



Second Quarter Report

As of and for the three and six months ended April 30, 2012

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 3,110 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 and purchased power through a fuel adjustment clause.

"Operating revenues" for the six months ended April 30, 2012 increased approximately \$6.5 million compared to the same period in 2011. The increase in operating revenue was primarily the result of an increase in demand revenue of \$14.6 million, demand kW increased 15% in 2012. Offsetting the demand increase, energy revenue decreased \$2.0 million. There are two reasons for the decrease in energy revenue; 1) a decrease in fuel and purchased power costs during the six months ended April 30, 2012 in the amount of \$8.2 million, which was passed on to members through the fuel adjustment clause, and 2) a 3.8% increase in member megawatt hour consumption (\$6.2 million). The demand and energy revenue increase was offset by a decrease in non-member sales in the amount of \$6.1 million (primarily from sales of economy energy).

"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 plants based on the most economical source. "Operation and maintenance, generation" and "power purchased" decreased by \$7.2 million compared to the six months ended April 30, 2011. The total cost of energy as a percentage of operating revenue was 65.0% for the six months ended April 30, 2012 compared to 68.9% for the six months ended April 30, 2011.

"Other losses" consists primarily of proceeds from AECC's investment in gas reserves which are sold on the spot market. The average price received during the six months ended April 30, 2012 for AECC's interest in these reserves was \$2.42/mcf compared to \$3.21/mcf during the same period in 2011.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2012, net cash and cash equivalents decreased \$52.6 million. The major components consisted of the following: 1) repurchase of the Ellis hydroelectric generating facility residual (Ellis) in the amount of \$25.6 million and capital expenditures of \$22.8 million, 2) a reduction of \$28.7 million in the amount of funds held under the member line of credit, 3) regular payments on long-term debt of \$17.6 million, and 4) a patronage capital retirement in the amount of \$4.6 million. These decreases were offset by \$10.0 million in borrowing from the commercial paper program and \$37.7 million from cash provided by operations.

For the calendar year 2012, AECC has budgeted \$60.5 million for capital expenditures. This amount includes \$47.7 million to be incurred for generation and \$12.8 million for transmission and other miscellaneous general capital expenditures. The budgeted capital expenditures for 2012 includes \$23.0 million for the completion of the John W. Turk, Jr. Power Plant (Turk).

AECC has a \$75.0 million perpetual line-of-credit with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) and a \$10.0 million committed line of credit with Regions Bank that terminates on August 15, 2012. AECC uses advances from the member line of credit program (\$49.0 million as of April 30, 2012) to support daily cash needs. AECC also has a \$185.5 million loan approved from NRUCFC for construction of Turk, a 600 MW coal-fired ultra supercritical steam turbine generating unit, of which AECC owns 11.667% or 70 MW. AECC has until December 31, 2012 to draw funds from this loan, which matures on January 1, 2042. In addition, on December 8, 2010, AECC received a final clearance and approval letter from the Rural Utilities Service to provide loan funds in the amount of \$621.0 million for certain generation projects and improvements. To date \$61.4 million has been advanced, with the remaining \$559.6 million available through the advance period on December 31, 2015.

On February 22, 2011 AECC completed a private placement debt issuance of \$200 million in First Mortgage Obligation Senior Notes (Notes). The debt issuance involved two tranches with \$80 million Series 2011A Notes due December 31, 2030 at an annual rate of 4.71% and \$120 million Series 2011B Notes due December 31, 2041 at an annual rate of 5.62%. AECC used the proceeds of the Notes to fund past capital expenditures, including: 1) to repay the holders of outstanding short-term commercial paper; 2) to fund on a long-term basis, capital expenditures AECC has incurred during the period 2006 through 2010 involving projects for the acquisition of property and/or the construction, extension, or improvement of AECC's generating, transmission, or general plant; and 3) for payment of the cost associated with issuing the Notes.

On April 28, 2011, AECC closed on a three year \$250 million senior unsecured revolving credit facility. This \$250 million credit facility will be used to support AECC's commercial paper program, for general purposes and for the issuance of letters of credit. This facility replaces a \$210.5 million unsecured facility which terminated on April 28, 2011. As of April 30, 2012, AECC had \$10.0 million of outstanding commercial paper.

On November 30, 2011, AECC executed an Agreement of Sale and Purchase, with The Bank of New York Mellon as owner trustee, to purchase the Ellis leased assets and the entire beneficial interest that the owner trustee retained in the leased assets for \$35.6 million. On December 20, 2011 the purchase closed with the purchase price being funded by AECC's use of general funds in the amount of \$25.6 million and \$10.0 million of trust funds. Upon closing, the Ellis lease and trust agreement terminated.

On January 31, 2012, AECC entered into a Purchase and Sale Agreement with Hot Spring Power Company, LLC (Seller) to acquire a 746 MW combined cycle gas-fired power plant located near Malvern, Arkansas. AECC is purchasing the leasehold interest in certain assets owned by Hot Spring County and assuming certain associated liabilities, upon the terms and conditions set forth in the Purchase and Sales Agreement. AECC is seeking all necessary regulatory approvals for this acquisition which is scheduled to close on or before August 31, 2012.

Moody's Investors Service (Moody's) has assigned an A1 senior secured rating to AECC's private placement of the Notes. AECC has also been assigned issuer credit ratings of AA- by Standard and Poor's (S&P) and A+ by Fitch Ratings (Fitch). AECC's short-term debt ratings are Prime-1, A1+ and F-1 from Moody's, S&P and Fitch respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for April 30, 2012 and 2011 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, 2011 Annual Report.

Duane Highley, President/CEO
Michael Henderson, Senior Vice President/CFO
Arkansas Electric Cooperative Corporation

Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of April 30, 2012 (Unaudited) and October 31, 2011

	April 30, 2012 (Unaudited)	October 31, 2011 (In Thousands)		April 30, 2012 (Unaudited)	October 31, 2011 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 1,541,751	\$ 1,538,404	Membership fees	\$ 2	\$ 2
Construction work in progress	250,784	229,075	Patronage capital	346,406	351,003
	1,792,535	1,767,479	Accumulated margins	50,716	26,226
Less accumulated depreciation	903,247	885,804	Other equities	118,140	118,140
Net utility plant	889,288	881,675	Net unrealized loss on investments	-	-
			Total members' equities	515,264	495,371
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	10,000	10,000	Rural Utilities Service	248	410
Gas reserves	38,787	40,238	Federal Financing Bank	253,451	263,139
Deposit with RUS - restricted investment	74,158	71,224	CoBank	88,458	93,958
Other	29,556	27,332	First Mortgage Obligation Series 2011 A & B	198,000	200,000
Total long-term investments	152,501	148,794	Other long-term debt	26	37
			Total long-term debt	540,183	557,544
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	54,123	106,676	Notes payable, members	123,138	151,812
Accounts receivable, members	44,944	52,342	Notes payable, related parties	30,000	30,000
Fuel inventories and prepaid fuel supply	47,846	37,564	Notes payable, others	9,994	-
Material and supply inventories	17,201	17,066	Current maturities of long-term debt	34,571	34,821
Deposit with RUS - restricted investment	248	438	Accounts payable and other accrued liabilities	44,896	51,635
Other current assets	5,639	3,275	Accrued property taxes	8,536	6,486
Total current assets	170,001	217,361	Accrued interest	5,012	5,366
			Total current liabilities	256,147	280,120
DEFERRED CHARGES	115,896	95,553	COMMITMENTS AND CONTINGENCIES		
			DEFERRED CREDITS	16,092	10,348
Total assets	\$ 1,327,686	\$ 1,343,383	Total members' equities and liabilities	\$ 1,327,686	\$ 1,343,383

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS
 For the three and six months ended April, 2012 and 2011 (Unaudited)

	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 141,409	\$ 142,963	\$ 301,525	\$ 295,023
OPERATING EXPENSES:				
Operation and maintenance, generation	62,432	72,125	133,383	145,629
Power purchased	27,878	28,632	62,646	57,612
Operation and maintenance, transmission	15,807	14,420	32,770	29,034
Administrative and general	4,664	3,566	10,498	9,134
Depreciation	10,773	11,405	21,964	22,776
Taxes, other than income taxes	42	43	84	86
Interest	8,683	8,477	17,450	16,903
Total operating expenses	130,279	138,668	278,795	281,174
MARGIN FROM OPERATIONS	11,130	4,295	22,730	13,849
INTEREST INCOME	1,060	853	2,333	1,729
OTHER LOSS	(508)	(386)	(1,111)	(487)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	353	58	538	104
NET MARGIN	\$ 12,035	\$ 4,820	\$ 24,490	\$ 15,195

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
 For the three and six months ended April 30, 2012 and 2011 (Unaudited)

	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin	\$ 12,035	\$ 4,820	\$ 24,490	\$ 15,195
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	10,773	11,405	21,964	22,776
Amortization of gas reserves	614	633	1,451	1,105
Allowance for funds used during construction	(353)	(58)	(538)	(104)
Allocation of patronage from associated organizations	(52)	(1,369)	(1,302)	(1,369)
Deposit into Cushion of Credit	(1,126)	(373)	(1,957)	(751)
Changes in operating assets and liabilities-				
Accounts receivable	8,319	10,054	7,398	(2,962)
Fuel inventories and prepaid fuel supply	(5,044)	(5,189)	(10,282)	(8,032)
Other current assets	3,750	(107)	(2,364)	(1,273)
Material and supply inventories	523	889	(135)	360
Deferred charges	2,730	920	5,228	3,684
Accounts payable and accrued liabilities	(1,784)	4,350	(11,305)	(853)
Other deferred credits	(376)	(12)	(5,068)	(207)
Net cash provided by operating activities	30,009	25,963	37,716	27,569
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales of marketable securities	-	2,000	-	2,000
Net (purchases) sales of other investments	(365)	840	(245)	963
Deposit with RUS - restricted investment	-	-	(10,000)	-
Payments from RUS - restricted investment	9,213	-	9,213	-
Repurchase of Ellis residual	-	-	(25,571)	-
Capital expenditures	(13,630)	(16,509)	(22,778)	(23,311)
Net cash used in investing activities	(4,782)	(13,669)	(49,381)	(20,348)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net payments on notes payable	(14,185)	(5,085)	(28,674)	(16,002)
(Payments) borrowings on notes payable, other	-	(159,937)	9,994	(159,897)
Principal payments on long-term debt	(8,368)	(9,156)	(17,611)	(17,902)
Redemption of patronage capital	-	-	(4,597)	-
Proceeds from long-term debt	-	200,000	-	200,000
Net cash (used in) provided by financing activities	(22,553)	25,822	(40,888)	6,199
Net increase (decrease) in cash and cash equivalents	2,674	38,116	(52,553)	13,420
CASH AND CASH EQUIVALENTS, beginning of period	51,449	48,901	106,676	73,597
CASH AND CASH EQUIVALENTS, end of period	\$ 54,123	\$ 87,017	\$ 54,123	\$ 87,017

MEMBER SYSTEMS AND BOARD OF DIRECTORS

Mitchell Johnson, Chairman
 John Dalton, Vice Chairman
 Mel Coleman, Secretary-Treasurer

Arkansas Valley Electric
 Ozark
 Sam Davis
 Bill Peters

Carroll Electric
 Berryville
 Alan Hunnicutt
 Rob Boaz

Farmers Electric
 Newport
 Bill Fortune
 Larry Bright

North Arkansas Electric
 Salem
 Larry Goodwin
 Mel Coleman

Petit Jean Electric
 Clinton
 Terry Kirkendoll
 Bill Conine

Southwest Arkansas Electric
 Texarkana
 Don Stemple
 Wayne Whitaker

Ashley-Chicot Electric
 Hamburg
 Jerry Pahal
 Rodney Chapman

Clay County Electric
 Corning
 John Dalton
 David Smith

First Electric
 Jacksonville
 Robert Hill
 Don Crabbe

Ouachita Electric
 Camden
 Danny Adams
 Mark Cayce

Rich Mountain Electric
 Mena
 Donald Manning
 Leon Philpot

Woodruff Electric
 Forrest City
 J. A. Wampler
 Billy Martin

C & L Electric
 Star City
 Robert McBryde
 W. H. Frizzell

Craighead Electric
 Jonesboro
 Tom Sloan
 Brian Duncan

Mississippi County Electric
 Blytheville
 Robert E. Davis
 Brad Harrison

Ozarks Electric
 Fayetteville
 Jerry Bolinger
 Mitchell Johnson

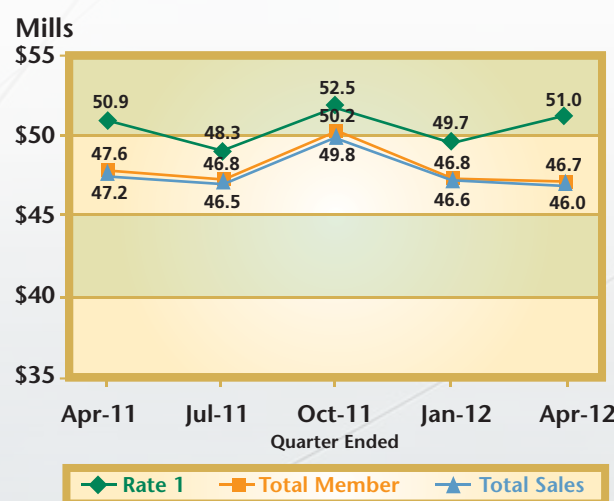
South Central Arkansas Electric
 Arkadelphia
 Ronnie Penney
 Kevin Brownlee

Selected Financial Highlights

As of April 30, 2012 and October 31, 2011

	April 30, 2012	October 31, 2011
Equity as a Percent of Assets	38.81%	36.87%
Debt/Equity Ratio	1.12	1.20
Current Ratio	0.66	0.78
Margins for Interest Ratio	2.68	2.33
Debt Service Coverage Ratio	1.90	1.72
Average Cost of Long-term Debt	5.017%	5.029%

Revenue Per MWH Sold



Management Team

President/CEO Duane Highley
Sr. VP and General Counsel Robert M. Lyford
Sr. VP/CFO Michael Henderson
VP Planning, Rates and Dispatching Ricky Bittle
VP Information Technology Robert McClanahan
VP Engineering, Construction and Operations Jonathan Oliver
VP Systems Services Doug White
VP Strategic Affairs Sandra Byrd



Arkansas Electric Cooperative Corporation
 Your Local Energy Partner

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