



Second Quarter Report

As of and for the six months ended April 30, 2017

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 (members) in Arkansas. Generation resources immediately available to AECC provide 4,288 MWs of capacity. The mission of AECC is to provide safe, affordable electric power and related services reliably and responsibly by assisting each of its members in improving the quality of life in the areas they serve. 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) an energy charge, based on total members' usage, which recovers certain variable and a portion of AECC's fixed costs; and 2) a demand charge, based on each member's peak demand for energy during the four summer months, which recovers a portion of AECC's fixed costs. In addition, AECC is also able to recover the actual cost of fuel and purchased power through a fuel adjustment clause approved by the Arkansas Public Service Commission (APSC), along with a separate rider to recover the net of expenses and revenue related to participating in the energy markets of two separate Regional Transmission Organizations (RTO), explained more fully below.

"Operating revenues" for the six months ended April 30, 2017, increased approximately \$68.4 million compared to the same period in 2016. Effective for bills rendered on or after May 1, 2016, AECC was granted a 4.69% wholesale rate increase by the APSC pursuant to Arkansas Code Annotated §23-4-1101, et seq. This rate increase resulted in \$14.2 million in additional revenue during the six months ended April 30, 2017. In addition to this rate increase, the energy revenue component experienced an increase of \$27.0 million. There are two reasons for the increase in energy revenue: 1) an increase in fuel and purchased power costs during the six months ended April 30, 2017, in the amount of \$18.3 million, which was passed on to members through the fuel adjustment clause; and 2) an increase in member megawatt hour consumption, which resulted in an additional \$8.7 million increase in energy revenue. AECC's member peak demand is set using the rolling four summer months of June through September. The member peak demand increased by 2.7%, due to a return to a more seasonally-expected weather pattern, and resulted in an increase in revenue in the amount of \$1.9 million during the six months ending April 30, 2017, as compared to the same period in 2016. Effective April 2014, AECC received APSC approval of a Transmission Owner/RTO Rider (TO/RTO Rider) to recover transmission expenses for certain transmission-specific accounts incurred in excess of an approximate base of \$5.0 million per

month. In addition, effective July 1, 2016, the APSC approved AECC returning any revenues received from others for the use of AECC's transmission facilities through the TO/RTO Rider. The TO/RTO Rider recovered \$29.0 million during the six months ended April 30, 2017, which was approximately \$10.2 million greater than the amount collected during the same period in 2016. In addition, hourly energy sales in excess of hourly loads settled in the RTO markets along with transmission revenues received increased by \$15.1 million during that same period.

Starting on December 19, 2013, AECC began participating in both the day-ahead and real-time energy markets operated by the Midcontinent Independent System Operator, Inc. (MISO) RTO, and, with APSC approval, joined MISO as a transmission-owning member on June 1, 2014. Additionally, on March 1, 2014, AECC began participating in the Integrated Marketplace, which also includes a day-ahead and real-time energy markets, launched by the Southwest Power Pool (SPP) RTO and effective July 1, 2016, again with APSC approval, joined SPP as a transmission-owner member. The MISO footprint includes the eastern two-thirds of Arkansas. The SPP footprint includes the western one-third of Arkansas. Both RTOs operate wholesale electric markets and are federally-designated as the entities responsible for moving electricity within their designated regional footprints, which include large interstate areas. Both RTOs coordinate, control and monitor the electricity transmission grid within their footprint pursuant to FERC-approved tariffs. As a result of its participation in the MISO and SPP energy markets, AECC bids all of its plant generation into the RTO markets and purchases its required energy to serve its load from the markets as well. Transactions within each individual hour are netted to a single purchase or sale, within each individual market (MISO and SPP) based on the actual load and net megawatt hour generation.

Because they are so interrelated to the services AECC provides to members, "operation and maintenance, generation", "power purchased" and "operation and maintenance, transmission" are categories that are combined for comparative purposes. "Operation and maintenance, generation", "power purchased" and "operation and maintenance, transmission" increased during the six months ended April 30, 2017, by \$58.2 million, compared to the same period in 2016. The total cost of energy and transmission as a percentage of operating revenue was 79.6% for the six months ended April 30, 2017, compared to 78.4% for the six months ended April 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the six months ended April 30, 2017, net cash and cash equivalents decreased \$87.7 million. The major components of this decrease were \$50.1 million in payments related to AECC's commercial paper program, \$20.1 million in patronage capital retirement to

AECC's members, \$28.9 million of capital expenditures, \$16.2 million in principal payments on long term debt, along with reductions of \$24.2 million in the amount of funds held under the member line of credit funds. These decreases were offset by \$50.8 million of cash from operations.

For the calendar year 2017, AECC has budgeted \$95.7 million for capital expenditures. This amount includes \$41.2 million for generation and \$54.5 million for transmission and other miscellaneous general capital expenditures.

As part of AECC's short-term liquidity program, it maintains a \$75.0 million perpetual line of credit with the National Rural Utilities Cooperative Finance Corporation, a \$10.0 million committed line of credit with CoBank through September 6, 2017, and a \$10.0 million uncommitted line of credit with Regions Bank with a maturity of November 2, 2018. Note: all line of credit facilities are unsecured. AECC uses advances from the member line of credit program to support daily cash needs.

AECC also has a \$250.0 million commercial paper program, for general corporate purposes and the issuance of letters of credit. Its commercial paper program is supported by a five-year \$250.0 million senior unsecured revolving facility with a maturity of December 21, 2020. On April 30, 2017, AECC had \$49.9 million of outstanding commercial paper.

Standard and Poor's (S&P) has assigned AECC an issuer credit rating of AA. Moody's Investors Service (Moody's) has assigned an Aa3 senior secured rating to AECC's First Mortgage Obligation Series 2011 A & B private placement. AECC also has an implied senior secured rating of AA- by Fitch Ratings (Fitch). AECC's short-term debt ratings are, A-1+, P-1 and F-1+ from S&P, Moody's, and Fitch, respectively.

OTHER FINANCIAL INFORMATION

The interim financial statements for April 30, 2017, and 2016, 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, 2016 Annual Report.

Duane Highley, President/CEO

Michael Henderson, Executive Vice President/CFO
Arkansas Electric Cooperative Corporation

Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of April 30, 2017 (Unaudited) and October 31, 2016

	April 30, 2017 (Unaudited) (In Thousands)	October 31, 2016 (In Thousands)		April 30, 2017 (Unaudited) (In Thousands)	October 31, 2016 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 2,433,811	\$ 2,430,196	Membership fees	\$ 2	\$ 2
Construction work in progress	107,780	79,840	Patronage capital	358,038	378,183
	2,541,591	2,510,036	Accumulated margins	86,206	67,768
Less accumulated depreciation	1,210,700	1,185,576	Other equities	118,140	118,140
Net utility plant	1,330,891	1,324,460	Total members' equities	562,386	564,093
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Gas reserves	12,736	12,987	Rural Utilities Service	-	11
Deposit with RUS - restricted investment	63,877	62,334	Federal Financing Bank	616,836	622,462
Other	24,332	23,461	CoBank	50,537	51,903
Total long-term investments	100,945	98,782	CoBank, Unsecured	7,787	8,514
CURRENT ASSETS:			First Mortgage Obligation Series 2011 A & B	185,000	188,000
Cash and cash equivalents	92,477	180,176	Total long-term debt	860,160	870,890
Accounts receivable, members	51,235	54,478	CURRENT LIABILITIES:		
Fuel inventories and prepaid fuel supply	35,566	41,495	Notes payable, members	121,322	145,493
Material and supply inventories	22,863	23,223	Notes payable, related parties	30,000	30,000
Prepaid warranty agreement	-	-	Notes payable, others	49,865	99,914
Deposit with RUS - restricted investment	22	22	Current maturities of long-term debt	24,047	29,566
Other current assets	10,922	27,255	Accounts payable and other accrued liabilities	53,960	73,480
Total current assets	213,085	326,649	Accrued property taxes	9,421	7,310
DEFERRED CHARGES			Accrued interest	5,316	5,418
	83,475	89,982	Total current liabilities	293,931	391,181
DEFERRED CREDITS			COMMITMENTS AND CONTINGENCIES		
Total assets	\$ 1,728,396	\$ 1,839,873	DEFERRED CREDITS		
				11,919	13,709
			Total members' equities and liabilities		
				\$ 1,728,396	\$ 1,839,873

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS**

For the three and six months ended April 30, 2017 and 2016 (Unaudited)

	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 180,392	\$ 150,022	\$ 384,515	\$ 316,083
OPERATING EXPENSES:				
Operation and maintenance, generation	64,453	52,261	150,518	116,102
Power purchased	48,148	38,356	85,378	76,848
Operation and maintenance, transmission	30,329	26,559	70,251	54,994
Administrative and general	6,538	6,087	13,257	13,278
Depreciation	13,302	11,566	26,424	23,181
Taxes, other than income taxes	39	38	78	76
Interest	11,960	10,977	23,892	22,067
Total operating expenses	174,769	145,844	369,798	306,546
MARGIN FROM OPERATIONS	5,623	4,178	14,717	9,537
INTEREST INCOME, NET	852	861	1,745	1,825
OTHER INCOME (LOSS)	282	(199)	1,975	(232)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	-	44	-	68
NET MARGIN	\$ 6,757	\$ 4,884	\$ 18,437	\$ 11,198

**ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS**

For the three and six months ended April 30, 2017 and 2016 (Unaudited)

	Three Months Ended		Six Months Ended	
	2017	2016	2017	2016
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin	\$ 6,757	\$ 4,884	\$ 18,437	\$ 11,198
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	13,302	11,566	26,424	23,181
Amortization of gas reserves	172	151	251	223
Allowance for funds used during construction	-	(44)	-	(68)
Allocation of patronage from associated organizations	(737)	(878)	(738)	(896)
Gain on life insurance proceeds	(377)	-	(377)	-
Interest earned on deposit into cushion of credit	(769)	(738)	(1,554)	(1,575)
Changes in operating assets and liabilities-				
Accounts receivable	13,696	15,481	3,243	5,777
Fuel inventories and prepaid fuel supply	(1,063)	(5,936)	5,930	(12,849)
Other current assets	17,283	(170)	16,333	84
Material and supply inventories	(2,311)	(60)	360	(648)
Deferred charges	(1,237)	3,593	5,521	6,671
Accounts payable and accrued liabilities	(1,982)	(11,882)	(20,459)	(20,614)
Other deferred credits	(167)	(236)	(2,571)	(1,385)
Net cash provided by operating activities	42,567	15,731	50,800	9,099
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales of other investments	778	778	1,025	1,136
Deposit with RUS - restricted investment	-	-	-	-
Withdrawals from RUS - restricted investments	5	5	11	10,877
Capital expenditures	(18,966)	(27,557)	(28,921)	(42,610)
Net cash used in investing activities	(18,183)	(26,774)	(27,885)	(30,597)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings/(payments) on notes payable	(17,959)	5,602	(24,170)	(11,979)
Payments on notes payable, other	(23)	(50,012)	(50,050)	(50,038)
Principal payments on long-term debt	(6,840)	(9,101)	(16,249)	(20,713)
Redemption of patronage capital	-	-	(20,145)	(10,419)
Proceeds from long-term debt	-	-	-	19,417
Net cash used in financing activities	(24,822)	(53,511)	(110,614)	(73,732)
Net decrease in cash and cash equivalents	(438)	(64,554)	(87,699)	(95,230)
CASH AND CASH EQUIVALENTS, beginning of period	92,915	117,054	180,176	147,730
CASH AND CASH EQUIVALENTS, end of period	\$ 92,477	\$ 52,500	\$ 92,477	\$ 52,500

MEMBER SYSTEMS AND BOARD OF DIRECTORS

Alan Hunnicutt, Chairman
Mark Cayce, Vice Chairman
Mark Robbins, Secretary-Treasurer

Arkansas Valley Electric
Ozark
Jerry Gadbury
Al Simpson

Carroll Electric
Berryville
Alan Hunnicutt
Rob Boaz

Farmers Electric
Newport
Sam Houston
Larry Bright

North Arkansas Electric
Salem
Cameron Davis
Mel Coleman

Petit Jean Electric
Clinton
Fred Herman
Bill Conine

Southwest Arkansas Electric
Texarkana
Don Stemple
Wayne Whitaker

Ashley-Chicot Electric
Hamburg
Martha Pennington
Rodney Chapman

Clay County Electric
Corning
John Dalton
David Smith

First Electric
Jacksonville
Robert Hill
Don Crabbe

Ouachita Electric
Camden
Mike Hutchinson
Mark Cayce

Rich Mountain Electric
Mena
Mark Robbins
Leon Philpot

Woodruff Electric
Forrest City
J. A. Wampler
Michael Swan

C & L Electric
Star City
Charles Searcy
Greg Smith

Craighead Electric
Jonesboro
Terry Rorex
Brian Duncan

Mississippi County Electric
Blytheville
Robert E. Davis
Brad Harrison

Ozarks Electric
Fayetteville
Jerry Bolinger
Mitchell Johnson

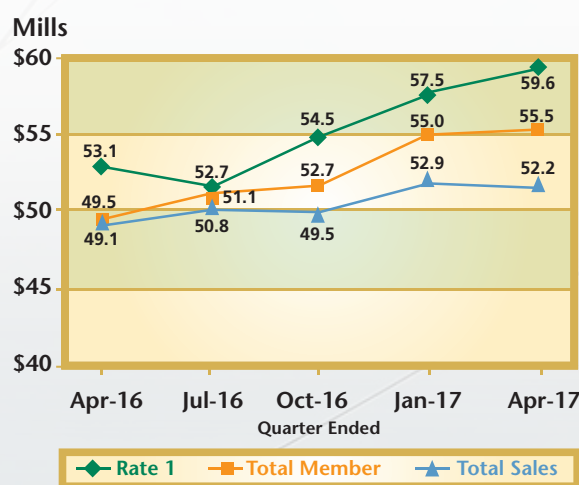
South Central Arkansas Electric
Arkadelphia
Danny Buck
Kevin Brownlee

Selected Financial Highlights

As of April 30, 2017 and October 31, 2016

	April 30, 2017	October 31, 2016
Equity as a Percent of Assets	32.54%	30.66%
Debt/Equity Ratio	1.57	1.60
Current Ratio	0.72	0.84
Margins for Interest Ratio	2.14	1.93
Debt Service Coverage Ratio	1.85	1.65
Average Cost of Long-term Debt	3.721%	3.705%

Revenue Per MWH Sold



Management Team

President/CEO Duane Highley
Executive VP/CFO Michael Henderson
VP and General Counsel Lori Burrows
VP Planning and Market Operations Andrew Lachowsky
VP/CIO Robert McClanahan
VP Power Production and Delivery Jonathan Oliver
VP Public Affairs and Member Services Sandra Byrd
VP Human Resources and Strategy Maria Smedley



Arkansas Electric Cooperative Corporation
We Are Arkansas

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