 50 MW of cogeneration in mid-2001 by Willamette Industries (now Weyerhaeuser). This transaction freed up 50 MW of power Big Rivers can use to meet future growth needs.

Also, in September 2002, Big Rivers changed its power market interface partner from Reliant Energy Services to ACES Power Marketing LLC (APM). In December, Big Rivers joined APM as a member, becoming a part owner of the organization with 11 other generation and transmission cooperatives in eight states.

Big Rivers continues to work with its members in meeting power supply requirements and various supply options for new and expanding economic development opportunities. In addition, it filed a new integrated resource plan (IRP), in November 2002 with the KPSC. The KPSC has yet to act on the proposed IRP.

Marketing



Richard Beck
VP of Marketing

Providing our member-owners quality customer service is an on-going priority for Big Rivers and its member-systems. To measure the effectiveness of our efforts, Big Rivers' member-systems participated in the 2002 American Consumer Satisfaction Index, which is a national system managed by the University of Michigan Business School designed to track and measure consumer satisfaction. Big Rivers' member-systems recorded an average customer satisfaction score of 84, which is 11 points higher than the average score (73) of the nation's 28 largest investor-owned utilities. In addition, Big Rivers' member-systems scored two points higher than the average (82) of all Touchstone Energy cooperatives participating in the study. We are very proud of our ACSI results, which represent the product of our commitment to provide quality service to our member distribution systems and ultimately the end consumer.

To consistently deliver quality customer service, Big Rivers and its member-systems must have a clear understanding of the changing needs and expectations of our member-owners. As a result, our customer attitude and opinion surveys were expanded during 2002 to incorporate a much broader scope of industry-related topics. The feedback we receive enables us to refine our marketing strategies and to design programs that represent real value to our customers and effectively address their evolving needs.

As the demographic mix of our member-owners continues to change, our surveys indicate fewer end consumers are aware of the numerous benefits associated with the cooperative business model. As a result, during 2002 we initiated development of a communications strategy to re-emphasize the unique benefits that set cooperatives apart from other utility companies, e.g., member-owned, not-for-profit, ability to vote on board membership, etc. Increased knowledge and understanding of the cooperative business model will enable our member-owners to make informed decisions should retail competition be permitted in Kentucky.

Big Rivers and its distribution systems remained active members in Touchstone Energy® during 2002 and continue to participate in Touchstone's co-branding advertising strategy. Touchstone Energy is a national alliance of local, consumer-owned electric cooperatives committed to providing high standards of service through integrity, accountability, innovation and commitment to their communities. As we continued to incorporate Touchstone Energy into our communications mix, end consumer awareness of Touchstone Energy increased four percentage points during 2002. Also, to maximize the effectiveness of our resources allocated to Touchstone Energy, Big Rivers leveraged strategic relationships with other G&Ts to co-share Touchstone Energy advertising costs whenever possible.

Financial

Mark Hite
VP of Finance & Administrative Services

Careful fiscal management continues to be the central theme for Big Rivers. For the fourth straight year, Big Rivers demonstrated solid financial performance in 2002 with a net margin of $10.1 million, compared to $16.8 million in 2001 (as restated - see Note 1 to financial statements), a decrease of $6.7 million. For the four-year period ended December 31, 2002, Big Rivers generated a net margin of $41.3 million, establishing a positive trend. The more significant components of the margin variance experienced in 2002 were the full-year impact of Weyerhaeuser's (formerly Willamette) cogeneration facility that became operational July 2001 ($1.9 million), the significant deterioration of the off-system power sales market price ($8.3 million) and the decrease in LG&E Parties' lease revenue resulting from the amortization to revenue of WKE's funding of capital expenditures ($2.6 million). Off-setting this, the return to more normal weather resulted in member rural MWh sales increasing 5.7 percent in 2002 ($1.5 million), interest expense less interest income decreasing 6.1 percent due to voluntary prepayments on long-term debt and historically low rates on the pollution control bonds ($3.4 million).

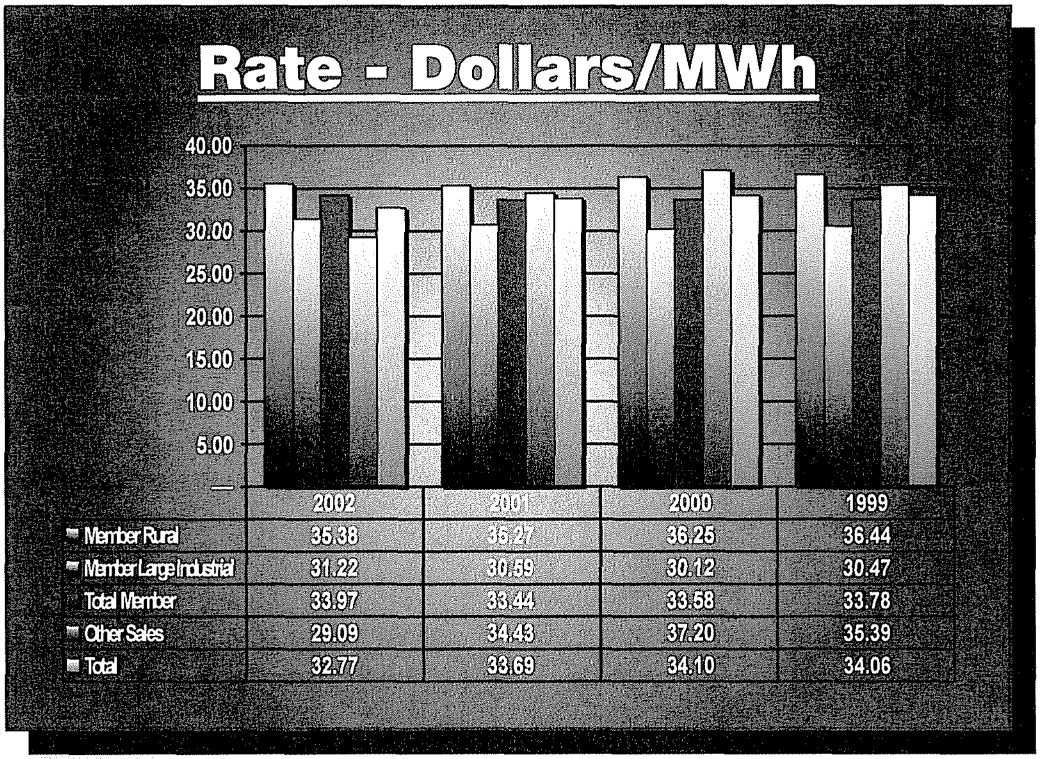
Most certainly, 2002 was yet another good year of financial performance for Big Rivers. Perhaps this is best illustrated by the selected historical financial information presented in the table below. As shown in the other accompanying charts, Big Rivers sold 3.2 million MWh to its

Selected Historical Financial Information
(Dollars in Thousands)

	2002	2001	2000	1999
Margins	10,055	16,796	10,383	4,093
Equity	(319,013)	(328,685)	(345,481)	(355,864)
Capital Expenditures	21,700	13,040	11,112	8,782
Cash Balance	20,061	59,209	64,437	22,074
New RUS Note Voluntary Prepayment Status	60,479	17,473	12,691	27,221
TIER	1.14	1.22	1.13	1.06
DSC	1.19	1.30	1.39	1.41
Cost of Debt	5.38%	5.68%	5.98%	5.82%
Cost of Capital	7.37%	7.66%	7.95%	7.79%

three member distribution cooperatives at an average rate of $33.97 per MWh, compared to $33.44 in 2001, $35.38 for rural sales and $31.22 for large industrial sales. These member rates are among the lowest of all G&T cooperatives in the nation. Additionally, one million MWh of other sales were made at market prices, which averaged $29.09 per MWh, compared to $34.43 in 2001.

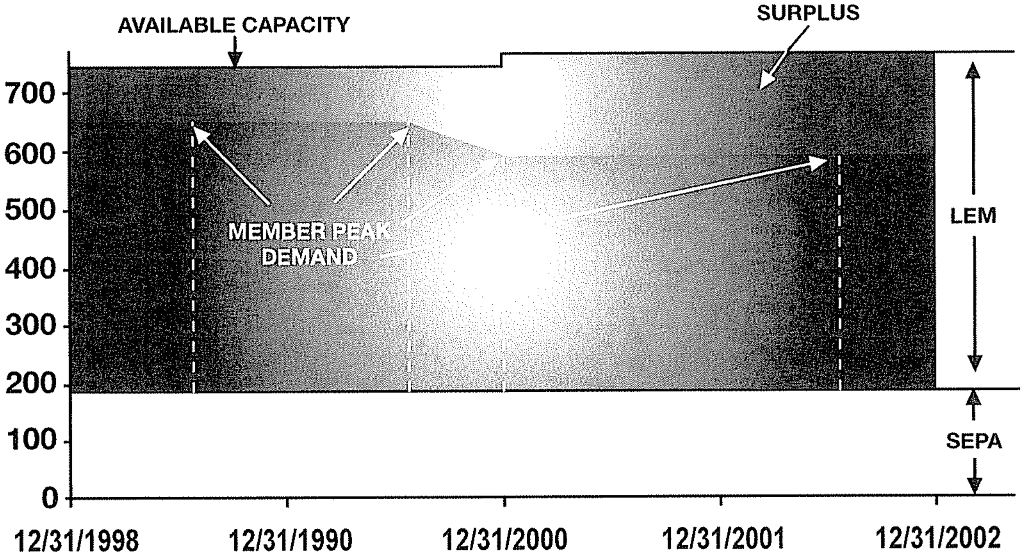
The 3.4 percent member rate discount, implemented in September 2000 in connection the sale-leaseback transaction completed April 2000, continues its effect. It is anticipated that this member rate discount, which approximates Big Rivers' projected NOx compliance cost, will continue until needed for such purpose. Absent that, the continuation of which is determined on an annual basis, management has no plans to increase member rates for several years. The current member rates, which have both a demand and energy component, have been in place since September 1997. Regarding rate stability, as illustrated by one of the accompanying charts, Big Rivers is long on capacity on peak, with availability in excess of member peak demand, 172 MW in 2002. As previously mentioned, this "excess" is being sold when possible and beneficial until needed for member growth.



	2002	2001	2000	1999
Member Rural	35.38	35.27	36.25	36.44
Member Large Industrial	31.22	30.59	30.12	30.47
Total Member	33.97	33.44	33.58	33.78
Other Sales	29.09	34.43	37.20	35.39
Total	32.77	33.69	34.10	34.06

Net utility plant increased $50.5 million to $992.1 million during 2002 ($79.1 million net additions less $28.6 million depreciation), the majority of such additions being funded by WKE in accordance with the provisions of the LG&E transaction. In return for WKE's funding of its share of generation capital expenditures during the 25 1/2-year lease term (from July 1998 through December 2023), Big Rivers will pay it a residual value payment upon lease termination, generally based upon straight-line amortization over the useful life of the associated assets.

MEMBER PEAK DEMAND MW
1999 THROUGH 2002

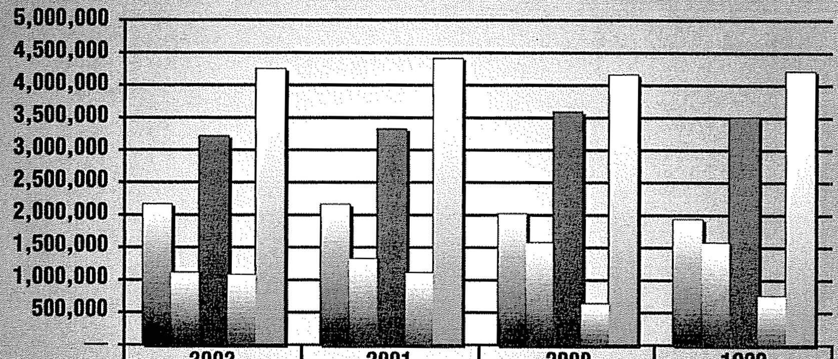


	1999	2000	2001	2002
LEM	572	572	597	597
SEPA	178	178	178	178
TOTAL	750	750	775	775
MEMBER PEAK DEMAND	664	655	598	603
DATE OF MEMBER PEAK	7/29/1999	8/17/2000	1/3/2001	8/5/2002
SURPLUS	86	95	177	172

Currently, Big Rivers projects this residual value payment obligation to be $143.3 million on December 31, 2023. While Big Rivers has been funding its share of capital expenditures out of cash flow, as required, and foresees the ability to do so prospectively, during 2003 management plans to seek creditor approval of the ability to borrow for certain transmission and general plant capital projects. Big River plans to borrow only when prudent to do so.

Big Rivers has in place a $15 million line of credit through the National Rural Utilities Cooperative Finance Corporation (CFC) for short-term working capital needs. Also, Big Rivers has a related and underlying CFC $15 million master letter of credit facility for the purpose of supporting its off-system power sales. Although neither has yet been utilized, management views both as prudent business necessities. As both terminate on July 15, 2003, management currently is seeking the necessary approvals to extend them on similar terms.

MWh Sales



	2002	2001	2000	1999
Member Rural	2,114,691	2,000,877	1,999,539	1,921,742
Member Large Industrial	1,077,322	1,283,445	1,541,341	1,547,230
Total Member	3,192,013	3,284,322	3,540,880	3,468,972
Other Sales	1,042,496	1,110,100	598,474	736,719
Total	4,234,509	4,394,422	4,139,354	4,205,691

Big Rivers has long provided certain information systems services to its three member-systems. In 2002, an enhanced technology "road map" was created with the members and a common geographic information system is being installed. Big Rivers also continues to pursue e-commerce for the member systems, planning to offer electronic bill presentation and payment during 2003. Currently, member-consumers can access billing data via the Internet on the member-systems' Web pages.

The Company is also in the process of replacing its outdated energy management system, including establishing a new off-site alternate system for it and the member-systems, a result of the events of September 11, 2001.

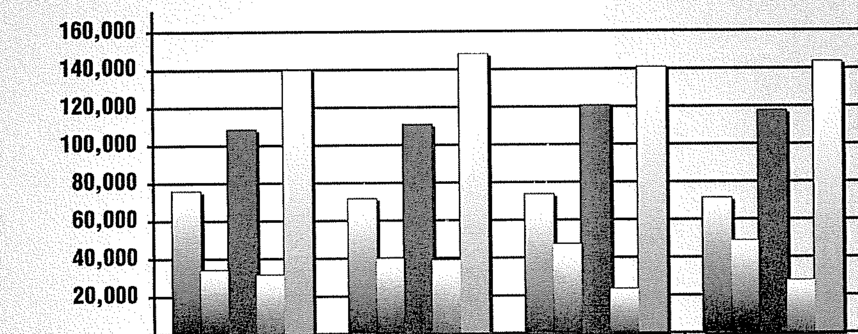
Owned Electric Generation

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	[illegible]	1979
Unit 2	Coal	[illegible]	[illegible]
Robert A. Reid Plant			
Unit 1	Coal	65	1966
Combustion Turbine	Oil	65	1976
D. B. Wilson Unit No. 1	Coal	420	1986
TOTAL		1,459	

Although leased to WKEC, Big Rivers continues to own its 1,459 megawatts of electric generating facilities.

Sales Revenue

Thousands of Dollars



	2002	2001	2000	1999
Member Rural	74,810	70,566	72,482	70,034
Member Large Industrial	33,630	39,265	46,417	47,145
Total Member	108,440	109,831	118,899	117,179
Other Sales	30,321	38,226	22,263	26,069
Total	138,761	148,057	141,162	143,248

Big Rivers Electric Corporation

Financial Statements as of December 31, 2002 and 2001 and for Each of the Three Years in the Period Ended December 31, 2002 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, 2002 and 2001, and the related statements of operations, equities (deficit) and cash flows for the years then ended. 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. The statements of operations, equities (deficit) and cash flows for the year ended December 31, 2000, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those statements in their report dated March 23, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2002 and 2001 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 26, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 13, the accompanying 2001 financial statements have been restated.

Deloitte & Touche LLP

Indianapolis, Indiana
February 26, 2003

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2002 AND 2001 (Dollars in Thousands)

ASSETS	2002	2001 (As Restated, see Note 13)
Utility plant, net	$ 922,135	$ 871,637
Restricted investments under long-term lease	163,254	158,014
Other deposits and investments, at cost	8,702	6,812
Current assets:		
Cash and cash equivalents	20,061	59,209
Accounts receivable	14,720	19,580
Materials and supplies inventory	574	550
Prepaid expenses	176	471
Total current assets	35,531	79,810
Deferred charges and other	34,910	33,919
	$1,164,532	$1,150,192
EQUITIES (DEFICIT) AND LIABILITIES		
Capitalization:		
Equities (deficit)	$ (319,013)	$ (328,685)
Long-term debt	1,085,500	1,094,214
Obligations related to long-term lease	152,747	147,286
Other long-term obligations	1,140	1,491
Total capitalization	920,374	914,306
Current liabilities:		
Current maturities of long-term obligations	11,254	27,157
Voluntary prepayment of long-term debt	11	38,388
Purchased power payable	7,638	7,460
Accounts payable	7,630	5,108
Accrued expenses	3,494	3,377
Accrued interest	10,866	11,515
Total current liabilities	40,893	93,005
Deferred credits and other:		
Deferred lease revenue	33,416	27,275
Deferred gain on sale-leaseback	67,726	70,470
Residual value payment obligation	97,444	40,838
Other	4,679	4,298
Total deferred credits and other	203,265	142,881
Commitments and contingencies	-	-
	$1,164,532	$1,150,192

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (Dollars in Thousands)

	2002	2001 (As Restated, see Note 13)	2000
Power contracts revenue	$ 146,548	$ 155,488	$ 148,364
Lease revenue	51,094	53,672	54,014
Total operating revenue	197,642	209,160	202,378
Operating expenses:			
Operations:			
Power purchased and interchanged	85,722	88,570	81,834
Transmission and other	14,669	14,151	12,554
Maintenance	3,100	2,439	2,362
Depreciation	27,745	27,449	27,290
Total operating expenses	131,236	132,609	124,040
Electric operating margins	66,406	76,551	78,338
Interest expense and other:			
Interest	59,801	66,508	71,814
Interest on obligations related to long-term lease	8,003	7,679	5,417
Other, net	147	101	65
Total interest expense and other	67,951	74,288	77,296
Operating margin	(1,545)	2,263	1,042
Non-operating margin:			
Interest income on restricted investments under long-term lease	10,527	10,187	7,168
Interest income and other	1,073	4,346	2,173
Total non-operating margin	11,600	14,533	9,341
Net margin	$ 10,055	$ 16,796	$ 10,383

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (Dollars in Thousands)

			Other Equities	
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	Consumers' Contributions to Debt Service
Balance at January 1, 2000	$ (355,864)	$ (360,309)	$ 764	$ 3,681
Net margin	10,383	10,383	-	-
Balance at December 31, 2000	(345,481)	(349,926)	764	3,681
Net margin, as restated, see Note 13	16,796	16,796	-	-
Balance at December 31, 2001, as restated, see Note 13	(328,685)	(333,130)	764	3,681
Net margin	10,055	10,055	-	-
Accumulated other comprehensive loss	(383)	(383)	-	-
Balance at December 31, 2002	$ (319,013)	$ (323,458)	$ 764	$ 3,681

See notes to financial statements, including Note 1 regarding Patronage Capital.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 (Dollars in Thousands)

	2002	2001 (As Restated, see Note 13)	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 10,055	$ 16,796	$ 10,383
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:			
Depreciation and amortization	29,357	28,500	31,627
Increase in restricted investments under long-term lease	(5,240)	(4,307)	(7,060)
Amortization of deferred gain on sale-leaseback	(2,744)	(2,706)	(1,874)
Increase in RUS ARVP Note	4,298	4,074	3,948
Increase in New RUS Promissory Note	-	17,574	-
Increase in obligations under long-term lease	5,461	4,505	7,184
Changes in certain assets and liabilities:			
Accounts receivable	4,860	2,208	(8,125)
Materials and supplies inventory	(24)	76	80
Prepaid expenses	295	(66)	316
Deferred charges	(2,604)	1,395	(1,469)
Other long-term obligations	(351)	(352)	(695)
Purchased power payable	178	(6,184)	6,647
Accounts payable	2,522	(3,551)	3,813
Accrued expenses	(531)	(10,295)	18,805
Deferred lease revenue	6,141	6,385	(9,933)
Other, net	413	(1,920)	(4,219)
Net cash provided by operating activities	52,086	52,132	49,428
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in held-to-maturity securities	-	-	(34,003)
Restricted investments under long-term lease	-	-	(146,647)
Proceeds from maturity of investments	-	34,003	8,000
Capital expenditures, net	(21,700)	(13,040)	(11,112)
Other deposits and investments	(1,890)	573	894
Net cash provided by (used in) investing activities	(23,590)	21,536	(182,868)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale-leaseback	-	-	211,169
Costs of bond refunding	-	(3,300)	-
Principal payments on long-term obligations	(67,644)	(41,593)	(72,690)
Proceeds from LEM Advances	-	-	11,321
Net cash provided by (used in) financing activities	(67,644)	(44,893)	149,800
Net increase (decrease) in cash and cash equivalents	(39,148)	28,775	16,360
Cash and cash equivalents, beginning of year	59,209	30,434	14,074
Cash and cash equivalents, end of year	$ 20,061	$ 59,209	$ 30,434
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 55,634	$ 54,470	$ 49,035
Cash paid for taxes	$ -	$ 3,319	$ -

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 the power needs of its three member distribution cooperatives, excluding the power needs of two large aluminum smelters (the "Aluminum Smelters"), Kenergy Corp, Jackson Purchase Energy Corporation and Meade County RECC, 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. Big Rivers has wholesale power contracts with each of its members which require the members to buy and receive from Big Rivers all power and energy requirements, other than for the Aluminum Smelters. 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").

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 Statement of Financial Accounting Standards ("SFAS") No. 13, "Accounting for Leases", Big Rivers' revenue from the Lease Agreement (described in Note 2) 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
2003	$ 52,332
2004	52,332
2005	52,332
2006	52,332
2007	52,332
Thereafter	619,199
	$ 880,859

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 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 Payment (see Note 2). Any differences in such amounts are amortized to lease revenue over the remaining lease term. As of December 31, 2002 and 2001, the Company has recorded $74,405 and $34,530, respectively, for such additions in utility plant. The Company has recorded $(329), $2,131 (as restated, see Note 13), and $1,429 in 2002, 2001, and 2000, respectively, as related lease revenue (expense) in the accompanying financial statements.

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 2002, 2001 and 2000, the average composite depreciation rates were 1.72%, 1.75% and 1.77%, 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.

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 consolidated Federal 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 be not less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income. In accordance with the bankruptcy plan, all patronage capital claims were extinguished and discharged on July 15, 1998. During 2002 and 2001, the Company made a patronage allocation of $18,722 and $285,573, respectively, to its three member distribution cooperatives based on alternative minimum taxable patronage-sourced income in accordance with its bylaws. In 2003, the Company anticipates a patronage allocation to its members based on such calculations for tax year 2002 of approximately $16,654.

New Accounting Pronouncements—SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", was effective for the Company on January 1, 2001. This statement, as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and interpreted, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Management has reviewed the requirements of SFAS 133, 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 133 and, therefore, are not required to be recognized at fair value in the financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. Management does not expect the adoption of SFAS No. 143 to have a significant impact on its financial position or results of operations.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued in August 2001 and addresses accounting for and reporting of the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 31, 2001. The adoption of SFAS No. 144 did not have a significant impact on the Company's financial position or results of operations.

Reclassifications—Certain amounts in the prior years' financial statements have been reclassified to conform with current year presentation.

2. LG&E LEASE AGREEMENT

On July 15, 1998, 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. 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 LG&E Energy Corporation, 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. From 2003 through 2011, LEM will reimburse Big Rivers approximately $145,062 for the margins expected from the Aluminum Smelters, being defined as the net cash flows that Big Rivers anticipated receiving over the term of the Lease Agreement if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing, as defined, (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, up to predetermined annual maximum amounts. This cumulative maximum is not expected to exceed $148,000 over the Lease Agreement. At the end of the lease term, Big Rivers is obligated to fund a "Residual Value Payment" to LG&E Energy Corporation for such capital additions during the lease, currently estimated to be $125,838 (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 and the Company will be required to submit another Residual Value Payment to LG&E Energy Corporation for the undepreciated value of WKEC's 80% share of these assets, as defined, at the end of the lease, currently estimated to be $17,433. 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 receives 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, derived from Arbitrage must be divided as follows: one-third, adjusted for member sales volume and 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:

	2002	2001 (As Restated, see Note 13)
Classified plant in service:		
Electric plant - leased	$1,438,710	$1,369,371
Transmission plant	203,677	200,425
General plant	11,735	11,240
Other	67	67
	1,654,189	1,581,103
Less accumulated depreciation	734,076	711,935
	920,113	869,168
Construction in progress	2,022	2,469
Utility plant, net	$ 922,135	$ 871,637

Interest capitalized for the years ended December 31, 2002, 2001 and 2000, was not significant to the financial statements.

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 $2,744, $2,706, and $1,874 in 2002, 2001, and 2000, respectively. Principal payments begin in 2009.

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

	2002	2001
Restricted investments under long-term lease	$ 163,254	$ 158,014
Obligations related to long-term lease	152,747	147,286
Deferred gain on sale-leaseback	67,726	70,470

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

	2002	2001	2000
Power contracts revenue (revenue discount adjustment, see Note 6)	$ (3,680)	$ (3,680)	$ (1,227)
Interest on obligations related to long-term lease:			
Interest expense	$ 10,747	$ 10,385	$ 7,291
Amortize gain on sale-leaseback	(2,744)	(2,706)	(1,874)
Net interest on obligations related to long-term lease	$ 8,003	$ 7,679	$ 5,417
Interest income on restricted investments under long-term lease	$ 10,527	$ 10,187	$ 7,168

5. LONG-TERM OBLIGATIONS

A detail of long-term debt is as follows at December 31:

	2002	2001
New RUS Promissory Note, stated amount, $852,489, stated interest rate of 5.75%, recorded at fair value, with an interest rate of 5.81%, maturing July 2021.	$ 848,612	$ 895,031
RUS ARVP Note, stated amount $257,390, no stated interest rate, recorded at fair value, with interest imputed at 5.81%, maturing December 2023.	76,800	72,515
LEM Advances, interest rate of 6.98%, payable in monthly installments from August 2000 through July 2003.	10,536	31,058
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023.	18,366	18,704
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 1.50% and 2.81% in 2002 and 2001 respectively), maturing in October 2022.	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 1.45% and 2.69% in 2002 and 2001 respectively), maturing in June 2013.	58,800	58,800
Total long-term debt	1,096,414	1,159,408
Current maturities	10,903	26,806
Voluntary prepayments	11	38,388
Total long-term debt, net of current maturities and prepayments	$1,085,500	$1,094,214

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

Year	Amount
2003	$ 10,903
2004	11,320
2005	25,262
2006	29,288
2007	31,319
Thereafter	988,322
Total	$1,096,414

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 Advances*—**Beginning in August 1998 (the first month after the Effective Date) and ending in July 2000, LEM made payments totaling $50,000 to the RUS on behalf of the Company. The Company is now making monthly payments which will ultimately total $60,000 to LEM through July 2003. The payments made by LEM to the RUS were applied to the New RUS Promissory Note. The Company is recognizing interest expense over the five-year life of the LEM Advances at 6.98% per annum.

***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 Liabilities*—**During 1997, Big Rivers terminated two unfavorable coal contracts. Of the amounts settled, $6,000 was paid upon initial settlement, $351 in 2002, and $367 in 2001. At December 31, 2002, the Company has a remaining liability of $1,491 payable over the next six years, of which $351 is included in current maturities of long-term obligations.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a billing 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 billing demand 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 September 1, 2000, the KPSC approved Big Rivers' request for a two-year ($3,680 annually) revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. The extent to which Big Rivers requests KPSC approval to extend the two-year period depends upon its planned environmental compliance costs and its overall financial condition. On August 1, 2002, the KPSC approved Big Rivers' request for a one-year extension of the revenue discount adjustment for its members.

Pursuant to the Lease Agreement, LEM supplied the energy necessary to comply with the Oglethorpe Power Corporation ("Oglethorpe Power") contract. In turn, Big Rivers remitted the net revenues from the contract to LEM. The Oglethorpe Power contract was for the sale of 103 MW of power through July 31, 2002.

In accordance with the Lease Agreement, LG&E Energy Corporation operates certain generating facilities owned by the City of Henderson, Kentucky (the "City"), which were operated by Big Rivers prior to the Effective Date, pursuant to an agreement between the City and Big Rivers. The Company retains the obligation to provide transmission services under this agreement.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31, 2002 and 2001 were as follows:

	2002	2001
Deferred tax assets:		
Net operating loss carryforward	$ 99,965	$ 110,388
Alternative minimum tax credit carryforwards	3,319	3,319
Sale-leaseback	115,125	108,729
Lease Agreement	650	2,763
Total deferred tax assets	219,059	225,199
Deferred tax liabilities:		
Fixed asset basis difference	(30,283)	(43,075)
Other accruals	(24)	(138)
Total deferred tax liabilities	(30,307)	(43,213)
Net deferred tax assets (pre-valuation allowance)	188,752	181,986
Valuation allowance	(185,433)	(178,667)
Net deferred tax asset	$ 3,319	$ 3,319

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, 2002, Big Rivers had a non-patron net operating loss carryforward of approximately $243,818 for tax reporting purposes expiring 2004 through 2012, and an alternative minimum tax credit carryforward of approximately $3,319, 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 is approximately $3,319 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.

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:

	2002	2001
Projected benefit obligation	$ (12,699)	$ (10,410)
Fair value of plan assets	8,640	8,640
Funded status	$ (4,059)	$ (1,770)

Amounts recognized in the statement of financial position at December 31:

	2002	2001
Prepaid benefit cost	$ 456	$ 579
Accrued benefit liability	(366)	(130)
Intangible asset	49	-
Accumulated comprehensive loss	383	-
Net amount recognized	$ 522	$ 449

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

	2002	2001	2000
Benefit cost	$ 735	$ 682	$ 453
Employer contribution	809	974	-
Benefits paid or transferred	426	302	431

Assumptions used to develop the projected benefit obligation were:

	2002	2001	2000
Discount rates	6.75 %	7.50 %	7.50 %
Rates of increase in compensation levels	4.00	4.00	4.00
Expected long-term rate of return on assets	7.50	8.50	8.50

At December 31, 2001, there was a change in the assumed form of payment used to calculate the projected benefit obligation from a monthly benefit payable for a participant's lifetime with 120 guaranteed payments to a lump sum payment.

At December 31, 2002, an additional pension liability of $383 was recorded as accumulated comprehensive loss and is reflected in the Company's Equities (deficit).

10. 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.

The discount rate used in computing the postretirement obligation was 7.5% for 2002 and 2001. A health care cost trend rate of 11.0% in 2002 declining to 5.5% in 2009 was utilized.

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

	2002	2001
Total benefit obligation	$ (2,859)	$ (2,573)
Unfunded accrued postretirement cost	(3,438)	(3,345)

The components of net periodic postretirement benefit costs for the years ended December 31 were as follows:

	2002	2001	2000
Benefit cost	$ 267	$ 159	$ 108
Benefits paid	173	238	208

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 $201 and $169 at December 31, 2002 and 2001, respectively, and the postretirement expense recorded was $32, $30 and $25 for 2002, 2001 and 2000, respectively.

11. RELATED PARTIES

For the years ended December 31, 2002, 2001, and 2000, Big Rivers had sales to its members, including certain sales to Kenergy for the Aluminum Smelters and Weyerhaeuser loads, of $116,021, $115,613, and $118,899 respectively.

At December 31, 2002 and 2001, Big Rivers had accounts receivable from its members of $10,866 and $12,902, respectively.

12. 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 is involved in an ongoing dispute with its bankruptcy examiner regarding the hourly fees charged and the bonus sought by the examiner. The hourly fees for which the examiner is seeking final approval have already been paid by Big Rivers and the issue is how much of those fees, if any, should be refunded to Big Rivers. The $2,110 bonus initially awarded to the examiner by the bankruptcy court and accrued by Big Rivers in 1998, has been reversed by the district court, but management anticipates that the examiner will appeal further and seek reinstatement of the bonus. If the examiner is successful in whole or in part in defending his hourly fees or having his bonus reinstated, he may seek additional compensation for himself and his counsel for the time expended in doing so. While the final resolution of this matter cannot be determined, management believes that the final outcome will not have a material adverse effect on the Company's results of operations or its financial position.

In 1999, the Company received a letter from WKEC claiming that Big Rivers breached warranties and representations in the agreements among Big Rivers, WKEC, and other LG&E Energy Corporation subsidiaries or affiliates entered into in connection with the Lease Agreement ("Transaction Documents"). The claim was in regard to the status of Big Rivers' compliance with a water discharge permit for Wilson Station on the date of the closing of that transaction. On February 28, 2002, Big Rivers received from WKEC a notice alleging defaults under the terms of one of the Transaction Documents arising out of the circumstances surrounding this claim. In December 2002, the Company settled the claim with WKEC in the amount of $1,200.

13. RESTATEMENT

Based upon a letter from WKEC, dated August 16, 2001, wherein WKEC waived all residual value claims for certain ordinary capital expenditures (described and defined in the Lease Agreement as Non-Incremental Capital Costs) in excess of the approved annual capital budget, Big Rivers recorded $4,232 of lease revenue and $158 of depreciation expense in 2001. The associated balance sheet impact was to increase net utility plant $4,353 and residual value payment obligation $279. Pursuant to a Big Rivers' September 19, 2002, letter to the RUS, and the response dated November 4, 2002, it was determined that any capital asset of this nature should not be reflected on Big Rivers' financial statements. Accordingly, the accompanying financial statements as of and for the year ended December 31, 2001, have been restated to reduce previously reported lease revenue, net utility plant, depreciation expense and residual value payment obligation. A summary of the effects of the restatement follows:

	As Previously Reported	As Restated
December 31, 2001:		
Utility plant, net	$ 875,990	$ 871,637
Residual value payment obligation	41,117	40,838
Equities (deficit)	(324,611)	(328,685)
Year ended December 31, 2001:		
Lease revenue	$ 57,904	$ 53,672
Depreciation expense	27,607	27,449
Electric operating margin	80,625	76,551
Net margin	20,870	16,796

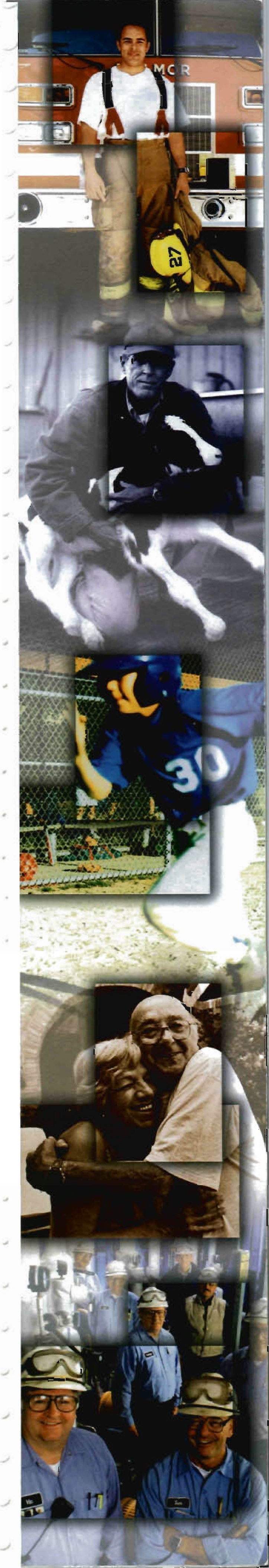
* * * * * *

Big Rivers
Electric Corporation

P.O. Box 24
201 Third Street
Henderson, KY 42419
(270) 827-2561

Your Touchstone Energy® Cooperative

Big Rivers
Electric Corporation



2001 Annual Report

The Power of Human Connections

Your Touchstone Energy® Cooperative

Michael H.Core, President & CEO, and William C. Denton, Chair of the Board

The Strength of Human Connections

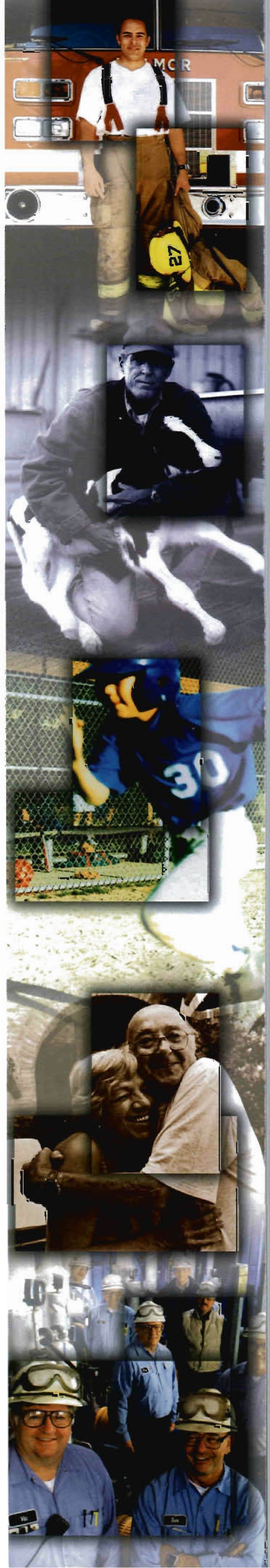
The power of human connections - never was that message, contained in the Touchstone Energy logo, more relevant than 2001. September 11 was one of those watershed events in life that touch each of us deeply and in many ways. But in the aftermath, it was people connecting and reconnecting with each other, supporting each other and deriving strength from each other that again illustrated when people work together, the whole is greater than the sum of the parts.

The power of human connections is the basis of the existence of Big Rivers and its three member systems, Jackson Purchase Energy Corporation, Kenergy Corp., and Meade County Rural Electric Cooperative Corporation. These four cooperatives exist for the purpose of providing the electricity service that powers the quality of life for the member-consumers in the 22-county joint service area in western Kentucky. With the more than 100,000 homes and businesses working together through these four cooperatives, low-cost, reliable electricity is delivered to power their lives.

The year 2001 was another successful year for Big Rivers, continuing to build financial strength in the organization, while providing still lower wholesale prices to the member systems. Net margins for the year were over $20.9 million, doubling from $10.4 million in 2000, and the cash position remained strong.

With a focus on our human connections, 2001 was the first year that the full effect of the 3 percent revenue discount on wholesale rates was passed on to the members. This reduction amounts to $3.7 million annually and continues through August of 2002. At present, the plans are to extend this reduction for at least 12 more months.

Your Touchstone Energy® Cooperative
The power of human connections



This helped to continue a downward trend of the average wholesale rate per megawatt-hour to the member systems for the seventh straight year to $33.44 per MWh in 2001, including transmission costs.

Not resting on its successes to date, Big Rivers completed a refunding of the $83.3 million 1985 series of the pollution control bonds. This eliminated the annual sinking fund requirement for those bonds and accelerates the retirement of the higher cost RUS note by a like amount. Present value of this transaction is approximately $7 million.

Focus on the members is also the driving force behind the four cooperatives to increase their efforts to adopt new technology to further improve the delivery of service. Thanks to Big Rivers' financial stability, a consultant has been employed to assist the cooperatives in creating a technology road map for implementing that goal. This effort will also serve to increase the options for further joint efforts to better serve the member-consumers.

As mentioned in last year's annual report, significant changes continue to keep the electricity industry in flux. Big Rivers and its member cooperatives are studying many important issues including regional transmission organization membership, the development of an energy policy for Kentucky and the state legislative activities regarding power plant siting and environmental issues. These and many other activities in 2001 are listed in the following pages. Our ability, strength, and focus to work on these and the other developing issues come from our view of the impact on the members at the end of the line. *The power of human connections* is truly our driver and we believe the key to our future.

Terminology Reference Guide

EPA:	Environmental Protection Agency
FERC:	Federal Energy Regulatory Commission
G&T:	Generation and Transmission Cooperative
HMP&L:	Henderson Municipal Power & Light
IPP:	Independent Power Producers
IRP:	Integrated Resource Plan
KPSC:	Kentucky Public Service Commission
LEC:	LG&E Energy Corp.
LEM:	LG&E Energy Marketing, Inc.
MISO:	Midwest Independent System Operator
NOx:	Oxides of Nitrogen NO & NO_2
OATT:	Open Access Transmission Tariff
RTO:	Regional Transmission Organizations
RUS:	Rural Utilities Service
SEPA:	Southeastern Power Administration
WKEC:	Western Kentucky Energy Corp.

William C. Denton
Chair of the Board

Michael H. Core
President & CEO

The Early Connections

The power of human connections began working in western Kentucky in October of 1937 when the first customer of an electric cooperative in Kentucky was energized on the lines of Henderson Rural Electric Cooperative Corporation (RECC). Soon thereafter, electric power was delivering on its promise of a better life to member-customers of Meade County RECC, Green River RECC (later changed to Green River Electric Corporation) and Union RECC (later merged with Henderson RECC to form Henderson-Union RECC). In 1984, Jackson Purchase Electric Cooperative became the fourth member of Big Rivers.

From the beginning of the cooperative program in western Kentucky, the need for a source of reliable and sufficient power supply became apparent if economic growth was to take place. The answer came in June 1961 when Big Rivers Electric Corporation became the next addition to the connection necessary to power the lives in the area. It was initially started by three member systems, Henderson-Union, Meade County and Green River. After legal battles with other utilities were resolved, ground was broken for the Robert A. Reid 65 megawatt (MW) plant in October of 1963 with power production beginning in early 1966.

Top: Marty Hite, Substation Technician, Big Rivers Electric, at Coleman EHV Substation. Bottom: Kenergy Administrative Assistant Kathy Spainhoward and Customer Service Representative Betty King, review a customer account issue.

Big Rivers
Electric Corporation

Big Rivers' Board of Directors
Seated in front are Leroy Humphrey and John Myers, Secretary/Treasurer. Back row, left to right: William Denton, Chair; James Sills, Vice-Chair; Lee Bearden, and Larry Elder.

Today's Connections

Today, Big Rivers Electric Corporation is known as a G&T (a generation and transmission cooperative) and is owned by its three member distribution systems - Jackson Purchase Energy Corporation, Paducah, Kentucky; Kenergy Corp., Henderson, Kentucky (a consolidation of Green River and Henderson-Union cooperatives) and Meade County RECC, Brandenburg, Kentucky. Big Rivers is headquartered in Henderson. Each of its three member systems has two representatives on the Big Rivers' board of directors.

Big Rivers owns the Reid Plant (now 130 MW) along with the Kenneth C. Coleman Plant (455 MW), the Robert D. Green Plant (454 MW), and the D.B. Wilson Unit No. 1 (420 MW) for a total of 1,459 MW of generating capacity. In addition, it has contractural rights to two units with a net capacity of 312 MW in an arrangement with Henderson Municipal Power and Light's (HMP&L) Station Two facility. Big Rivers' rights to this capacity is reduced by HMP&L's load requirements.

In 1998, Big Rivers leased the operations of its generation and its rights to the HMP&L facility to LG&E Energy Corp. (LEC) and certain of its affiliates (the LG&E Parties). In turn, Big Rivers provides power to its members from a power purchase agreement with LG&E Energy Marketing, Inc. (LEM), member allocations from Southeastern Power Administration (SEPA), and the wholesale power market.

Big Rivers owns, operates and maintains its nearly 1,200-mile transmission system, providing for transmission of power requirements to its member systems as well as to the LG&E Parties and other third-party entities served under its Open Access Transmission Tariff (OATT).

2001: Highlights of a Good Year

Financially, 2001 was one of the best years ever for Big Rivers. Margins doubled and the average price per MWh to our members continued its downward trend. But beyond the financials reported elsewhere in this annual report, day-to-day activities were very busy, if not frenzied. Some examples:

Kelly Nuckols, President/CEO
Jackson Purchase Energy Corp.

With the Governor's moratorium on new power plants and the appointment of a Kentucky Energy Policy Advisory Board to advise him, as well as ensuing regulatory activity, Big Rivers' staff was kept busy on policy and legislative agendas throughout much of 2001.

Activity was at a high level on the issue of regional transmission organizations (RTOs). The Federal Energy Regulatory Commission (FERC), under new leadership, stepped up its agenda on RTOs and seemed to move from a voluntary membership stance to a more mandatory bias. Big Rivers continues to consider its options in addressing which regional transmission organization it will likely join and the impacts on its current member systems and their consumers.

Dean Stanley, President/CEO
Kenergy Corp.

Big Rivers completed a complex transaction with Kenergy Corp. for backup power for an industrial customer that installed nearly 50 MW of co-generation capacity, the effect of which opened up 50 MW of capacity to Big Rivers for member growth needs.

In late 2000, Big Rivers, its board, and the member systems created a strategic initiative targeting the three areas of deregulation and energy policy, power supply and transmission. As can be seen in this annual report, Big Rivers was heavily involved in all three areas, monitoring and participating in discussions that will have an impact on the future of the electric utility industry.

Burns Mercer, President/CEO,
Meade County RECC

The approach to all three of these areas is to focus on the impact to our human connections, those people at the end of the line. Big Rivers is not a stock-held company, but its stakeholders are its member systems and their member consumers. Thus, as developments come forward in the three strategic areas, they are weighed as to their impact on the end consumers. We believe this focus will bring us to the answers needed to move forward in the rapidly changing electric industry.

Contract Administration and Regulatory Affairs

Because of extensive activities surrounding the contracts with Western Kentucky Energy Corp. (WKEC) and other LG&E Parties relating to Big Rivers' lease of the operation of its plants, as well as many other contractual relationships, special emphasis is placed on contract administration and regulatory affairs.

David Spainhoward
VP of Contract Admin.
& Reg. Affairs

During 2001, Big Rivers continued working with WKEC to comply with new government standards regarding nitrous oxides (NOx) that involves selective catalytic reduction units being placed on both units at Henderson Station Two and the Wilson unit. Other additional methods of reducing NOx emissions will be utilized on the other plants. The LG&E Parties and Big Rivers will spend over $143 million to bring Big Rivers and the Station Two units into compliance by May 2004. During the year, Big Rivers completed a thorough analysis of the condition of its owned and leased electric generating plants. This is the first thorough analysis performed since the LG&E Parties began operating the units in 1998.

On September 19, 2000, WKEC received a request for information pursuant to Section 114 of the Clean Air Act relating to construction projects and operational changes which have occurred at Big Rivers' Coleman Station, Reid Station and Wilson Station since 1978. The information request is 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 WKEC, Big Rivers is cooperating with WKEC in addressing this information request. Big Rivers has had no further correspondence with the EPA since the information was provided.

Energy policy has become an important topic in Kentucky. During 2001, Governor Paul Patton established an Energy Policy Advisory Board to plan and develop a coordinated statewide energy policy. The advisory board has identified opportunities for Kentucky in managing its future energy requirements. It has provided a forum for state agencies to raise and discuss energy use, energy demand, energy prices, and environmental impacts of energy, etc.

During 2001, the Energy Board advised the Governor on generation siting, environmental issues and a moratorium on electric generation permits. Concern over NOx credits is a hot topic. There have been two bills concerning NOx credits introduced since the General Assembly convened on January 8, 2002. Big Rivers also is closely following siting bills introduced in the legislature, two of which were pre-filed during 2001.

If Kentucky is to see an increase in construction of power plants, more transmission lines will have to be built. The Kentucky Public Service Commission (KPSC) initiated Administrative Case 387 to ensure that Kentucky continues to have adequate electric generation and reliable transmission at a reasonable cost to meet its future needs. During 2001, public hearings were held, briefs filed and the KPSC issued a 93-page Order. On December 20, 2001, the KPSC ordered Big Rivers and the other five major jurisdictional utilities in Kentucky to conduct joint investigations of the feasibility of shared ownership of future base load generation and the feasibility of coordinating scheduled maintenance of generating units. In addition, the KPSC ordered the utilities to analyze reserve margins, evaluate demand-side management and provide certain sales and purchase information.

Transmission

Travis Housley
VP of System Operations

Efforts continue on the national level to develop a transmission grid to facilitate the wholesale power market and the movement of electricity over multi-state regions. The FERC further changed, refined and defined its collective vision for RTOs during 2001.

Big Rivers has been carefully following these developments and investigating its options for joining an RTO at the appropriate time. Currently, as a cooperative, Big Rivers is a non-jurisdictional FERC utility. However, Big Rivers understands that it will, at some point, join an RTO in order to comply with FERC directives and stay a part of the interconnected grid system with other utilities in RTOs. In reviewing its options, Big Rivers has been considering a public power regional transmission group, as well as the Midwest Independent System Operator (MISO). While Big Rivers supports the development of RTOs, it believes that cooperatives should not be penalized for joining RTOs.

Activity associated with the wholesale power market has created interest in new power plants and has had an effect on the operations of Big Rivers. In 2001 alone, six system studies were made at the request of independent power producers (IPPs) looking at interconnecting prospective plants to the Big Rivers' transmission system. Most likely, these plants would market their power outside of Kentucky and transmission upgrades would require more than just interconnection.

Internal to the Big Rivers' transmission system in 2001 was the installation of eight new member delivery points. This required the construction of 19 miles of new line. In addition, modifications to the transmission system were made to accommodate the installation of a 50-MW co-generation facility for Willamette Industries, Inc., a large industrial customer of Kenergy Corp.

During 2001, an additional 69-kilovolt interconnection was completed with the city of Henderson's transmission system. Also, the replacement of seven 161-kilovolt circuit breakers was completed at two Big Rivers' substations that increased the fault interrupting capability of the transmission system. Four SCADA remote terminal units were designed, purchased and installed in 2001. Big Rivers is working with consultants to design a new emergency back-up operations center, including a new computer and software system.

The engineering and operations area also began working in 2001 with the member-systems to study the feasibility of value- sharing through the application of technologies common to both Big Rivers and the members. A consultant has been hired to assist in the development of a technologies road map to integrate more new technologies to improve the service to the member-consumer at the end of the line.

Power Supply

2001 was the second straight year Big Rivers did not hit a new peak demand. Mild weather in both the summer and winter combined with a slowing economy and a cogeneration project coming on line reduced member purchases from 2000 totals. However, making up for this was nearly a doubling of sales to non-members.

Bill Blackburn
VP of Power Supply

In 2000, member sales were just over 3.5 million MWh. In 2001, the members purchased 3.28 million MWh. Most of that reduction came from the mid-year installation of a cogeneration facility at Willamette Industries, a customer of Kenergy. Using excess steam from its paper production, Willamette Industries is able to generate nearly 50 MW of its 85-plus MW load. Big Rivers and Kenergy worked diligently with Willamette Industries to provide back-up and other ancillary power and services to support the co-generation facility.

While there is a loss of member sales as a result of this transaction, there is a gain in the power available from Big Rivers to serve its growing member needs, as well as to sell into the wholesale market until such growth materializes. The additional 50 MW of returned capacity moves the need for more power supply resources out an additional four years to approximately 2010. Beginning in 2011 and again in 2012, Big Rivers will be entitled to additional resources under its power supply contract with LEM. Also, Big Rivers through allocations to the members has a power purchase agreement with SEPA for low-cost peaking power. Because of the Willamette transaction and the contract with LEM, Big Rivers has a solid long-term, low-cost base load power supply for at least the next 15 years.

Sales to non-members and special sales to members nearly doubled in 2001. A stronger "shoulder" months market helped to increase the volume of sales in this category from approximately 600,000 MWh in 2000 to about 1.1 million MWh. The effect of this was to add $16 million, including transmission revenue, to Big Rivers' margins for 2001.

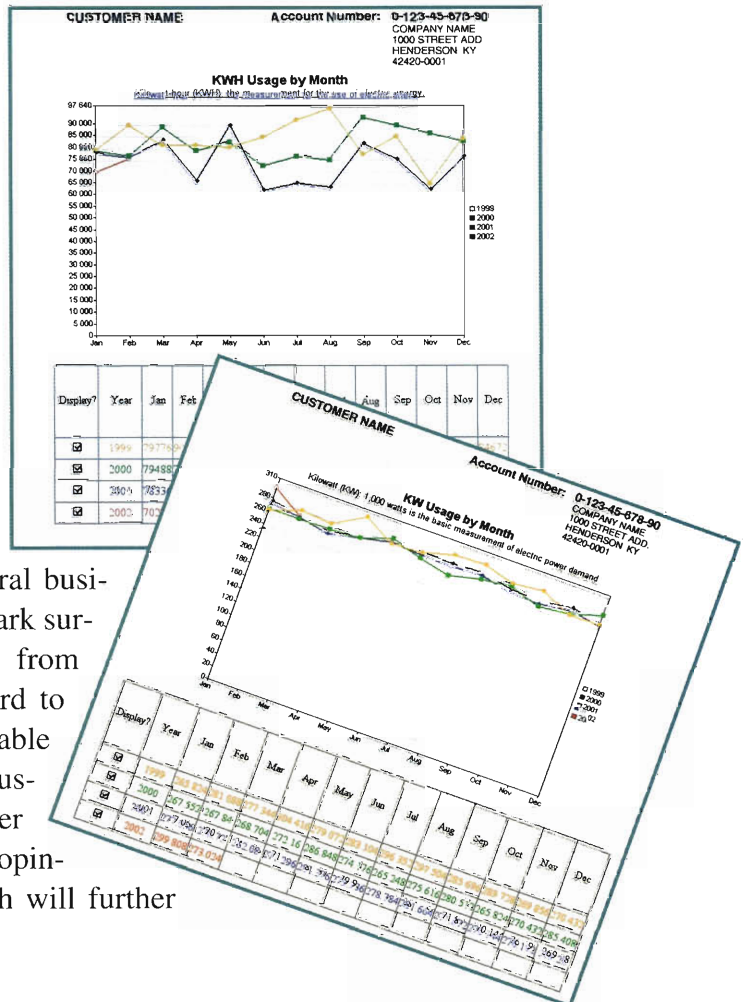
The Power Supply Department continues to work with the members in providing various power supply options for new economic development under the current Big Rivers' tariff. In addition, work is underway on a new integrated resource plan (IRP) to be filed with the KPSC in 2002. A new load forecast study, formerly referred to as a power requirements study, was completed in 2001 and will serve as the basis for the IRP.

Marketing

Richard Beck
VP of Marketing

Improved efficiencies and the innovative use of resources have allowed Big Rivers and its member systems the opportunity to implement value-added services for customers, while continuing to control costs.

In 2001, the first phase of Internet-based customer information was implemented. Customers of Jackson Purchase, Meade County, and Kenergy now can see their energy-use history on the Internet by accessing the utility web site. Information such as profile data, accounting billing data, account history, kilowatt-hour (kWh) usage by month, kilowatt (kW) usage by month, and electric bill by month easily can be obtained from the customer's home computer.



Customer needs and expectations are important to Big Rivers and its member cooperatives. To identify those needs and to add services that represent value to customers, three diverse surveys were implemented during 2001. The commercial and industrial survey was designed to identify the business expectations of our commercial and industrial customers, as well as to gather attitude and opinion information regarding several business and industry topics. A comparative benchmark survey was conducted with residential customers from approximately 12 utilities in the region in regard to overall customer satisfaction. The results will enable our member systems to rank their respective customer satisfaction ratings against those of the other utilities. In addition, the customer attitude and opinion survey was redesigned and expanded, which will further improve our customer focus.

Big Rivers and its member systems continue to build brand recognition for Touchstone Energy® through increased advertising programs. Efforts continue with developing strategic alliances with other G&Ts to share market costs. These alliances have resulted in greater economic efficiencies while reaching a broader market. *The power of human connections* will play a vital role in explaining to customers the advantages of being a cooperative member as the electric utility industry continues to experience change.

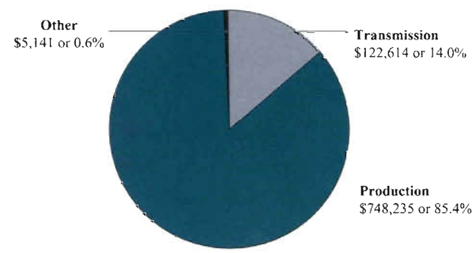
Your Touchstone Energy® Cooperative

Financial

Mark Hite
VP of Finance &
Administrative Services

The year 2001 continued to demonstrate that Big Rivers is building financial strength. The net margins for year 2001 were $20.87 million, compared to $10.38 million in 2000 and $4.09 million in 1999. The improved results are primarily attributable to higher non-member sales margins ($3.88 million over 2000, including transmission revenue). Additional margins came from income recognized from certain capital expenditures made to Big Rivers' electric generating facilities by WKEC ($4.93 million over 2000) and less interest expense incurred on the variable rate $142,100 pollution control bonds ($1.99 million below 2000).

Electric Utility Plant Assets*
(Thousands of Dollars)



*$875,990, Net of Accumulated Depreciation Of $712,093, Or $1,588,083 Historical Cost

Big Rivers refunded its $83.3 million County of Ohio, Kentucky, Pollution Control Refunding Revenue Bonds, Variable Rate Demand Bonds, Series 1985, on August 1, 2001, with the Series 2001A, Periodic Auction Reset Securities, effectively eliminating the $5 million annual sinking fund requirement and extending the maturity date from October 1, 2015 to October 1, 2022. The retirement of the higher cost 5.75 percent New RUS Note was accelerated by a like amount. The 5.75 percent present value benefit is estimated to be $6.23 million. Moody's has assigned a rating to these securities of Aaa and Standard & Poor's has assigned a rating of AAA, based upon a financial guarantee provided by Ambac Assurance Corporation. Also, Moody's assigned an underlying rating of Baa3 based upon a review of Big Rivers as of June 26, 2001.

The preceding three years have been good ones for Big Rivers. Although the regional weather was unusually mild during 2001, higher non-member sales volume more than overcame lower member sales volume, resulting in a 6.16 percent increase in MWh sales for 2001. Big Rivers' wholesale rates to its members are among the lowest of all G&Ts in the nation, averaging $33.44 per MWh during 2001 ($35.27 for rural and $30.59 for large industrial). By mid-2002, Big Rivers will seek KPSC approval to extend the member revenue discount adjustment, which became effective September 2000. That discount resulted from the $64 million reduction of RUS debt from the completion of a sale-leaseback in 2000.

Adjusted for the Willamette cogeneration facility, 2001 member sales were essentially unchanged from last year. Still, MWh sales to Big Rivers' members have increased an average of 4.09 percent each of the last seven years. While the current market price of power is significantly lower than experienced in 2001, Big Rivers continues to project net margins for 2002. However, our plan of funding capital expenditures out of cash likely will result in a negative net cash flow for the year 2002.

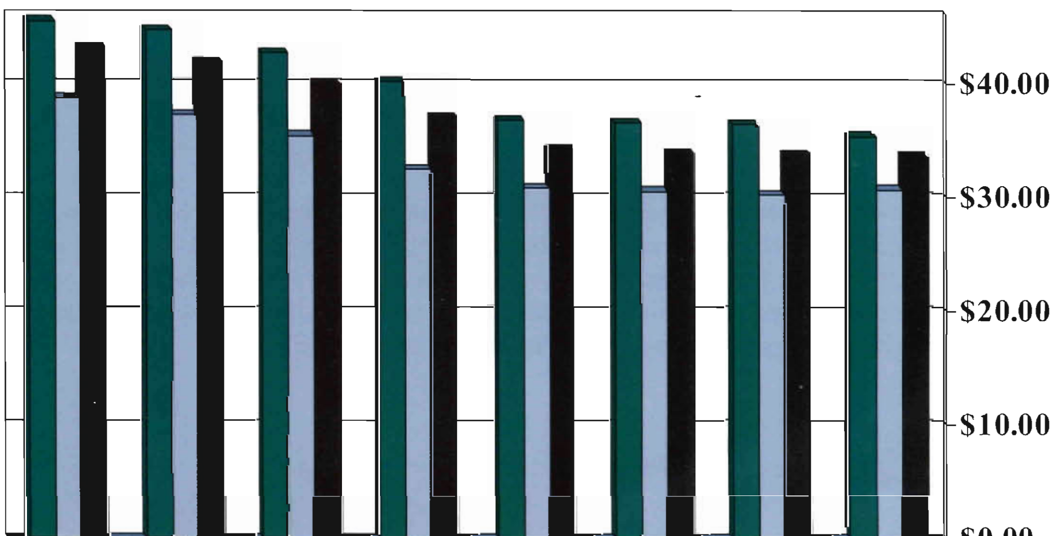
Owned Electric Generation

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 & Natural Gas	65	1966
Combustion Turbine...	Oil	65	1976
D.B. Wilson Unit No. 1...........	Coal	420	1986
TOTAL OWNED		**1,459**	

Although leased to LEC affiliates, Big Rivers continues to own its 1,459 megawatts of electric generating facilities.

Member Wholesale Power Rates

(Dollars/Megawatt-hour)



	1994	1995	1996	1997	1998	1999	2000	2001
■ Rural	$45.58	$44.76	$42.72	$40.17	$36.72	$36.44	$36.25	$35.27
□ Large Industrial	$38.72	$37.27	$35.35	$32.43	$30.70	$30.47	$30.12	$30.59
■ Average	$43.07	$41.92	$39.87	$36.94	$34.11	$33.78	$33.58	$33.44

Big Rivers' wholesale rates to its members averaged $33.44 per MWh in 2001. As illustrated, rates have continued to decline the past seven years, while sales to members have increased at an annual compound rate of 4.09 percent; 3.50 percent for rural loads and 5.07 percent for large industrial loads.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Big Rivers Electric Corporation:

We have audited the accompanying balance sheet of Big Rivers Electric Corporation (the "Company") as of December 31, 2001, and the related statements of operations, equities (deficit) and cash flows for the year then ended. 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 audit. The balance sheet of the Company as of December 31, 2000, and the related statements of operations, equities (deficit) and cash flows for the two years ended December 31, 2000, were audited by other auditors whose report, dated March 23, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2001 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

Indianapolis, Indiana
February 28, 2002

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

ASSETS	2001	2000
Utility plant, net	$ 875,990	$ 864,060
Restricted investments under long-term lease	158,014	153,707
Other deposits and investments, at cost	6,812	7,385
Current assets:		
Cash and cash equivalents	59,209	30,434
Accounts receivable	19,580	21,788
Materials and supplies inventory	550	626
Investments	-	34,003
Prepaid expenses	471	405
Total current assets	79,810	87,256
Deferred charges and other	33,919	33,065
	$ 1,154,545	$ 1,145,473

EQUITIES (DEFICIT) AND LIABILITIES	2001	2000
Capitalization:		
Equities (deficit)	$ (324,611)	$ (345,481)
Long-term debt	1,094,214	1,159,214
Obligations related to long-term lease	147,286	142,781
Other long-term obligations	1,491	1,843
Total capitalization	918,380	958,357
Current liabilities:		
Current maturities of long-term obligations	27,157	20,139
Voluntary prepayment of long-term debt	38,388	-
Purchased power payable	7,460	13,644
Accounts payable	5,108	8,659
Accrued expenses	3,377	7,224
Accrued interest	11,515	17,962
Total current liabilities	93,005	67,628
Deferred credits and other:		
Deferred lease revenue	27,275	20,890
Deferred gain on sale-leaseback	70,470	73,176
Other	45,415	25,422
Total deferred credits and other	143,160	119,488
Commitments and contingencies		
	$ 1,154,545	$ 1,145,473

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (Dollars in Thousands)

	2001	2000	1999
Power contracts revenue	$ 155,488	$ 148,364	$ 150,294
Lease revenue	57,904	54,014	54,265
Total operating revenue	213,392	202,378	204,559
Operating expenses:			
Operations:			
Power purchased and interchanged	88,570	81,834	86,288
Transmission and other	14,151	12,554	12,676
Maintenance	2,439	2,362	2,951
Depreciation	27,607	27,290	27,589
Total operating expenses	132,767	124,040	129,504
Electric operating margins	80,625	78,338	75,055
Interest expense and other:			
Interest	66,508	71,814	71,908
Interest on obligations related to long-term lease	7,679	5,417	-
Other, net	101	65	69
Total interest expense and other	74,288	77,296	71,977
Operating margin	6,337	1,042	3,078
Non-operating margin:			
Interest income on restricted investments under long-term lease	10,187	7,168	-
Interest income and other	4,346	2,173	1,015
Total non-operating margin	14,533	9,341	1,015
Net margin	$ 20,870	$ 10,383	$ 4,093

See notes to financial statements.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (Dollars in Thousands)

			Other Equities	
	Total Equities (Deficit)	Accumulated Deficit	Donated Capital and Memberships	Consumers' Contributions to Debt Service
Balance at January 1, 1999	$ (359,957)	$ (364,402)	$ 764	$ 3,681
Net margin	4,093	4,093	-	-
Balance at December 31, 1999	(355,864)	(360,309)	764	3,681
Net margin	10,383	10,383	-	-
Balance at December 31, 2000	(345,481)	(349,926)	764	3,681
Net margin	20,870	20,870	-	-
Balance at December 31, 2001	$ (324,611)	$ (329,056)	$ 764	$ 3,681

See notes to financial statements, including Note 1 regarding Patronage Capital.

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999 (Dollars in Thousands)

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net margin	$ 20,870	$ 10,383	$ 4,093
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:			
Depreciation and amortization	28,658	31,627	31,944
Increase in restricted investments under long-term lease	(4,307)	(7,060)	-
Amortization of deferred gain on sale leaseback	(2,706)	(1,874)	-
Increase in RUS ARVP Note	4,074	3,948	3,732
Increase in New Rus Promissory Note	17,574	-	-
Increase in obligations under long-term lease	4,505	7,184	-
Changes in certain assets and liabilities:			
Accounts receivable	2,208	(8,125)	(49)
Materials and supplies inventory	76	80	(160)
Prepaid expenses	(66)	316	660
Deferred charges	1,395	(1,469)	(2,604)
Other long-term obligations	(352)	(695)	(552)
Purchased power payable	(6,184)	6,647	(3,906)
Accounts payable	(3,551)	3,813	1,705
Accrued expenses	(10,295)	18,805	(891)
Deferred lease revenue	6,385	(9,933)	(23,829)
Other, net	(6,152)	(4,219)	(7,041)
Net cash provided by (used in) operating activities	52,132	49,428	3,102
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in held-to-maturity securities	-	(34,003)	(8,000)
Restricted investments under long-term lease	-	(146,647)	-
Proceeds from maturity of investments	34,003	8,000	-
Capital expenditures, net	(13,040)	(11,112)	(8,782)
Other deposits and investments	573	894	(591)
Net cash (used in) provided by investing activities	21,536	(182,868)	(17,373)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale-leaseback	-	211,169	-
Costs of bond refunding	(3,300)	-	-
Principal payments on long-term obligations	(41,593)	(72,690)	(29,297)
Proceeds from LEM Advances	-	11,321	25,626
Net cash provided by financing activities	(44,893)	149,800	(3,671)
Net increase (decrease) in cash and cash equivalents	28,775	16,360	(17,942)
Cash and cash equivalents, beginning of year	30,434	14,074	32,016
Cash and cash equivalents, end of year	$ 59,209	$ 30,434	$ 14,074
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ 54,470	$ 49,035	$ 72,627
Cash paid for taxes	$ 4,342		

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 the power needs of its three member distribution cooperatives (excluding the power needs of the Aluminum Smelters), Kenergy Corp, Jackson Purchase Energy Corporation and Meade County RECC, 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. Big Rivers has wholesale power contracts with each of its members which require the members to buy and receive from Big Rivers all power and energy requirements, other than for the Aluminum Smelters. 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").

Big Rivers Chapter 11 reorganization was confirmed effective July 15, 1998 (the "Effective Date"). In accordance with Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", at the Effective Date the Company recorded its liabilities at fair value and, accordingly, reflected an extraordinary loss in the amount of $54,727.

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 Statement of Financial Accounting Standards ("SFAS") No. 13, Big Rivers' revenue from the Lease Agreement (described in Note 2) 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
2002	$ 52,332
2003	52,332
2004	52,332
2005	52,332
2006	52,332
Thereafter	671,531
	$ 933,191

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 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 Payment (see Note 2). Any differences in such amounts are amortized to lease revenue in the accompanying financial statements. As of December 31, 2001 and 2000, the Company has recorded $34,530 and $25,166, respectively for such additions in utility plant, and $6,363 and $1,429 in 2001 and 2000, respectively, as related lease revenue in the accompanying financial statements.

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, which range from 1 to 33 years. 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 2001, 2000 and 1999, the average composite depreciation rates were 1.76%, 1.78% and 1.82%, 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.

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.

Investments - In 2000, the Company purchased several short-term money market investments totaling $34,003 with maturity dates between three months and one year with a weighted average interest rate of 6.84%. These investments were sold during 2001.

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 consolidated Federal 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 be not less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income. In accordance with the bankruptcy plan, all patronage capital claims were extinguished and discharged on July 15, 1998. During 2001, the Company made a $285,573 patronage allocation to its three member distribution cooperatives based on 2000 alternative minimum taxable patronage-sourced income in accordance with its bylaws. In 2002, the Company anticipates a patronage allocation to its members based on such calculations for tax year 2001 of approximately $21,018.

New Accounting Pronouncements - SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", was effective for the Company on January 1, 2001. This statement, as amended by SFAS No. 138 and interpreted, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Management has reviewed the requirements of SFAS 133, 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 133 and, therefore, are not required to be recognized at fair value in the financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. Management has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," was issued in August 2001 and addresses accounting for and reporting of the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 31, 2001. Management does not expect the adoption of SFAS No. 144 will have a significant impact on financial position or results of operations.

Reclassifications - Certain amounts in the prior year financial statements have been reclassified to conform with current year presentation.

2. LG&E LEASE AGREEMENT

As of July 15, 1998, a transaction with LG&E Energy Corp. and certain of its affiliates was entered into ("Lease Agreement"), whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation ("WKEC"), a wholly-owned subsidiary of LG&E Energy Corporation. Pursuant to the Lease Agreement, WKEC operates the generating facilities and maintains title to all energy produced. Throughout the lease term, in order to fulfill Big Rivers' 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 LG&E Energy Corporation, 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. As part of the Lease Agreement, WKEC also purchased certain property, inventory and other assets necessary for the operation of the generation facilities from Big Rivers. 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.

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. 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. From 2002 through 2011, LEM will reimburse Big Rivers approximately $171,503 for the margins expected from the Aluminum Smelters, being defined as the net cash flows that Big Rivers anticipated receiving over the term of the Lease Agreement 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, up to predetermined annual maximum amounts. This cumulative maximum is not expected to exceed $148,000 over the Lease Agreement. At the end of the lease term, Big Rivers is obligated to fund a "Residual Value Payment" to LG&E Energy Corporation for such capital additions during the lease, currently estimated to be $126,000 (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 and the Company will be required to submit another Residual Value Payment to LG&E Energy Corporation for the undepreciated value of WKEC's 80% share of these assets at the end of the lease, currently estimated to be $19,000. 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 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 receives 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, derived from Arbitrage must be divided as follows: one-third, adjusted for member sales volume and 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:

	2001	2000
Classified plant in service:		
Electric plant - leased	$ 1,373,882	$ 1,344,576
Transmission plant	207,875	196,250
General plant	3,858	11,831
Other	-	67
	1,585,615	1,552,724
Less accumulated depreciation	712,093	689,926
	873,522	862,798
Construction in progress	2,468	1,262
Utility plant, net	$ 875,990	$ 864,060

Interest capitalized for the years ended December 31, 2001, 2000 and 1999, was not significant to the financial statements.

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 $2,706 and $1,874 in 2001 and 2000, respectively. Principal payments begin in 2009.

5. LONG-TERM OBLIGATIONS

A detail of long-term debt is as follows at December 31:

	2001	2000
New RUS Promissory Note, stated amount, $900,436, stated interest rate of 5.75%, recorded at fair value, with an interest rate of 5.81%, maturing July 2021.	$ 895,031	$ 903,572
RUS ARVP Note, stated amount $257,435, no stated interest rate, recorded at fair value, with interest imputed at 5.81%, maturing December 2023.	72,515	68,870
LEM Advances, interest rate of 6.98%, payable in monthly installments from August 2000 through July 2003.	31,058	45,428
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023.	18,704	19,016
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 2.81% and 4.21% in 2001 and 2000 respectively), maturing in October 2022.	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 2.69% and 4.21% in 2001 and 2000 respectively), maturing in June 2013.	58,800	58,800

Total long-term debt	1,159,408	1,178,986
Current maturities	26,806	19,772
Voluntary prepayments	38,388	
Total long-term debt, net of current maturities and prepayments	$ 1,094,214	$ 1,159,214

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

Year	Amount
2002	$ 26,806
2003	10,903
2004	14,746
2005	25,262
2006	29,288
Thereafter	1,052,403
Total	$ 1,159,408

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 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 liquidity facilities 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 Advances - Beginning in August 1998 (the first month after the Effective Date) and ending in July 2000, LEM made payments totaling $50,000 to the RUS on behalf of the Company. The Company is now making monthly payments which will ultimately total $60,000 to LEM through July 2003. The payments made by LEM to the RUS were applied to the New RUS Promissory Note. The Company is recognizing interest expense over the five-year life of the LEM Advances at 6.98% per annum.

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 Liabilities - During 1997, Big Rivers terminated two unfavorable coal contracts. Of the amounts settled, $6,000 was paid upon initial settlement, $367 in 2001, and $695 in 2000. At December 31, 2001, the Company has a remaining liability of $1,842 payable over the next seven years, of which $351 is included in current maturities of long-term obligations.

6. RATE MATTERS

The rates charged to Big Rivers' members consist of a billing 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 billing demand 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 September 1, 2000, the KPSC approved Big Rivers' request for a two-year ($3,680 annually) revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to them. The extent to which Big Rivers requests KPSC approval to extend the two-year period depends upon its planned environmental compliance costs and its overall financial condition.

Pursuant to the Lease Agreement, LEM supplies the energy necessary to comply with the Oglethorpe Power Corporation ("Oglethorpe Power") contract. In turn, Big Rivers remits the net revenues from the contract to LEM. The Oglethorpe Power contract is for the sale of 103 MW of power through July 31, 2002.

In accordance with the Lease Agreement, LG&E Energy Corporation operates certain generating facilities owned by the City of Henderson, Kentucky (the "City"), which were operated by Big Rivers prior to the Effective Date, pursuant to an agreement between the City and Big Rivers. The Company retains the obligation to provide transmission services under this agreement.

7. INCOME TAXES

The components of the net deferred tax assets as of December 31, 2001 and 2000 were as follows:

	2001	2000
Deferred tax assets:		
Net operating loss carryforward	$ 110,388	$ 118,435
Alternative minimum tax credit carryforwards	3,319	3,319
Sale-leaseback	108,729	105,083
Lease Agreement	2,763	6,125
Other accruals	-	198
Total deferred tax assets	225,199	233,160
Deferred tax liabilities:		
Fixed asset basis difference	(43,075)	(52,046)
Other accruals	(138)	-
Total deferred tax liabilities	(43,213)	(52,046)
Net deferred tax assets (pre-valuation allowance)	181,986	181,114
Valuation allowance	(178,667)	(177,795)
Net deferred tax asset	$ 3,319	$ 3,319

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, 2001, Big Rivers had a non-patron net operating loss carryforward of approximately $269,240 for tax reporting purposes expiring 2003 through 2012, and an alternative minimum tax credit carryforward of approximately $3,319, 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 is approximately $3,319 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.

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:

	2001	2000
Projected benefit obligation	$ 10,410	$ 8,233
Fair value of plan assets	8,640	7,356
Funded status	$ (1,770)	$ (877)
Prepaid pension cost	$ 449	$ 157

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

	2001	2000	1999
Benefit cost	$ 682	$ 453	$ 478
Employer contribution	974	-	-
Benefits paid or transferred	302	431	2,848

Assumptions used to develop the projected benefit obligation were:

	2001	2000	1999
Discount rates	7.5 %	7.5 %	7.5 %
Rates of increase in compensation levels	4.0	4.0	4.0
Expected long-term of return of assets	8.5	8.5	8.5

At December 31, 2001, there was a change in the assumed form of payment used to calculate the projected benefit obligation from a monthly benefit payable for a participant's lifetime with 120 guaranteed payments to a lump sum payment.

10. 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 employees. 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.

The discount rate used in computing the postretirement obligation was 7.5% for 2001 and 2000. A health care cost trend rate of 8.5% in 2001 declining to 5.5% in 2007 was utilized.

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

	2001	2000
Total benefit obligation	$ (2,573)	$ (2,086)
Unfunded accrued postretirement cost	(3,345)	(3,486)

The components of net periodic postretirement benefit costs for the years ended December 31 were as follows:

	2001	2000	1999
Benefit cost	$ 159	$ 108	$ 196
Benefits paid	238	208	209

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 $169 and $139 at December 31, 2001 and 2000, respectively, and the postretirement expense recorded was $30, $25 and $14 for 2001, 2000 and 1999, respectively.

11. RELATED PARTIES

	2001	2000	1999
Members:			
Kenergy Corp	$ 79,086	$ 82,254	$ 81,349
Jackson Purchase Energy Corporation	21,789	22,765	22,540
Meade County RECC	13,698	13,880	13,290
Non-members	31,531	20,588	24,739
Lease revenue	57,904	54,014	54,265
Other revenue	9,384	8,877	8,376
	$ 213,392	$ 202,378	$ 204,559

In July 1999, Green River Electric Corporation and Henderson Union Electric Cooperative consolidated, forming a single member doing business as Kenergy Corp. All sales to the two former members are reflected as sales to Kenergy Corp.

At December 31, 2001 and 2000, Big Rivers had accounts receivable from its members of $12,902 and $12,425, respectively.

12. 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 is involved in an ongoing dispute with its bankruptcy examiner regarding the hourly fees charged and the bonus sought by the examiner. The hourly fees for which the examiner is seeking final approval have already been paid by Big Rivers and the issue is how much of those fees, if any, should be refunded to Big Rivers. The $2,110 bonus awarded to the examiner by the bankruptcy court was reversed by the district court, but management anticipates that the examiner will appeal further and seek reinstatement of the bonus. If the examiner is successful in whole or in part in defending his hourly fees or having his bonus reinstated, he may seek additional compensation for himself and his counsel for the time expended in doing so. While the final resolution of this matter cannot be determined, management believes that the final outcome will not have a material adverse effect on the Company's results of operations or its financial position.

In 1999, the Company received a letter from WKEC claiming that Big Rivers breached warranties and representations in the agreements among Big Rivers, WKEC, and other LG&E Energy Corporation subsidiaries or affiliates entered into a connection with the Lease Agreement ("Transaction Documents"). The claim is in regard to the status of Big Rivers' compliance with a water discharge permit for Wilson Station on the date of the closing of that transaction. On February 28, 2002, Big Rivers received from WKEC a notice alleging defaults under the terms of one of the Transaction Documents arising out of the circumstances surrounding this claim. Big River's management disputes these claims. No accruals for these contingencies have been recorded in the accompanying balance sheets as there is currently not sufficient information available to reasonably estimate any such amounts. While the final resolution of this matter cannot be determined, management believes that the final outcome will not have a material adverse effect on the Company's results of operations or its financial position.

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Big Rivers
Electric Corporation

Post Office Box 24
201 Third Street
Henderson, Kentucky 42419
(270) 827-2561
www.bigrivers.com

Big Rivers
Electric Corporation

2000 Annual Report
Focusing On The Future

Your Touchstone Energy® Cooperative

Michael H. Core, President & CEO, and William C. Denton, Chair of the Board

For Big Rivers, the end of the 1990s was a time of restructuring and stabilization The company was starting down the path of post-bankruptcy with a new organization and a new business partnership With the advent of Year 2000, the organization's attention turned to focusing on the future and the opportunities and challenges that lie ahead

Certainly the year 2000 was a successful year for Big Rivers in terms of continuing on the path of financial stablilzation and growth that began with the implementation of the reorganization in 1998 This is evidenced by the growth in margins from \$4 1 million in 1999 to \$10 4 million in 2000. Big Rivers' cash position also continues to improve with each year.

In 2000, Big Rivers was also able to begin providing a three percent wholesale power cost reduction to its member systems through a discount credit provision in its tariff This reduction amounts to \$3 7 million annually and is for a 24-month period at which time it will be evaluated for possible extension The reduction is the result of the completion of a defeased sale-leaseback transaction on the Wilson and Green generating stations that allowed Big Rivers to reduce its debt to Rural Utilities Service (RUS) by \$64 0 million Since 1994, Big Rivers, through its reorganization and other efforts, has reduced wholesale rates to its member systems by 22 03 percent, averaging \$33 58 per MWh in 2000

With these accomplishments and financial stability in hand, Big Rivers is now focusing on the future The member systems, board and staff of Big Rivers used 2000 to set strategic initiatives for the future of the generation & transmission (G&T) cooperative These cover the three areas of deregulation, power supply and transmission The focus in all of these areas will be developing a set of options that will allow Big Rivers the flexibility in dealing with ever changing issues in all three areas Though not an easy task, it is necessary in order to continue to provide the stability and value to its member systems and creditors

We, as with the rest of the electric utility industry, are unsure of the future. It will not be a destination, but rather a continuing journey with unforeseen changes The key to making the journey and not falling along the wayside will be adaptability We believe Big Rivers will have the financial base and flexibility required for adapting to changes and look forward to the journey

Michael Core *William Denton*

Member Cooperative CEOs
Left to right are Burns Mercer, President & CEO, Meade County RECC; Dean Stanley, President & CEO, Kenergy Corp.; and Kelly Nuckols, President & CEO, Jackson Purchase Energy Corporation.

Big Rivers Electric Corporation, located in Henderson, Kentucky, is a generation and transmission cooperative owned by three member distribution cooperatives that serve approximately 101,000 member consumers in 22 counties in western Kentucky. The three cooperatives are Jackson Purchase Energy Corporation, headquartered in Paducah; Kenergy Corp., headquartered in Henderson, and Meade County Rural Electric Cooperative Corporation, headquartered in Brandenburg. Each member system has two members on Big Rivers' board.

In July of 1998, as part of a reorganization effort, Big Rivers leased the operation of its 1,459 MW generation and assigned its rights to another 225 MW in the Henderson Municipal Power and Light's Station Two (HMP&L) facility to LG&E Energy Corp (LEC) and certain of its affiliates. Big Rivers now fulfills its power supply responsibilities to the member systems from a power purchase agreement with LG&E Energy Marketing Inc (LEM), member allocations from Southeastern Power Administration (SEPA) and the wholesale power market.

Big Rivers owns, operates and maintains its transmission system, providing transmission to its member systems as well as to LEC and other third-party entities served under its Open Access Transmission (OATT).

Meade County RECC's Lineman Keith Ditto and Commercial & Industrial Representative David Pace utilize the newly-installed computerized mapping system.

It was a successful year in many ways In spite of mild winter and summer weather in 2000, Big Rivers was successful in improving margins by $6 3 million over 1999, from $4 1 million to $10 4 million This was due in large part to the ability to sell power not needed by the members under the LEM power purchase agreement to the wholesale market

Big Rivers Board of Directors
Seated are John Myers, Secretary/Treasurer, Lee Bearden, and James Sills, Vice-Chair. Standing are William Denton, Chair, Leroy Humphrey, and Larry Elder.

Big Rivers was also able to complete a defeased sale-leaseback transaction in 2000 on its Wilson and Green Units It was nearly 16 months of work, but the wait was worth it as $64 0 million was paid on the RUS debt which resulted in an annual savings of $3 7 million to Big Rivers. Big Rivers then filed with the Kentucky Public Service Commission (KPSC) to flow that savings on to its member systems through a discount provision in the existing Big Rivers' wholesale tariff The Commission approved this for a 24-month period beginning September 1, 2000, and Big Rivers will revisit the discount at that time to review if it can be extended for a longer period Big Rivers has contractual obligations with LEC to participate in the NOx reductions and it could mean some or all of the $3 7 million may be needed for that commitment

In focusing on the future, Big Rivers' board, staff and member systems have created a strategic initiative targeting the three areas of deregulation, power supply and transmission. The board has charged Big Rivers' management with carefully monitoring legislation, government policy development, regulatory developments, new load growth, wholesale power markets and industry trends in each of these three areas Further, Big Rivers' management will develop and present various options that respond to the changes taking place in each of these areas

Creativity and flexibility are needed in developing the answers to the challenges facing the generation and transmission segment of the electric utility industry as the Commonwealth of Kentucky and the country struggle with developing an energy policy, new sources of energy and the restructuring of the industry Big Rivers believes it has put into place an organization that has the ability to be creative and flexible.

TRANSMISSION

TRAVIS HOUSLEY
VP OF SYSTEM OPERATIONS

Virtually the entire national electric transmission grid is in a state of transforming itself from the traditional model of a control area with interconnections for reliability purposes to one of large regional transmission operations with the merchant function of moving power through many control areas. This transition is the key to a properly functioning deregulated wholesale power market as well as any form of retail deregulation

Big Rivers has discussed with other entities what regional transmission group it might join, as well as monitoring the development of other such groups nearby Big Rivers has been actively involved with other G&Ts as well as public power entities in the possible formation of the public power regional transmission group While Big Rivers is not Federal Energy Regulatory Commission (FERC) jurisdictional, it believes that being a member of some regional transmission group will be necessary, as investor-owned utilities are moving to form such groups in order to comply with FERC directives

In 2000, Big Rivers continued the capital investment necessary to meet the growing demand of native load. Such projects included. three 69 kV lines totaling 7 1 miles were designed and constructed to serve members' new delivery point substations, two additional 69 kV lines totaling 14 miles were designed and right-of-way acquisition work initiated to serve two more new delivery points, and, capacity additions and equipment replacements were made to six 161 kV to 69 kV substations

Daryl Wheat, Substation Technician (bottom left) and Jerry Mitchell, Substation Laborer, Big Rivers Electric, perform power factor test on Unit #3 at Coleman Station.

BILL BLACKBURN
VP OF POWER SUPPLY

Mild winter and summer weather in 2000 resulted in no new peak demand level for the Big Rivers' system. The mild weather also held the growth in MWh sales to members at only slightly over two percent. The five prior years had average MWh sales growth of nearly seven percent annually. Big Rivers' system peak demand was set in July 1999 at 664 MW.

Big Rivers continued to work with a large industrial customer of one of the member systems on a large co-generation project. This project will be operational in the summer of 2001 and will free up approximately 50 MW to Big Rivers that can be sold on the market until such time it is needed to meet new customer growth.

In order to continue to supply the member distribution cooperatives with reliable low-cost power, it is very important to forecast peak demands and energy requirements for Big Rivers. Therefore, a new load forecast study will be performed in 2001 to determine the rate of growth for Big Rivers and its member distribution cooperatives.

In 2000, Big Rivers continued working with Reliant Energy of Houston, Texas, as its market interface partner. Through Reliant, Big Rivers bought and sold power as its load and market conditions dictated. With native load demand down in 2000 and market prices strong, the Power Supply Department was able to contribute significantly to Big Rivers' margins for the year.

Marty Hite, Substation Technician, Big Rivers Electric, reading ammeter at Coleman EHV Substation.

Wholesale power costs to member systems for the year averaged $36.25 per MWh for the rural load customers and $30.12 MWh for the large industrial customers. The average for all MWh sold to member systems was $33.58, the sixth consecutive annual decrease.

CONTRACT ADMINISTRATION & REGULATORY AFFAIRS

DAVID SPAINHOWARD
VP OF CONTRACT ADMINISTRATION & REGULATORY AFFAIRS

Because of Big Rivers' contractual relationships with its member systems, LEC, and other parties, special emphasis is placed on the fair and equitable administration of those contracts In 2000, another set of transaction documents was added to the list of contracts with the completion of the defeased sale-leaseback.

On the regulatory front, an Integrated Resource Plan was submitted to the KPSC Big Rivers is awaiting the final report from the KPSC. A large industrial customer expansion tariff was filed and approved by the KPSC on a three-year pilot basis. Also filed was a tariff for voluntary curtailment service that the KPSC approved Big Rivers received KPSC approval of its purchase and sales tariff for cogeneration and small power producers that had been filed in 1999 As a result of completing the defeased lease referred to herein, Big Rivers filed and received approval from the KPSC for a member discount adjustment that amounts to savings of $3.7 million annually for its member systems for a period of two years.

Big Rivers has continued to follow the activities of FERC regarding regional transmission organizations (RTOs) and has participated in discussions with various entities in regard to forming and becoming a member of a regional group. A voluntary information filing was made with FERC pursuant to Orders No. 2000 and 2000-A. While Big Rivers supports the development of RTOs, it believes that cooperatives should not be penalized for joining RTOs.

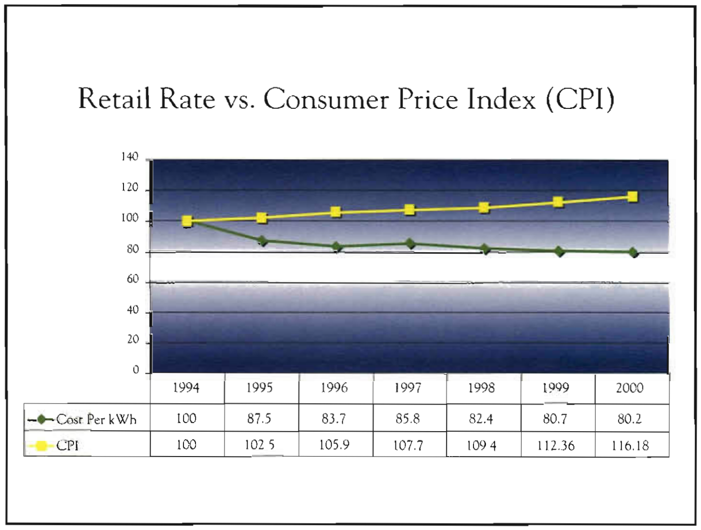
Electric restructuring in California has caused legislators in Kentucky to take a closer look at electric restructuring for Kentucky. Big Rivers is following activities of Kentucky's Task Force on Electricity Restructuring With Kentucky having the lowest electric rates of any state east of the Mississippi River, there is no rush to restructure

On September 19, 2000, Western Kentucky Energy Corp. (WKE) 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 is part of a national information gathering 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 WKE, Big Rivers is cooperating with WKE in preparing a response

Terminology Reference Guide

AMT:	Alternative Minimum Tax
ECAR	East Central Area Reliability Council
EPA.	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
G&T	Generation and Transmission Cooperative
HMP&L	Henderson Municipal Power & Light
KPSC	Kentucky Public Service Commission
LEC	LG&E Energy Corp
LEM	LG&E Energy Marketing, Inc
NOx	Oxides of Nitrogen NO & NO_2
OATT:	Open Access Transmission Tariff
RTO	Regional Transmission Organizations
RUS	Rural Utilities Service
WKE	Western Kentucky Energy Corp

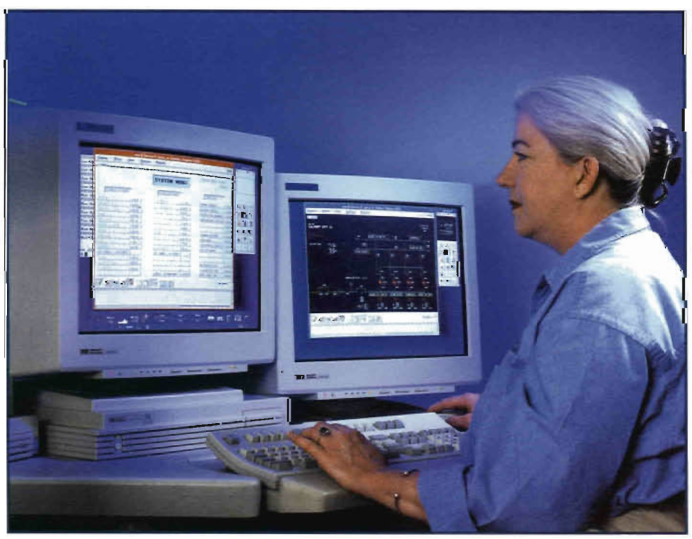
RICHARD BECK
VP OF MARKETING



	1994	1995	1996	1997	1998	1999	2000
Cost Per kWh	100	87.5	83.7	85.8	82.4	80.7	80.2
CPI	100	102 5	105.9	107.7	109 4	112.36	116.18

The year 2000 marked the beginning of shared marketing efforts between Big Rivers and Kenergy Three employees were moved to Kenergy with Big Rivers supporting 100 percent of the cost of two employees and 50 percent of the third Under the new structure, marketing continued to perform the same services for Big Rivers and its three member systems

Emphasis on Touchstone Energy brand building continued in 2000 Big Rivers continues to work with surrounding generation and transmission cooperatives in creating alliances to cost share effective advertising programs The efforts of building brand recognition for Touchstone Energy is expected to bring benefits to Big Rivers and its member systems as the electric utility industry continues to experience changes and uncertainties, namely wholesale and retail customer choice Brand loyalty will be very important in retaining customers



Penelope Thorne, Electrical Engineer, Jackson Purchase Energy Corporation, uses the SCADA (Supervisory Control And Data Acquisition) system to monitor substation performance.

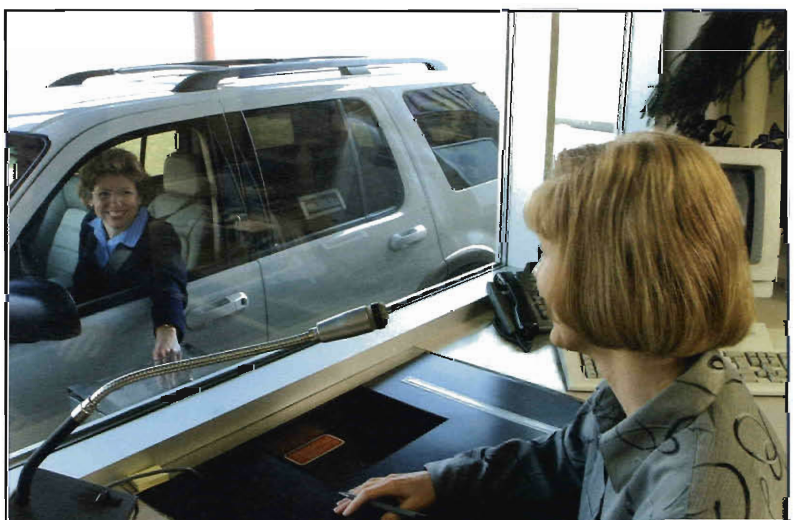
Big Rivers and its member systems began developing new web sites to implement initial e-commerce capability for use by the member consumers The first phase of e-commerce web pages will be ready to go in spring of 2001. The e-commerce web pages will be utilized as a customer relations management tool with the primary objectives of improving customer service and reducing operating costs Future objectives include electronic bill presentation and electronic bill payment Phase II development will get underway in summer of 2001

MARK HITE
VP OF FINANCE & ADMINISTRATIVE SERVICES

Since the July 15, 1998, reorganization, the results of operations for this two and one-half year period ended December 31, 2000, have been better than expected, with cumulative margins of $10 2 million versus a loss of $14 6 million per the reorganization plan, a $24 8 million betterment. The primary reason for this is sales of power to non-members, what we refer to as arbitrage, none of which was included in the plan of reorganization Big Rivers' cash position is $64 4 million, $41 9 million in excess of the reorganization plan

Financially, the LEC lease is functioning as planned We are optimistic about Big Rivers' prospects for continuing financial success in the years to come However, Big Rivers' $345.5 million negative equity position and $1 181 billion of debt, excluding the sale-leaseback defeased obligation, is a constant reminder of its historical financial difficulties

As mentioned elsewhere, in April of 2000, Big Rivers completed a defeased sale-leaseback of its Wilson and Green facilities This transaction is accounted for as a financing for financial reporting purposes and a sale for income tax purposes It generated a $64 0 million book gain, the upfront cash benefit, which will be recognized over a 27-year period and a $736.0 million tax gain to be reported in 2000. Big Rivers, a non-exempt cooperative, sheltered all of this tax gain for regular income tax purposes, paid $3.8 million of alternative minimum tax (AMT), and continues to have a $302 0 million net operating loss carry forward



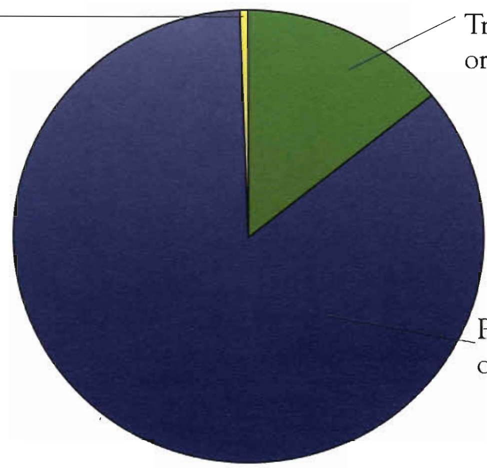
Kenergy Customer Service Representative Doris Yancy assisting a customer at the headquarters office located in Henderson.

Big Rivers continues to fund capital expenditures out of cash flow NOx emission reduction plans at our owned and leased generation facilities are expected to require $28 7 million from Big Rivers between now and 2005 Under the LEC lease, Big Rivers will likely pay another $21 7 million for other generation capital expenditures during the next four years. Transmission capital plans during this same period total $21 5 million Forecasted cash flows are sufficient to currently fund these planned amounts

Big Rivers plans to eliminate the annual sinking fund requirement and extend the maturity date of the $83.3 million, 1985 series, pollution control bonds during 2001, and accelerate the retirement of the 5.75 percent New RUS Note by a like amount These bonds are Big Rivers' lowest cost debt, approximately 4 00 percent. The nominal and 5 75 percent present value benefit is estimated to be $15 9 million and $5 7 million, respectively

Electric Utility Plant Assets*- 2000

(Thousands Of Dollars)



*$864,060, Net Of Accumulated Depreciation Of $689,926, Or $1,553,986 Historical Cost

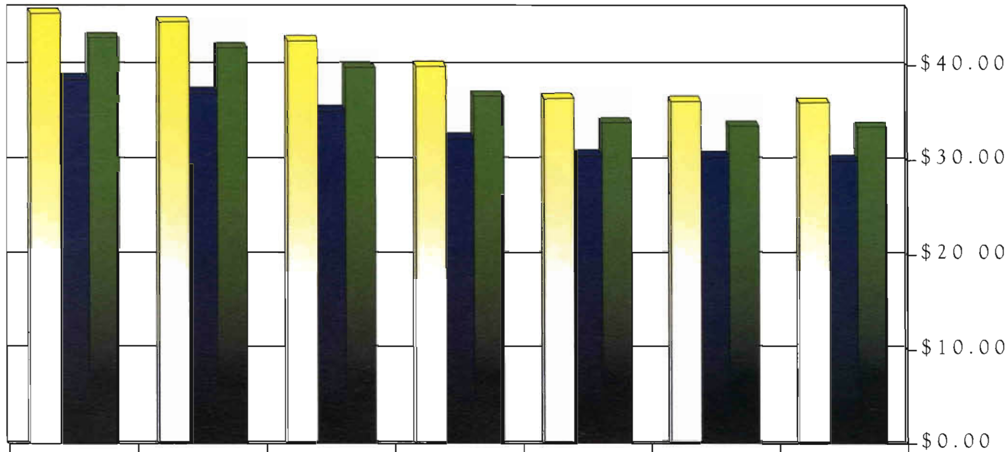
Owned Generation

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	65	1966
Combustion Turbine	Oil	65	1976
D.B. Wilson Unit No. 1	Coal	420	1986
TOTAL OWNED		1,459	

Although leased to LEC affiliates, Big Rivers continues to own its 1,459 megawatts of electric generating facilities, as described above.

Member Wholesale Power Rates*

(Dollars/Megawatt-hour)



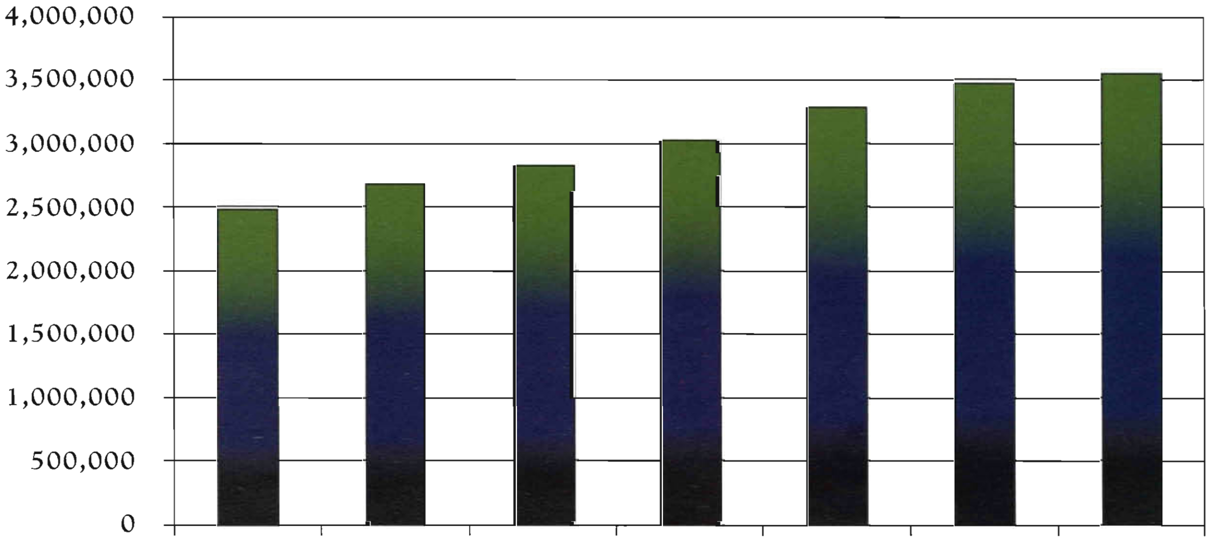
	1994	1995	1996	1997	1998	1999	2000
Rural	$45.58	$44.76	$42.72	$40.17	$36.72	$36.44	$36.25
Large Industrial	$38.72	$37.27	$35.35	$32.43	$30.70	$30.47	$30.12
Average	$43.07	$41.92	$39.87	$36.94	$34.11	$33.78	$33.58

Big Rivers' wholesale rates to its members average $33.58 per MWh. As illustrated, rates have continued to decline the past six years, while sales to members have increased at an annual compound rate of 6.12 percent; 4.09 percent for rural loads and 9.23 percent for large industrial loads.

*Excludes sales to the aluminum smelters.

Member Wholesale Power Sales

(Megawatt-hours)



	1994	1995	1996	1997	1998	1999	2000
Rural	1,571,691	1,665,310	1,728,687	1,758,398	1,861,051	1,921,742	1,999,539
Large Industrial	907,639	1,019,130	1,092,611	1,258,705	1,427,793	1,547,230	1,541,341
Total	2,479,330	2,684,440	2,821,298	3,017,103	3,288,844	3,468,972	3,540,880

42.82% increase since 1994 (6 years)

Excludes sales to the aluminum smelters.

BIG RIVERS ELECTRIC CORPORATION

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000 AND 1999
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2000
TOGETHER WITH AUDITORS' REPORT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Big Rivers Electric Corporation

We have audited the accompanying balance sheets of Big Rivers Electric Corporation ("Big Rivers," a Kentucky corporation) as of December 31, 2000 and 1999, and the related statements of operations, equities (deficit) and cash flows for the two years ended December 31, 2000, the period ended July 14, 1998 (pre-confirmation), and for the period ended December 31, 1998 (post-confirmation) These financial statements are the responsibility of Big Rivers' 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 and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Rivers as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States

As discussed in Note 1 to the financial statements, effective July 15, 1998, Big Rivers emerged from bankruptcy and adopted a new basis of accounting whereby all liabilities were adjusted to their estimated fair values. Accordingly, the financial statements for periods subsequent to the confirmation of the reorganization are not comparable to the financial statements presented for prior periods

In accordance with Government Auditing Standards, we have also issued a report dated March 23, 2001, on our consideration of Big Rivers Electric Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits

Arthur Andersen LLP

Memphis, Tennessee,
March 23, 2001

BIG RIVERS ELECTRIC CORPORATION

BALANCE SHEETS

AS OF DECEMBER 31
(Dollars in thousands)

ASSETS	2000	1999
Utility plant, net	$ 864,060	$ 868,450
Restricted investments under long-term lease (Note 4)	153,707	-
Other deposits and investments, at cost	7,385	16,279
Current assets.		
Cash and cash equivalents	30,434	14,074
Receivables	21,788	13,663
Materials and supplies	626	706
Investments	34,003	-
Prepaid expenses	405	721
Total current assets	87,256	29,164
Deferred charges and other	33,065	33,427
	$1,145,473	$ 947,320

EQUITIES (DEFICIT) AND LIABILITIES	2000	1999
Capitalization.		
Equities (deficit)	$ (345,481)	$ (355,864)
Long-term debt	1,159,214	1,231,055
Obligations under long-term lease (Note 4)	142,781	-
Other long-term obligations	1,843	2,290
Total capitalization	958,357	877,481
Current liabilities		
Current maturities of long-term obligations	20,139	5,967
Purchased power payable	13,644	6,997
Accounts payable	8,659	6,146
Accrued expenses	7,224	3,356
Accrued interest	17,962	3,025
Total current liabilities	67,628	25,491
Deferred credits and other		
Deferred lease revenue	20,890	30,823
Deferred gain on sale-leaseback (Note 4)	73,176	-
Other	25,422	13,525
Total deferred credits and other	119,488	44,348
Commitments and contingencies (Note 1)		
	$1,145,473	$ 947,320

The accompanying notes to financial statements are an integral part of these balance sheets

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31
(Dollars in thousands)

	2000	1999	1998
Operating revenue	$148,364	$150,294	$230,307
Lease revenue	54,014	54,265	24,247
Total operating revenues	202,378	204,559	254,554
Operating expenses			
Operations			
Fuel for electric generation	-	-	51,876
Power purchased and interchanged	81,834	86,288	59,586
Production, excluding fuel	-	-	15,038
Transmission and other	12,554	12,676	13,246
Maintenance	2,362	2,951	19,764
Depreciation	27,290	27,589	31,032
Total operating expenses	124,040	129,504	190,542
Electric operating margins	78,338	75,055	64,012
Interest expense and other			
Interest	71,814	71,908	75,021
Interest on obligations under long-term lease (Note 4)	5,417	-	-
Other, net	65	69	(184)
Total interest expense and other	77,296	71,977	74,837
Operating margin (loss) before non-operating margin (loss) and extraordinary loss	1,042	3,078	(10,825)
Non-operating margin (loss)			
Reorganization expenses	-	-	(17,373)
Interest income on restricted investments under long-term lease (Note 4)	7,168	-	-
Interest income and other	2,173	1,015	1,321
Total non-operating margin (loss)	9,341	1,015	(16,052)
Net margin (loss) before extraordinary loss	10,383	4,093	(26,877)
Extraordinary loss, net (Note 1)	-	-	(40,527)
Net margin (loss)	$ 10,383	$ 4,093	$ (67,404)

The accompanying notes to financial statements are an integral part of these statements

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF EQUITIES (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31
(Dollars in thousands)

	Total equities (deficit)	Accumulated deficit	Patronage capital	Other equities: Donated capital and memberships	Other equities: Consumers' contributions to debt service
Balance at December 31, 1997	$(292,553)	$(424,919)	$ 127,921	$764	$3,681
Forgiveness of patronage capital allocations (Note 2)	-	127,921	(127,921)	-	-
Net loss	(26,877)	(26,877)	-	-	-
Extraordinary loss, net (Note 1)	(40,527)	(40,527)	-	-	-
Balance at December 31, 1998	(359,957)	(364,402)	-	764	3,681
Net margin	4,093	4,093	-	-	-
Balance at December 31, 1999	(355,864)	(360,309)	-	764	3,681
Net margin	10,383	10,383	-	-	-
Balance at December 31, 2000	$(345,481)	$(349,926)	$ -	$764	$3,681

The accompanying notes to financial statements are an integral part of these statements

BIG RIVERS ELECTRIC CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31
(Dollars in thousands)

	2000	1999	1998
Cash flows from operating activities			
Net margin (loss)	$ 10,383	$ 4,093	$(67,404)
Adjustments to reconcile net margin (loss) to net cash provided by (used in) operating activities			
Non-cash extraordinary loss, net (Note 1)	-	-	54,727
Non-cash reorganization expenses	-	-	4,004
Depreciation and amortization	31,627	31,944	34,125
Changes in operating assets and liabilities			
Receivables	(8,125)	(49)	14,261
Materials and supplies	80	(160)	2,970
Prepaid expenses	316	660	(1,381)
Deferred charges	(1,469)	(2,604)	(13,820)
Other long-term obligations	(695)	(552)	(2,147)
Purchased power payable	6,647	(3,906)	10,160
Accounts payable	3,813	1,705	(11,914)
Accrued expenses	18,805	(891)	(2,527)
Deferred lease revenue	(9,933)	(23,829)	54,652
Other, net	(5,969)	(7,041)	1,626
Net cash provided by (used in) operating activities	45,480	(630)	77,332
Cash flows from investing activities			
Investment in held-to-maturity securities	(34,003)	(8,000)	-
Restricted investments under long-term lease (Note 4)	(146,647)	-	-
Proceeds from maturity of investments	8,000	-	-
Proceeds from sale of assets under Lease Agreement	-	-	35,919
Capital expenditures, net	(11,112)	(8,782)	(4,458)
Other deposits and investments	894	(591)	(2,906)
Net cash (used in) provided by investing activities	(182,868)	(17,373)	28,555
Cash flows from financing activities			
Decrease in liabilities subject to compromise	-	-	(7,412)
Proceeds from sale-leaseback (Note 4)	211,169	-	-
Principal payments on long-term obligations	(72,690)	(29,297)	(89,653)
Increase in LEM Advances	11,321	25,626	8,333
Increase in RUS ARVP Note	3,948	3,732	-
Net cash provided by (used in) financing activities	153,748	61	(88,732)
Net increase (decrease) in cash and cash equivalents	16,360	(17,942)	17,155
Cash and cash equivalents, beginning of year	14,074	32,016	14,861
Cash and cash equivalents, end of year	$ 30,434	$ 14,074	$ 32,016
Supplemental Cash Flow Information.			
Cash paid for interest	$ 59,430	$ 72,627	$ 76,716

The accompanying notes to financial statements are an integral part of these statements

BIG RIVERS ELECTRIC CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000
(Dollars in thousands)

1. CHAPTER 11 BANKRUPTCY FILING, EMERGENCE FROM BANKRUPTCY AND CONTINGENCIES.

Chapter 11 Bankruptcy Filing.

On September 25, 1996, Big Rivers Electric Corporation ("Big Rivers" or the "Company") filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code ("Chapter 11") and the Company began operating as a debtor-in-possession under the supervision of the United States Bankruptcy Court for the Western District of Kentucky (the "Bankruptcy Court") Big Rivers believed it was necessary to file Chapter 11 in order to, among other things, (a) restructure its debt obligations, upon which the Company would otherwise default in the near term, (b) relieve the Company of severely burdensome long-term coal contracts, (c) receive judicial approval in conjunction with consummating a long-term lease transaction involving the generation assets of Big Rivers, (d) sufficiently resolve other alleged claims, suits and liabilities asserted against Big Rivers such that the reorganized Company could emerge from Chapter 11 able to repay its restructured debt and (e) implement its reorganization in a timely manner On January 22, 1997, Big Rivers filed a plan of reorganization with the Bankruptcy Court (the "Plan") The Plan, further amended on April 18, 1997, was approved by substantially all creditors and rate payer constituents of Big Rivers and was confirmed by the Bankruptcy Court on June 9, 1997 On June 30, 1997, the Company filed an application with the Kentucky Public Service Commission (the "KPSC") for an order approving various components of the Plan (the "Rate Hearing") In particular, the Company requested approval for the leasing of its generation assets and the related energy to certain affiliates of LG&E Energy Corporation ("LG&E Energy") (the "Lease Agreement") The KPSC approved the Lease Agreement in principle on April 30, 1998, pending the revision of the rates associated with National Southwire Aluminum Company ("NSA") and Alcan Aluminum Corporation ("Alcan") (collectively referred to as the "Aluminum Smelters") and Big Rivers' other large industrial customers Modifications to the rate structure were made and the Plan, as further amended, was approved by the Bankruptcy Court on June 1, 1998 The KPSC issued an order dated July 14, 1998, approving the Plan as it relates to the Lease Agreement.

Emergence from Bankruptcy:

Big Rivers' Chapter 11 reorganization was confirmed effective July 15, 1998 (the "Effective Date"), with the closing of the Lease Agreement, whereby Big Rivers leased its generating facilities to Western Kentucky Energy Corporation ("WKEC"), a wholly-owned subsidiary of LG&E Energy Pursuant to the Lease Agreement, WKEC operates the generating facilities and maintains title to all energy produced Throughout the lease term, in order to fulfill Big Rivers' obligation to supply power to its members following the Effective Date, the Company purchases substantially all of its power requirements from LG&E Energy Marketing Corporation ("LEM"), a wholly-owned subsidiary of LG&E Energy, pursuant to a power purchase agreement.

1 CHAPTER 11 BANKRUPTCY FILING, EMERGENCE FROM BANKRUPTCY AND CONTINGENCIES (Continued).

Big Rivers continues to operate its transmission facilities and charges WKEC tariff rates for delivery of the energy produced by WKEC and consumed by their customers As part of the Lease Agreement, WKEC also purchased certain property, inventory and other assets necessary for the operation of the generation facilities from Big Rivers for $35,919 In connection with the purchase of these assets, the Company recorded a net loss of $4,004, which is reflected as a reorganization expense in the accompanying statements of operations in 1998 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 Statement of Financial Accounting Standards ("SFAS") No 13, "Accounting for Leases," the Company amortizes these payments to revenue over the lease term

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. The member loads for the Aluminum Smelters are served by LEM and other third-party providers 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 Through 2011, WKEC will reimburse Big Rivers approximately $262,944 for the margins expected from the Aluminum Smelters, being defined as the net cash flows that Big Rivers anticipated receiving over the term of the Lease Agreement if the Company had continued to serve the Aluminum Smelters' load, as filed in the Rate Hearing (the "Expected Margins")

VII WKEC is responsible for the operating costs of the generation facilities, however, Big Rivers is partially responsible for ordinary capital expenditures of the generation facilities over the term of the Lease Agreement, up to a 49% maximum This maximum is not expected to exceed $148,000 over the Lease Agreement. At the end of the lease term, Big Rivers is obligated to fund a residual value payment to LG&E Energy for such capital additions during the lease, currently estimated to be $125,000 (see Note 2) Adjustments to the residual value payment will be made based upon actual capital expenditures Additionally, WKEC will make required incremental environmental improvements to the facilities over the lease life and the Company will be required to submit another residual value payment to LG&E Energy for the undepreciated value of WKEC's 80% share of these assets at the end of the lease The Company will have title to these assets during the lease and upon lease termination

1. CHAPTER 11 BANKRUPTCY FILING, EMERGENCE FROM BANKRUPTCY AND CONTINGENCIES (Continued).

VIII Big Rivers entered into a note payable with LEM for $19,676 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 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 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 to LEM under the power purchase agreement. Each month during the first 55 months of the lease term, Big Rivers receives 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 Big Rivers will recognize these credits as a reduction of power purchased as service is provided

Upon attaining the Effective Date, the RUS Promissory Note (see Note 5) was replaced by two separate notes The first note (the "New RUS Promissory Note") represents a stated principal balance of $1,022,583, net of $78,582 paid on the Effective Date, which bears a stated interest rate of 5 75% per annum, with a varying repayment schedule and an April 1, 2022 maturity date The second note (the "RUS ARVP Note") represents a $265,000 obligation due to the RUS at the end of the Lease Agreement, and this obligation does not bear interest.

In accordance with Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," at the Effective Date the Company was required to record its liabilities at fair value In determining the fair value of Big Rivers' liabilities, the Company was required to record its long-term debt by applying a discount rate commensurate with the market rate to the future debt service payments under the New RUS Promissory Note and the RUS ARVP Note, regardless of the stated principal and coupon rates of the obligations In conjunction with recording the two separate notes on the Effective Date, the Company determined that the market rate associated with the New RUS Promissory Note and the RUS ARVP Note was 5.81% In discounting the future debt service payments using the market rate, the Company recorded a combined principal balance of $1,077,311 for the two RUS notes, net of $78,582 paid on the Effective Date, and recorded a $54,727 loss as an extraordinary item in the accompanying statements of operations for the year ended December 31, 1998 Additionally, this transaction was treated as a non-cash transaction and was excluded from the accompanying statements of cash flows Also, in conjunction with the Plan, certain pollution control bonds (discussed herein) were secured and remarketed following the mandatory tender of the bonds by the holders thereof The irrevocable standby letters of credit, which were supporting the bonds held by Chase Manhattan Bank and the Bank of New York were replaced with the bond insurance policies and standby bond purchase agreements issued by Ambac Assurance Corporation, each dated the Effective Date, between Big Rivers, U.S Bank Trust National Association, as trustee, and Credit Suisse First Boston, as the liquidity provider In connection therewith, the Company realized cash proceeds of $14,200 and recognized an extraordinary gain in the accompanying statements of operations in 1998 For Big Rivers' remaining liabilities, there were no other significant differences between the carrying amounts and the respective fair values on the Effective Date

1 CHAPTER 11 BANKRUPTCY FILING, EMERGENCE FROM BANKRUPTCY AND CONTINGENCIES (Continued).

In accordance with the power purchase agreement with LEM, the Company is allowed to purchase power in the open market, incurring penalties when the power purchased from LEM does not meet certain minimum levels, and 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 total value created by Arbitrage must be divided as follows one-third, adjusted for member sales volume and 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

In connection with the Chapter 11 filing and subsequent Effective Date, certain items were segregated and presented as reorganization expenses in the accompanying statements of operations as costs related to transactions which were directly associated with the Chapter 11 proceedings Reorganization expenses for the year ended December 31, 1998 were as follows

Professional services	$ 4,365
Net loss on sale of property, inventory and other assets	4,004
Bankruptcy Court examiner fee	2,300
Employee termination benefits	4,979
Other, net	1,725
	$17,373

During 1997, Big Rivers terminated two unfavorable coal contracts Of the amounts settled, $6,000 was paid upon initial settlement, $615 in 1999, and $695 in 2000 At December 31, 2000, the Company has a remaining liability of $2,209 payable over the next eight years

Contingencies.

On June 5, 1997, an examiner appointed by the Bankruptcy Court filed for a $4,410 fee On March 26, 1999, the Company received an order from the Bankruptcy Court entitling the examiner to receive a fee of $2,638 Management accrued such amounts under this order as a reorganization expense for the year ended December 31, 1998 Additionally, the Company designated $3,050 and $2,750 in 2000 and 1999, respectively, as restricted cash in the other deposits and investments caption in the accompanying balance sheets as security for the bond posted with the Bankruptcy Court, and is required by the order to deposit an additional $300 annually as continued security Management is appealing this order and is vigorously defending this claim

On April 5, 1999, the Bankruptcy Court issued a judgment disallowing a portion of the fees charged to Big Rivers by its professionals during its bankruptcy On August 24, 2000, the federal district court reversed the Bankruptcy Court's decision and remanded the case to the Bankruptcy Court for additional review, resulting in the reinstatement of the original professional fees of approximately $670, which was accrued at December 31, 1999 and paid in 2000 Based on this decision, certain other professionals not included in the original parties to the judgment may appeal for fees totaling approximately $270 for which no accrual has been recorded in the accompanying balance sheets

In 1999, the Company received a letter from WKEC notifying Big Rivers of potential claims associated with the condition of the Wilson Station storm water runoff pond arising from the alleged breach by Big Rivers of certain representations and warranties about such pond, as set forth in the agreements among Big Rivers,

1. CHAPTER 11 BANKRUPTCY FILING, EMERGENCE FROM BANKRUPTCY AND CONTINGENCIES (Continued):

WKEC, and other LG&E Energy subsidiaries or affiliates entered into in connection with the Lease Agreement. No accruals for these contingencies have been recorded in the accompanying balance sheets as there is currently not sufficient information available to reasonably estimate any such amounts While the final resolution of this matter cannot be determined, management believes that the final outcome will not have a material adverse effect on the Company's results of operations or its financial position

2. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

General Information.

Big Rivers, an electric generation and transmission cooperative, supplies the power needs of its three member distribution cooperatives (excluding the power needs of the Aluminum Smelters) 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. Big Rivers has wholesale power contracts with each of its members which require the members to buy and receive from Big Rivers all power and energy requirements, other than for the Aluminum Smelters as discussed in Note 1 The wholesale power contracts with the members extend to January 1, 2023 Rates to Big Rivers' members are established by the KPSC and are subject to approval by the RUS

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, Big Rivers' lease revenue is recognized on a straight-line basis over the term of the lease The major components of Big Rivers' lease revenue include the annual lease payments and the Expected Margins as discussed in Note 1

2 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).

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

Year	Amount
2001	$ 52,332
2002	52,332
2003	52,332
2004	52,332
2005	52,332
Thereafter	723,864
	$ 985,524

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

Depreciation of utility plant in service is recorded using the straight-line method over the estimated remaining service lives, as approved by the RUS In 1996, the RUS approved new depreciation rates, which were based on the results of a depreciation study which extended the estimated service lives of Big Rivers' utility plant. These rates were utilized from January 1995 through June 1998 During 1998, the Company commissioned another depreciation study to again evaluate the remaining economic lives of its assets The study received the approval of the RUS and KPSC As a result of the July 1998 study, the remaining service lives of the Company's depreciable assets were further extended The 1998 study was adopted beginning July 1, 1998.

In accordance with the terms of the Lease Agreement, the Company records capital additions for incremental and non-incremental expenditures funded by LG&E Energy as utility plant, to which the Company maintains title A corresponding obligation to LG&E Energy is recorded for the estimated portion of these additions attributable to the residual value payment (see Note 1) Any differences in such amounts are amortized to lease revenue in the accompanying financial statements As of December 31, 2000 and 1999, the Company has recorded $25,166 and $11,019, respectively for such additions in utility plant, and $1,429 and $2,118 in 2000 and 1999, respectively, as lease revenue in the accompanying financial statements

For the three years ended December 31, the annual composite depreciation rates used to compute depreciation expense were as follows

	Period subsequent to June 30, 1998	Periods prior to July 1, 1998
Production plant	1 60 – 2 47 %	1 45 – 4 25 %
Transmission plant	1 76 – 3.24 %	2 49 %
General plant	1 11 – 5.62 %	2.00 – 14.29 %

2. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued).

For 2000, 1999 and 1998, the average composite depreciation rates were 1 78%, 1 82% and 2.05%, respectively

Cash and Cash Equivalents.

For purposes of the statement of cash flows, Big Rivers considers all short-term, highly-liquid investments with original maturities of three months or less to be cash equivalents

Investments.

In 2000, the Company purchased several short-term money market investments totaling approximately $34,000 with maturity dates between three months and one year with a weighted average interest rate of 6.84%

Other Deposits and Investments

In 1999, the Company purchased an $8,000 National Rural Utilities Cooperative Finance Corporation medium-term note with a maturity date of March 15, 2001 The note accrues interest at a rate of 6 47% per annum This investment was considered held-to-maturity and classified as other deposits and investments in 1999, and cash and cash equivalents in 2000 in the accompanying balance sheets

Patronage Capital.

As provided in the bylaws, the Company 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 be not less than the greater of regular taxable patronage-sourced income or alternative minimum taxable patronage-sourced income In accordance with the Plan (see Note 1), all patronage capital claims were extinguished and discharged on the Effective Date In 2001, the Company anticipates a patronage allocation to its members based on such calculations for tax year 2000

Reclassifications.

Certain prior year amounts have been reclassified to conform to the current year presentation

3. UTILITY PLANT.

The following summarizes utility plant at December 31

	2000	1999
Classified plant in service		
Electric plant - leased	$1,344,576	$1,326,889
Transmission plant	196,250	191,064
General plant	11,831	13,329
Other	67	67
	1,552,724	1,531,349
Less accumulated depreciation	689,926	666,973
	862,798	864,376
Construction in progress	1,262	4,074
	$ 864,060	$ 868,450

3 UTILITY PLANT (Continued).

Interest capitalized for the years ended December 31, 2000, 1999 and 1998, was not significant to the Company

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 the respective facility's lease term (25 and 27 years), which was partially defeased at closing with certain of the proceeds and will be fully defeased together with future contractual interest receipts

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 approximately $867,000 of proceeds and incurred approximately $803,000 of related obligations Pursuant to a payment undertaking agreement with a financial institution, Big Rivers effectively extinguished approximately $656,000 of these obligations with an equivalent portion of the proceeds The Company purchased two investments approximating $147,000, equivalent to the remaining portion of the obligations and the fixed price purchase option, after including interest over the life of the agreement These amounts are reflected as restricted investments under long-term lease and obligations under 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 under long-term lease and receiving 6.89% on its related investments The Company made a principal payment on the New RUS Promissory Note with the remaining proceeds The approximate $64,000 net cash benefit to Big Rivers together with the deferral of approximately $11,000 of future interest amortization above the contractual rate of return has been deferred and will be amortized over the respective lease terms, of which the Company recognized $1,874 in 2000 A principal payment of $1,793 on the obligations under long-term lease is due in 2001 with remaining principal payments beginning in 2009.

5 LONG-TERM DEBT.

Due to the underlying collateral value of the RUS Promissory Note, Big Rivers ceased accruing interest for all long-term debt effective September 30, 1996 Subsequently, in accordance with the Plan, Big Rivers resumed recording interest on the RUS Promissory Note effective June 9, 1997, to the extent of payments resulting from a month-end operating cash balance in excess of $10,000 Upon achieving the Effective Date, the Company began recording interest on the RUS debt based on the fair value rate of 5.81% per annum

Prior to the Effective Date, contractual interest totaling $7,021 in 1998 related to both secured and unsecured long-term obligations would have been recognized as interest expense had the Company not previously filed for bankruptcy

5. LONG-TERM DEBT (Continued).

A detail of long-term debt is as follows at December 31

	2000	1999
New RUS Promissory Note, stated interest rate of 5 75%, recorded at fair value (Note 1), with an interest rate of 5.81%, maturing April 2022	$ 903,572	$ 975,389
RUS ARVP Note, no stated interest rate, recorded at fair value (Note 1), with interest imputed at 5.81%, maturing December 2023	68,870	65,507
LEM Advances, interest rate of 6 98%, payable in monthly installments from August 2000 through July 2003	45,428	34,107
LEM Settlement Note, interest rate of 8.0%, payable in monthly installments through July 2023	19,016	19,305
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 4 21% and 3.37% in 2000 and 1999 respectively), maturing in October 2015	83,300	83,300
County of Ohio, Kentucky, promissory note, variable interest rate (average interest rate of 4 21% and 3.37% in 2000 and 1999 respectively), maturing in June 2013	58,800	58,800
Total long-term debt	1,178,986	1,236,408
Current maturities	19,772	5,353
Total long-term debt, net of current maturities	$1,159,214	$1,231,055

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

Year	Amount
2001	$ 19,772
2002	25,890
2003	15,917
2004	5,397
2005	24,451
Thereafter	1,087,559
	$1,178,986

Pollution Control Bonds

On October 31, 1985, the County of Ohio, Kentucky, issued $83,300 of Pollution Control Refunding Demand Bonds, Series 1985, 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 are dated to mature in October 2015 Annual sinking fund payments of $5,000 are to begin October 2001

5. LONG-TERM DEBT (Continued).

On June 30, 1983, the County of Ohio, Kentucky, issued $58,800 of Pollution Control 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 are dated to mature in June 2013.

Big Rivers' obligations with respect to the bonds, although secured and remarketed, were not affected by the Plan These bonds are supported by two liquidity facilities issued by Credit Suisse First Boston and municipal bond insurance policies issued by Ambac Assurance Corporation (see Note 1) Big Rivers has agreed to reimburse Ambac Assurance Corporation for any payments under the municipal bond insurance policies or the surety policies Currently, the Company is exploring the possibility of refinancing the Series 1985 bonds.

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 The execution of the Settlement Note was a non-cash transaction and was excluded from the accompanying statements of cash flows in 1998

LEM Advances.

Beginning in August 1998 (the first month after the Effective Date) and ending in July 2000, LEM made payments totaling $50,000 to the RUS on behalf of the Company The Company is now making monthly payments, which will ultimately total $60,000 to LEM through July 2003 The payments made by LEM to the RUS were applied to the New RUS Promissory Note The Company is recognizing interest expense over the five-year life of the LEM Advances at 6 98% per annum

6 RATE MATTERS.

As approved by the Bankruptcy Court and the KPSC, effective September 1997, the interim rates charged to Big Rivers' members consisted of a billing demand charge per KW and an energy charge per kWh consumed The interim rates of Big Rivers included 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 billing demand 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 On April 30, 1998, the KPSC modified the interim rates for the large industrial customers. On June 1, 1998, the interim rates, as modified, were approved by the Bankruptcy Court. These rates will remain in effect until changed by the KPSC The rates resulted in a significant decrease in Big Rivers' rates for wholesale electric service to its members from the rates in effect prior to the Chapter 11 filing

Effective September 1, 2000, the KPSC approved Big Rivers' request for a two-year ($3,680 annually) revenue discount adjustment for its members, effectively passing the benefit of the sale-leaseback transaction (see Note 4) to its members Whether or not Big Rivers requests KPSC approval to extend the two-year period depends upon its planned environmental compliance costs and its overall financial condition

6. RATE MATTERS (Continued).

Pursuant to the Lease Agreement, LEM supplies the energy necessary to comply with the Oglethorpe Power Corporation ("Oglethorpe Power") contract. In turn, Big Rivers remits the net revenues from the contract to LEM The Oglethorpe Power contract is for the sale of 103 MW of power through July 31, 2002

In accordance with the Lease Agreement, LG&E Energy operates certain generating facilities owned by the City of Henderson, Kentucky (the "City"), which were operated by Big Rivers prior to the Effective Date, pursuant to an agreement between the City and Big Rivers The Company will retain the obligation to provide transmission services under this agreement.

7. INCOME TAXES.

Big Rivers was initially formed as a tax-exempt cooperative organization under section 501(c)(12) of the Internal Revenue Code To retain tax-exempt status under this section of the Internal Revenue Code, at least 85% of Big Rivers' receipts must be generated from transactions with the Company's members In 1983, sales to non-members resulted in Big Rivers being unable to meet the 85% requirement. In a letter dated March 23, 1984, the Internal Revenue Service notified Big Rivers that effective for 1983 and subsequent years, the Company would be considered a taxable organization until such year that sales to members would satisfy the 85% requirement and Big Rivers formally reapplies for tax-exempt status 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 on these temporary differences using enacted tax rates in effect for the year in which these differences are expected to reverse

At December 31, 2000 and 1999, Big Rivers had deferred tax assets of $508,335 and $399,868, respectively, which primarily relate to net operating losses and the effect of the sale-leaseback transaction (see Note 4) At December 31, 2000, these net operating losses amounted to $302,000 The non-member portion of the net operating losses expire in 2001 through 2012 Additionally, at December 31, 2000 and 1999, Big Rivers had deferred tax liabilities of $261,438 and $241,204, respectively, which primarily relate to depreciation differences on utility plant. At December 31, 2000 and 1999, Big Rivers did not anticipate utilization of a portion of the deferred tax assets, thus a valuation allowance was established of $246,897 and $158,664, respectively

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 has the right to elect to reduce the contract limits to a certain amount 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.

8 POWER PURCHASED (Continued).

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

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

In conjunction with the Lease Agreement, approximately 550 of the Company's employees were effectively terminated and transferred to WKEC on the Effective Date Terminated employees have received distributions in the amount of their respective vested benefits In 1998, the Company recognized a curtailment loss of $2,086 which was recorded as a reorganization expense in the accompanying statements of operations.

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

	2000	1999
Projected benefit obligation	$ 8,233	$ 8,038
Fair value of plan assets	7,356	7,027
Funded status	$ (877)	$(1,011)
Prepaid (unfunded) accrued pension cost	$ 157	$ 610

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

	2000	1999	1998
Benefit cost	$453	$478	$1,686
Curtailment cost	-	-	2,086
Employer contribution	-	-	5,300
Benefits paid or transferred	431	2,848	29,357

Assumptions used to develop the projected benefit obligation were

	2000	1999	1998
Discount rates	7 5%	7 5%	7 0%
Rates of increase in compensation levels	4 0	4 0	4 0
Expected long-term rate of return on assets	8.5	8.5	8.5

10. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS.

Big Rivers provides certain postretirement medical benefits for retired employees and their spouses Big Rivers pays 80% of the cost from age 62 to 65 for all employees For salaried employees who retired prior to December 31, 1993, from age 65, Big Rivers pays 100% of Medicare supplemental costs For salaried employees who retire after December 31, 1993, the paid Medicare supplemental was eliminated

The discount rate used in computing the postretirement obligation was 7 5% for 2000 and 7 0% for 1999 A health care cost trend rate of 9 0% in 2000 declining to 5.5% in 2007 was utilized

The following is an assessment of the Company's postretirement plan at December 31

	2000	1999
Total benefit obligation	$(2,019)	$(2,770)
Unfunded accrued postretirement cost	(3,486)	(3,536)

The components of net periodic postretirement benefit costs for the years ended December 31 were as follows:

	2000	1999	1998
Benefit cost	$108	$196	$436
Benefits paid	208	209	389

As noted above, approximately 550 employees were transferred to WKEC in conjunction with the Lease Agreement, and in conjunction therewith, the Company transferred to WKEC the postretirement liability for these employees During 1998, the Company recognized a curtailment gain of $2,753 which was principally offset by the realization of the previously unrecognized transition obligation related to these employees totaling $2,538

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 $139 and $114 at December 31, 2000 and 1999, respectively, and the postretirement expense recorded was $25, $14 and $51 for 2000, 1999 and 1998, respectively

11. RELATED PARTIES AND MAJOR CUSTOMERS.

	Operating Revenues		
	2000	1999	1998
Members:			
Kenergy Corporation	$ 82,254	$ 81,349	$145,792
Jackson Purchase Electric Cooperative Corporation	22,765	22,540	22,247
Meade County Rural Electric Cooperative Corporation	13,880	13,290	12,618
Non-members	20,588	24,739	45,742
Lease revenue	54,014	54,265	24,247
Other revenue	8,877	8,376	3,908
	$202,378	$204,559	$254,554

In July 1999, Green River Electric Corporation and Henderson Union Electric Cooperative merged forming a single member doing business as Kenergy Corporation All sales to the two former members are reflected as sales to Kenergy Corporation

At December 31, 2000 and 1999, Big Rivers had accounts receivable from its members of $12,425 and $10,127, respectively

Big Rivers Electric Corporation
P.O. Box 24
201 Third Street
Henderson, Kentucky 42419
(270) 827-2561
www.bigrivers.com