



Arkansas Electric Cooperative Corporation

Your Local Energy Partner

First Quarter Report

As of and for the three months ended January 31, 2008

ORGANIZATION

Arkansas Electric Cooperative Corporation (AECC) is a generation and transmission cooperative incorporated under the laws of the state of Arkansas, headquartered in Little Rock. AECC is the wholesale power supplier for 17 electric distribution cooperatives in Arkansas. Generation resources immediately available to AECC provide 2,977 MW of capacity. The mission of AECC is to assist each of its member cooperatives in improving the quality of life in the areas they serve through the delivery of electric power and other related services which address essential consumer needs. This is to be done at the lowest possible cost consistent with sound business practices.

RESULTS OF OPERATIONS

AECC has two components of revenue: 1) a demand charge, based on each member's peak demand for energy during the four summer months, which recovers fixed costs; and 2) an energy charge, based on total members' usage, which recovers variable costs. AECC is also able to recover the actual cost of fuel through a fuel adjustment clause.

"Operating revenues" for the three months ended January 31, 2008 increased approximately \$14.2 million compared to the same period in 2007. Member megawatt hour consumption increased 3.8%, or \$8.1 million, while member demand revenue increased \$1.0 million. The primary reason for the increase in energy revenue is attributable to an increase in fuel and purchased power costs during the first quarter of 2008, which is passed on through the fuel adjustment clause. In addition, non-member revenue increased as a result of sales of SO₂ allowances of \$7.0 million; however, the increase was offset by a decrease in economy energy sales of \$1.9 million.

"Operation and maintenance, generation" and "power

purchased" are categories that should be considered together for comparative purposes. On an hour-to-hour basis, AECC makes decisions whether to purchase energy on the open market or generate energy out of its own plants based on the most economical source. "Operation and maintenance, generation" and "power purchased" increased by \$5.2 million compared to the three months ended January 31, 2007. The total cost of energy as a percentage of operating revenue was 75.1% (adjusted for the sale of SO₂ allowances) for the three months ended January 31, 2008, compared to 75.3% for the three months ended January 31, 2007. Total fuel costs recovered through the fuel adjustment adder increased \$4.9 million during the first quarter of 2008 compared to 2007.

"Other income" consists primarily of proceeds from AECC's investment in gas reserves which are sold on the spot market. The average price received during the first quarter of 2008 for AECC's interest in these reserves was \$5.24/mcf compared to \$4.70/mcf during the same period in 2007.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the three months ended January 31, 2008, net cash and cash equivalents decreased \$14.9 million. The major components consisted of the following: AECC made payments on long-term debt of \$8.2 million and had a reduction of \$14.2 million under the member line-of-credit program. These decreases were offset to some extent by cash flows from operations.

For the calendar year 2008, AECC has budgeted \$160.4 million for capital expenditures. Of this amount, \$139.0 million will be incurred for generation. Of the remaining amount, \$21.4 million was budgeted for transmission and

other miscellaneous general capital expenditures.

AECC has a \$75 million line-of-credit with the National Rural Utilities Cooperative Finance Corporation and a \$10 million line-of-credit with Regions Bank. In addition, AECC uses advances from the member line-of-credit program (\$78.4 million as of January 31, 2008) to support daily cash needs. AECC also has established a \$30 million line-of-credit with CoBank, the line-of-credit commitment with CoBank terminates on July 14, 2008, unless AECC elects to extend the commitment.

AECC has a bond rating of AA-/A+/A2 for its secured facility bonds.

OTHER FINANCIAL INFORMATION

The interim financial statements for January 31, 2008 and 2007 are unaudited. In the opinion of AECC management, the accompanying unaudited financial information furnished herewith reflects all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of its financial position and its results of operations for the interim periods presented; however, the business of AECC is subject to rate changes, seasonal fluctuations in sales and other factors. Accordingly, the results for the interim periods presented should not be used as a basis for estimating results of operations for a full year.

It is suggested that these interim financial statements be read in conjunction with financial statements and notes thereto included in AECC's October 31, 2007 Annual Report.

Gary Voigt, President/CEO

Michael Henderson, Vice President/CFO

Arkansas Electric Cooperative Corporation

ARKANSAS ELECTRIC COOPERATIVE CORPORATION BALANCE SHEETS

As of January 31, 2008 (Unaudited) and October 31, 2007

	January 31, 2008 (Unaudited) (In Thousands)	October 31, 2007 (In Thousands)		January 31, 2008 (Unaudited) (In Thousands)	October 31, 2007 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,457,237	\$ 1,453,934	Membership fees	\$ 2	\$ 2
Construction work in progress	58,599	56,546	Patronage capital	276,651	276,651
	1,515,836	1,510,480	Accumulated margins	40,146	27,300
Less accumulated depreciation	772,184	764,004	Other equities	118,140	118,140
Net utility plant	743,652	746,476	Net unrealized gain (loss) on investments	11	(15)
			Total members' equities	434,950	422,078
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	2,503	2,987	Rural Utilities Service	2,371	2,528
Gas reserves	49,466	50,282	Federal Financing Bank	292,584	298,168
Other	25,492	25,822	Independence Steam Electric Station finance obligation	128,461	124,687
Total long-term investments	77,461	79,091	Ellis finance obligation	26,481	34,134
			Other long-term debt	74	74
CURRENT ASSETS:			Total long-term debt	449,971	459,591
Cash and cash equivalents	31,507	46,374	CURRENT LIABILITIES:		
Short-term marketable securities	4,013	6,124	Notes payable, members	91,789	105,954
Accounts receivable, members	53,887	49,635	Current maturities of long-term debt	45,020	43,594
Fuel inventories and prepaid fuel supply	28,196	29,771	Accounts payable and other accrued liabilities	46,425	54,273
Material and supply inventories	15,856	15,377	Patronage capital payable	-	-
Other current assets	7,092	5,787	Accrued property taxes	7,631	5,870
Total current assets	140,551	153,068	Accrued interest	2,355	4,919
			Total current liabilities	193,220	214,610
DEFERRED CHARGES			DEFERRED CREDITS		
	125,128	126,614		8,651	8,970
			COMMITMENTS AND CONTINGENCIES		
Total assets	\$ 1,086,792	\$ 1,105,249	Total members' equities and liabilities	\$ 1,086,792	\$ 1,105,249

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS
For the three months ended January 31, 2008 and 2007 (Unaudited)

	Three Months Ended 2008 (In Thousands)	Three Months Ended 2007 (In Thousands)
OPERATING REVENUES	\$ 161,835	\$ 147,674
OPERATING EXPENSES:		
Operation and maintenance, generation	69,415	58,423
Power purchased	46,911	52,709
Operation and maintenance, transmission	9,606	10,118
Administrative and general	4,573	4,420
Depreciation	10,652	10,608
Taxes, other than income taxes	34	33
Interest	9,369	9,112
Total operating expenses	150,560	145,423
MARGIN FROM OPERATIONS	11,275	2,251
INTEREST INCOME, NET	669	545
OTHER INCOME	552	3
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	351	-
NET MARGIN	\$ 12,847	\$ 2,799

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
For the three months ended January 31, 2008 and 2007 (Unaudited)

	Three Months Ended 2008 (In Thousands)	Three Months Ended 2007 (In Thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Margin	\$ 12,847	\$ 2,799
Adjustments to reconcile net margin to net cash provided by operating activities-		
Depreciation	10,652	10,608
Amortization of gas reserves	816	434
Allowance for funds used during construction	(351)	-
Allocation of patronage from associated organizations	(7)	-
Changes in operating assets and liabilities-		
Accounts receivable, members	(4,252)	(2,031)
Fuel inventories and prepaid fuel supply	1,575	(2,219)
Material and supply inventories	(479)	(736)
Other current assets	(1,305)	(1,819)
Deferred charges	1,486	1,432
Accounts payable and accrued liabilities	(8,651)	(5,534)
Other deferred credits	(198)	(203)
Net cash provided by operating activities	12,133	2,731
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales (purchases) of marketable securities	2,620	2
Sales of other investments	216	205
Capital expenditures	(7,477)	(16,122)
Net cash used in investing activities	(4,641)	(15,915)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) on notes payable	(14,165)	3,991
Principal payments on long-term debt	(8,194)	(7,902)
Proceeds from long-term debt	-	10,000
Redemption of patronage capital	-	(8,365)
Net cash used by financing activities	(22,359)	(2,276)
Net decrease in cash and cash equivalents	(14,867)	(15,460)
CASH AND CASH EQUIVALENTS, beginning of period	46,374	64,544
CASH AND CASH EQUIVALENTS, end of period	\$ 31,507	\$ 49,084

Member Systems and Board of Directors

Larry Hellums, Chairman
Charles Burdine, Vice Chairman
Ron Moore, Secretary-Treasurer

Arkansas Valley Electric
Ozark
Sam Davis
Bill Peters

Carroll Electric
Berryville
Charles Burdine
Rob Boaz

Farmers Electric
Newport
Bryan Runsick
Gene Sweat

North Arkansas Electric
Salem
Jasper Freeman
Mel Coleman

Petit Jean Electric
Clinton
Bill Derickson
David Fugitt

Southwest Arkansas Electric
Texarkana
Don Stemple
Wayne Whitaker

Ashley-Chicot Electric
Hamburg
Dennis Holland
Ron Moore

Clay County Electric
Corning
John Dalton
David Smith

First Electric
Jacksonville
Robert Hill
Don Crabbe

Ouachita Electric
Camden
Walt Piggott
Mark Cayce

Rich Mountain Electric
Mena
Bart Price
Leon Philpot

Woodruff Electric
Forrest City
J. A. Wampler
Billy Martin

C & L Electric
Star City
Charles White
W. H. Frizzell

Craighead Electric
Jonesboro
Tom Sloan
Brian Duncan

Mississippi County Electric
Blytheville
Robert E. Davis
Larry Hellums

Ozarks Electric
Fayetteville
Jerry Bolinger
Mitchell Johnson

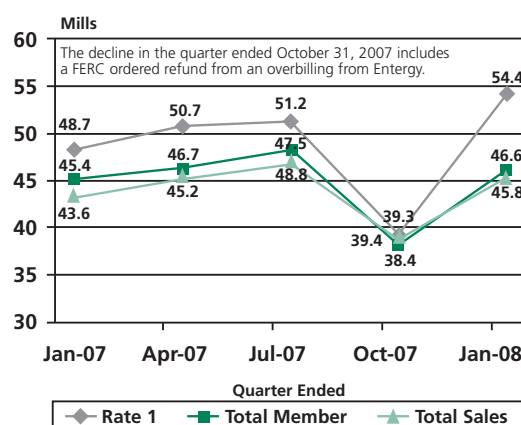
South Central Arkansas Electric
Arkadelphia
Brian Kirksey
Bill Conine

Selected Financial Highlights

As of January 31, 2008 and October 31, 2007

	January 31, 2008	October 31, 2007
Equity as a Percent of Assets	40.02%	38.19%
Debt/Equity Ratio	1.14	1.19
Current Ratio	0.73	0.71
Times Interest Earned Ratio	2.82	1.02
Debt Service Coverage Ratio	2.00	1.01
Average Cost of Long-term debt	5.528%	5.510%

Revenue Per MWH Sold



Management Team

President/CEO	Gary Voigt
Sr. VP & General Counsel	Robert M. Lyford
VP Engineering, Construction & Operations	Maurice Robinson
VP Planning, Rates & Dispatching	Ricky Bittle
VP Information Technology	Robert McClanahan
VP/CFO	Michael Henderson
VP Systems Services	Doug White
VP Strategic Affairs	Sandra Hochstetter



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