



Third Quarter Report

As of and for the three and nine months ended July 31, 2013

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 3,916 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 nine months ended July 31, 2013 increased approximately \$58.4 million compared to the same period in 2012. Effective January 1, 2013, AECC was granted a 5% wholesale rate increase by the Arkansas Public Service Commission under Arkansas Act 676 of 2009. This rate increase resulted in \$19.0 million in additional revenue. Operating revenue also experienced an increase in energy revenue of \$30.1 million. There are two reasons for the increase in energy revenue; 1) an increase in fuel and purchased power costs during the nine months ended July 31, 2013 in the amount of \$34.2 million, which was passed on to members through the fuel adjustment clause, and 2) a 1.9% decrease in member megawatt hour consumption which resulted in a reduction of \$4.1 million in energy revenue. Member megawatt billing demand, which is set over the four summer months, declined by 5.6% or \$10.9 million during the nine months ended July 31, 2013 as compared to 2012. Due to the addition of two new generating sources, AECC's non-member sales increased in the amount of \$20.2 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 plants based on the most economical source. "Operation and maintenance, generation" and "power purchased" increased by \$73.7 million compared to the nine months ended July 31, 2012. The total cost of energy as a percentage of operating revenue was 72.4% for the nine months ended July 31, 2013 compared to 65.9% for the nine months ended July 31, 2012. The increase resulted from a rise in the costs of fuel and purchased power which is passed on to members through the fuel adjustment clause coupled with the additional operation and maintenance expense of two additional power plants.

LIQUIDITY AND CAPITAL RESOURCES

As detailed in the "Interim Statements of Cash Flows" for the nine months ended July 31, 2013, net cash and cash equivalents decreased \$40.1 million. The primary reasons for the decrease are related to the following components: 1) net payments of \$239.9 million on AECC's commercial paper program, 2) a patronage capital retirement in the amount of \$9.9 million, 3) \$38.9 million of capital expenditures and 4) a reduction of \$21.0 million in the amount of funds held under the member line of credit. The decrease was offset by proceeds from the Federal Financing Bank T8 (FFB) note in the amount of \$240 million related to the purchase of Magnet Cove Power Plant and cash provided from operations of \$27.9 million.

For the calendar year 2013, AECC has budgeted \$126.9 million for capital expenditures. This amount includes \$102.7 million to be incurred for generation and \$24.2 million for transmission and other miscellaneous general capital expenditures. The budgeted generation capital expenditures for 2013 include \$35.0 million for the completion of the John W. Turk, Jr. Power Plant which went into commercial operation on December 20, 2012.

AECC has a \$75.0 million perpetual line of credit with the National Rural Utilities Cooperative Finance Corporation and a \$10.0 million committed line of credit with Regions Bank that terminates on August 15, 2014. AECC uses advances from the member line of credit program to support daily cash needs. AECC entered into a long-term loan agreement with Rural Utilities Service by executing the Series 2012 FFB note, dated November 30, 2012, in the amount of \$245 million. This loan is being used to finance AECC's acquisi-

tion of the Magnet Cove Power Plant. AECC received \$240 million in loan funds on February 5, 2013.

On April 28, 2011, AECC entered into a three year \$250 million senior unsecured revolving credit facility. On June 13, 2013, AECC entered into an amendment which extends the maturity date of this facility through June 12, 2016. 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. On July 31, 2013, AECC had \$10.0 million of outstanding commercial paper.

On September 10, 2012, AECC closed on the acquisition of the Magnet Cove Power Plant, a 746 MW nameplate, (660 MW net dependable for summer conditions) combined cycle gas-fired power plant located near Malvern, Arkansas. AECC purchased the leasehold interest in certain assets owned by Hot Spring County, Arkansas and assumed certain liabilities associated with the Magnet Cove Power Plant.

Moody's Investors Service (Moody's) has assigned an A1 senior secured rating to AECC's First Mortgage Obligation Series 2011 A & B private placement. AECC has also been assigned an 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 July 31, 2013 and 2012 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, 2012 Annual Report.

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

Arkansas Electric Cooperative Corporation BALANCE SHEETS

As of July 31, 2013 (Unaudited) and October 31, 2012

	July 31, 2013 (Unaudited) (In Thousands)	October 31, 2012 (In Thousands)		July 31, 2013 (Unaudited) (In Thousands)	October 31, 2012 (In Thousands)
ASSETS			EQUITIES AND LIABILITIES		
UTILITY PLANT:			MEMBERS' EQUITIES:		
Electric plant in service, at cost	\$ 2,126,588	\$ 1,868,728	Membership fees	\$ 2	\$ 2
Construction work in progress	93,189	284,667	Patronage capital	379,570	389,477
	<u>2,219,777</u>	<u>2,153,395</u>	Accumulated margins	11,607	4,461
Less accumulated depreciation	1,047,836	1,009,591	Other equities	118,140	118,140
Net utility plant	<u>1,171,941</u>	<u>1,143,804</u>	Total members' equities	<u>509,319</u>	<u>512,080</u>
LONG-TERM INVESTMENTS:			LONG-TERM DEBT:		
Marketable securities	10,000	10,000	Rural Utilities Service	99	150
Gas reserves	15,811	16,436	Federal Financing Bank	476,867	246,198
Deposit with RUS - restricted investment	42,321	57,477	CoBank	74,126	82,826
Other	20,383	19,702	CoBank - Unsecured	13,008	-
Total long-term investments	<u>88,515</u>	<u>103,615</u>	First Mortgage Obligation Series 2011 A & B	195,500	198,000
CURRENT ASSETS:			Other long-term debt	13	26
Cash and cash equivalents	50,353	90,461	Total long-term debt	<u>759,613</u>	<u>527,200</u>
Accounts receivable, members	65,525	51,180	CURRENT LIABILITIES:		
Fuel inventories and prepaid fuel supply	36,873	46,583	Notes payable, members	137,279	158,291
Material and supply inventories	21,602	19,574	Notes payable, related parties	30,000	30,000
Prepaid warranty agreement	882	19,132	Notes payable, others	9,998	249,873
Deposit with RUS - restricted investment	72	260	Current maturities of long-term debt	28,495	30,344
Other current assets	4,807	7,206	Accounts payable and other accrued liabilities	58,112	58,403
Total current assets	<u>180,114</u>	<u>234,396</u>	Accrued property taxes	8,501	6,377
			Accrued interest	2,871	5,113
			Total current liabilities	<u>275,256</u>	<u>538,401</u>
DEFERRED CHARGES	<u>118,006</u>	<u>110,975</u>	COMMITMENTS AND CONTINGENCIES		
			DEFERRED CREDITS	<u>14,388</u>	<u>15,109</u>
Total assets	<u>\$ 1,558,576</u>	<u>\$ 1,592,790</u>	Total members' equities and liabilities	<u>\$ 1,558,576</u>	<u>\$ 1,592,790</u>

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF OPERATIONS
For the three and nine months ended July 31, 2013 and 2012 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
OPERATING REVENUES	\$ 189,885	\$ 182,748	\$ 542,671	\$ 484,273
OPERATING EXPENSES:				
Operation and maintenance, generation	95,621	82,096	291,793	215,479
Power purchased	41,763	41,248	101,237	103,894
Operation and maintenance, transmission	18,382	16,557	51,500	49,327
Administrative and general	7,214	7,555	18,694	18,053
Depreciation	14,449	10,943	41,692	32,907
Taxes, other than income taxes	40	43	122	127
Interest	11,840	8,619	32,750	26,069
Total operating expenses	189,309	167,061	537,788	445,856
MARGIN FROM OPERATIONS	576	15,687	4,883	38,417
INTEREST INCOME	702	982	2,126	3,315
OTHER LOSS	(26)	(733)	(97)	(1,844)
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	0	383	235	921
NET MARGIN	\$ 1,252	\$ 16,319	\$ 7,147	\$ 40,809

ARKANSAS ELECTRIC COOPERATIVE CORPORATION
INTERIM STATEMENTS OF CASH FLOWS
For the three and nine months ended July 31, 2013 and 2012 (Unaudited)

	Three Months Ended		Nine Months Ended	
	2013	2012	2013	2012
	(In Thousands)		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Margin	\$ 1,252	\$ 16,319	\$ 7,147	\$ 40,809
Adjustments to reconcile net margin to net cash provided by operating activities-				
Depreciation	14,449	10,943	41,692	32,907
Amortization of gas reserves	268	816	625	2,267
Allowance for funds used during construction	0	(383)	(235)	(921)
Allocation of patronage from associated organizations	(11)	(23)	(1,275)	(1,325)
Interest earned on deposit into cushion of credit	(528)	(899)	(1,781)	(2,856)
Interest expense on LTD paid through cushion of credit	2	3,303	7,199	6,659
Changes in operating assets and liabilities-				
Accounts receivable	(12,634)	(25,422)	(14,345)	(18,024)
Fuel inventories and prepaid fuel supply	7,028	2,121	9,710	(8,161)
Other current assets	(748)	500	2,399	(1,864)
Material and supply inventories	(314)	(729)	(2,028)	(864)
Deferred charges	2,016	2,473	(7,031)	7,701
Prepaid warranty agreement	(3,468)	0	(8,164)	0
Accounts payable and accrued liabilities	2,350	16,564	(4,641)	5,259
Other deferred credits	(384)	(255)	(1,330)	4,813
Net cash provided by operating activities	9,278	25,328	27,942	66,400
CASH FLOWS FROM INVESTING ACTIVITIES:				
Net sales (purchases) of other investments	150	0	1,202	(245)
Deposit with RUS - restricted investment	0	0	0	(10,000)
Repurchase of Ellis residual	0	0	0	(25,571)
Capital expenditures	(10,242)	(15,121)	(38,949)	(37,899)
Net cash used in investing activities	(10,092)	(15,121)	(37,747)	(73,715)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net borrowings (payments) on notes payable	16,221	12,312	(21,012)	(16,362)
(Payments) borrowings on notes payable, other	(159,986)	0	(239,875)	9,994
Principal payments on long-term debt	(6,747)	(2,671)	(14,259)	(14,425)
Redemption of patronage capital	0	0	(9,908)	(4,597)
Proceeds from long-term debt	0	0	254,751	0
Net cash (used in) provided by financing activities	(150,512)	9,641	(30,303)	(25,390)
Net (decrease) increase in cash and cash equivalents	(151,326)	19,848	(40,108)	(32,705)
CASH AND CASH EQUIVALENTS, beginning of period	201,679	54,123	90,461	106,676
CASH AND CASH EQUIVALENTS, end of period	\$ 50,353	\$ 73,971	\$ 50,353	\$ 73,971
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS:				
Decrease in long-term debt related to payments from cushion of credit	\$ (78)	\$ (5,706)	\$ (9,927)	\$ (11,563)

MEMBER SYSTEMS AND BOARD OF DIRECTORS

John Dalton, Chairman
Mel Coleman, Vice-Chairman
Jerry Pahal, Secretary-Treasurer

Arkansas Valley Electric
Ozark
John Pendergrass
Bill Peters

Carroll Electric
Berryville
Alan Hunnicutt
Rob Boaz

Farmers Electric
Newport
Bill Fortune
Larry Bright

North Arkansas Electric
Salem
Sonya Wiles
Mel Coleman

Petit Jean Electric
Clinton
Jerel Brown
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
Corbet Lamkin
Mark Cayce

Rich Mountain Electric
Mena
Mark Robbins
Leon Philpot

Woodruff Electric
Forrest City
J. A. Wampler
Billy Martin

C & L Electric
Star City
Phil Wilson
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

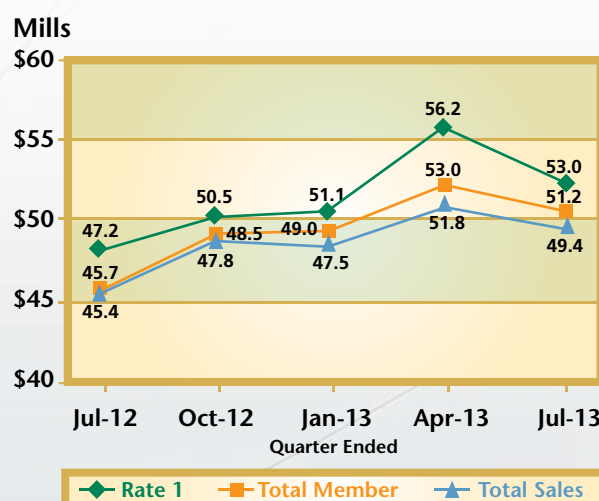
South Central Arkansas Electric
Arkadelphia
Elton Buck
Kevin Brownlee

Selected Financial Highlights

As of July 31 2013 and October 31, 2012

	July 31, 2013	October 31, 2012
Equity as a Percent of Assets	32.68%	32.15%
Debt/Equity Ratio	1.55	1.09
Current Ratio	0.65	0.44
Margins for Interest Ratio	1.30	1.74
Debt Service Coverage Ratio	1.51	1.49
Average Cost of Long-term Debt	4.303%	5.011%

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/CIO Robert McClanahan
VP Power Production and Delivery Jonathan Oliver
VP Member and Public Relations Sandra Byrd
VP Human Resources Maria Smedley



Arkansas Electric Cooperative Corporation
We Are Arkansas

1 Cooperative Way, PO Box 194208
Little Rock, Arkansas 72219-4208
(501) 570-2200
Internet: <http://www.aecc.com>