

Financial Highlights and Five-Year Financial Summary

Tri-State had another good year from a financial perspective. The association strengthened its liquidity by issuing \$500 million of first mortgage bonds. These 30-year bonds were issued at a very favorable coupon rate of 6 percent and will enhance Tri-State's ability to fund the capital expenditures necessary to serve our members. Additionally, Tri-State's strong financial position was acknowledged by Moody's Investors Service when the rating agency upgraded the association's credit rating in the fourth quarter of this year. Moody's upgraded the rating of the association's senior secured debt to A3 from Baa1. This action is a strong testament to the financial planning and business decisions made by Tri-State's board of directors and staff.

Tri-State continues to invest in its infrastructure through capital improvements and system upgrades in order to serve the growing needs of its member distribution systems. Electric plant in service increased \$149.2 million from December 31, 2009 to \$4.313 billion as of December 31, 2010.

The association provides power to its member systems and also sells power to other utilities in the region under long-term contracts and market sale arrangements. Member electric sales for 2010 reached a new record 15,026,510 megawatt-hours which was 5.5 percent greater than 2009's record setting 14,245,565 megawatt-hours. This continued growth in member electric sales resulted in member electric sales revenue increasing \$54.7 million from 2009 to \$981.1 million in 2010. The rates charged to members remained the same in 2010 as they were in 2009 and will continue unchanged in 2011.

The 2010 non-member electric sales decreased 475,245 megawatt hours, or 11.0 percent. Despite this decrease, the 2010 non-member electric sales revenue only decreased 0.4 percent to \$208.4 million due to a 12.0 percent increase in the average price of non-member electric sales resulting from an increase in the market price of electricity in 2010 compared to 2009.

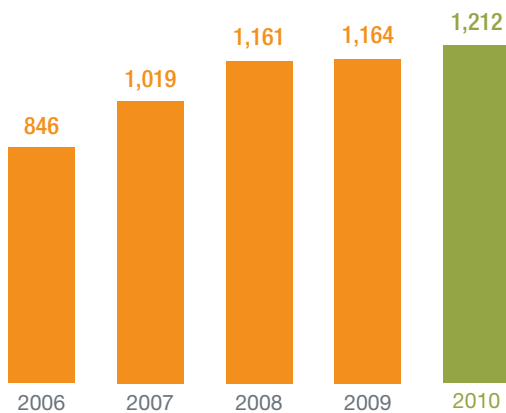
Lease expense decreased \$48.4 million, or 68.1 percent, to \$22.7 million in 2010. This was due to the December 2009 acquisition of 49 percent of the Springerville Unit 3 Partnership LP which is the 100 percent owner of the Owner Lessor in the Springerville Generating Station Unit 3 Lease in which Tri-State has been the lessee since 2006. The acquisition and the required consolidation of the Springerville Unit 3 Partnership LP and the Owner Lessor in Tri-State's consolidated financial statements results in 100 percent of the Springerville Generating Station Unit 3 Lease expense being eliminated. Therefore, there is no longer Springerville Lease expense subsequent to the acquisition.

Depreciation and amortization expense increased \$26.8 million, or 25.5 percent, to \$131.7 million in 2010. The increase was primarily due to \$21.0 million of depreciation expense incurred on the Springerville Generating Station Unit 3 assets recorded in the December 2009 acquisition and consolidation of the Springerville Unit 3 Partnership LP and the Owner Lessor.

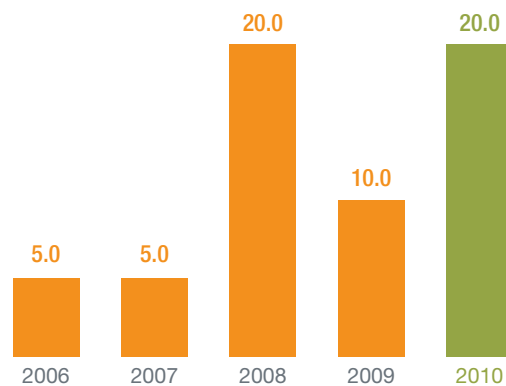
Interest expense increased \$49.7 million, or 50.9 percent, to \$147.2 million in 2010. The increase was primarily due to \$40.6 million of interest expense incurred on the debt recorded in the December 2009 acquisition and consolidation of the Springerville Unit 3 Partnership LP and the Owner Lessor. Interest expense also increased due to the issuance of \$500 million of first mortgage bonds during 2010.

The association continues to maintain its strong liquidity. As of December 31, 2010, Tri-State had \$205.5 million in cash, \$150 million of unused committed lines of credit and a secured revolving credit facility with a total unused commitment of \$200 million.

Tri-State's strong financial position and credit worthiness provide the association with the continued ability to meet the future needs of the member distribution systems and their consumer-owners.



Total Operating Revenue
(\$ millions)



Patronage Capital Retirements
(\$ millions)

<i>(Thousands)</i>	2010	2009	2008	2007	2006
Operating revenues					
Member	\$ 981,126	\$ 926,428	\$ 869,960	\$ 750,838	\$ 651,993
Non-member	231,290	237,468	290,678	267,808	194,051
Operating expenses					
Power costs	(728,735)	(669,590)	(703,047)	(574,094)	(514,672)
Lease expense	(22,711)	(71,115)	(64,991)	(56,143)	(27,884)
Transmission	(121,786)	(115,128)	(106,578)	(96,015)	(89,250)
General and administrative	(18,694)	(16,514)	(11,589)	(9,226)	(9,498)
Depreciation and amortization	(131,739)	(104,973)	(98,936)	(95,158)	(92,438)
Income taxes	9,738	(7,615)	(1,954)	(2,219)	—
Operating margins	198,489	178,961	173,543	185,791	112,302
Other income	32,297	28,739	36,173	24,024	31,136
Other deductions					
Interest expense	(147,243)	(97,560)	(97,567)	(104,107)	(103,908)
Other expense	(11,138)	(5,476)	(5,700)	(2,701)	6,398
Net margins including noncontrolling interest	\$ 72,405	\$ 104,664	\$ 106,449	\$ 103,007	\$ 45,928
Net loss attributable to noncontrolling interest	4,739	210	—	—	—
Net margins attributable to the Association	\$ 77,144	\$ 104,874	\$ 106,449	\$ 103,007	\$ 45,928
Plant in service (net)	\$2,696,137	\$2,661,633	\$1,596,339	\$1,607,432	\$1,622,638
Construction work in progress	201,011	133,111	143,861	107,408	90,944
Total plant	2,897,148	2,794,744	1,740,200	1,714,840	1,713,582
Cash and temporary investments	205,452	145,585	85,873	135,347	116,063
Accounts receivable	115,104	112,243	104,177	96,190	86,360
Inventories	94,092	101,586	75,474	63,109	51,312
Other current assets	17,094	16,323	13,880	13,016	82,064
Total current assets	431,742	375,737	279,404	307,662	335,799
Investments in other associations	113,436	110,368	105,917	95,202	96,537
Prepaid lease expense	—	—	90,202	75,710	1,188
Other assets	351,829	407,906	295,526	252,458	228,538
Total other assets	465,265	518,274	491,645	423,370	326,263
Total assets	\$3,794,155	\$3,688,755	\$2,511,249	\$2,445,872	\$2,375,644
Long-term debt	\$2,491,538	\$2,509,129	\$1,571,793	\$1,641,151	\$1,637,784
Current liabilities	321,477	263,135	268,462	237,279	274,335
Deferred credits and APBO	147,350	134,203	113,506	95,872	89,894
Total liabilities	2,960,365	2,906,467	1,953,761	1,974,302	2,002,013
Patronage capital equity	713,807	652,613	557,488	471,570	373,631
Noncontrolling interest	119,983	129,675	—	—	—
Total equity	833,790	782,288	557,488	471,570	373,631
Total equity and liabilities	\$3,794,155	\$3,688,755	\$2,511,249	\$2,445,872	\$2,375,644
Other data:					
Megawatt-hours sold—member	15,026,510	14,245,565	14,028,575	13,456,791	13,094,448
—non-member	3,836,646	4,311,891	4,979,993	4,857,818	3,519,288
System coincident peak demand—megawatts	2,568	2,447	2,498	2,417	2,309
Average member mills/kWh—sales	64.98	65.03	62.01	55.80	49.79
Average member mills/kWh—capital refunds	1.33	0.70	1.43	0.37	0.38
Plant additions (cash)	\$ 232,805	\$ 298,791	\$ 116,208	\$ 89,600	\$ 186,338
Capital credit allocations received	6,162	12,712	19,252	5,387	6,612
Tri-State capital credits retired	20,000	10,000	20,000	5,000	5,000
Long-term debt repaid	220,466	171,141	124,636	134,464	101,885
Weighted average long-term debt interest rate	5.7%	5.9%	5.7%	5.9%	6.1%
Equity as a % of total capitalization	24.0%	22.9%	24.6%	21.1%	17.4%