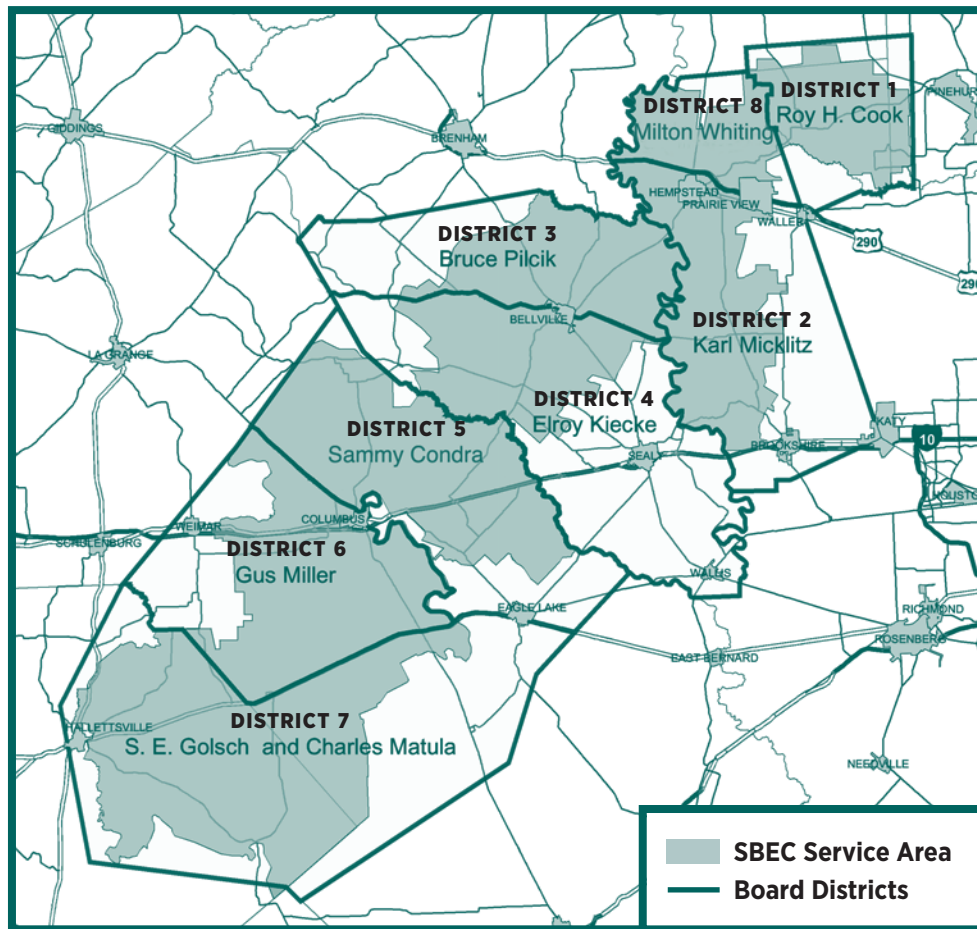


SAN BERNARD
ELECTRIC COOPERATIVE, INC.

74 YEARS OF SERVICE



2012 ANNUAL REPORT

AND OFFICIAL NOTICE OF ANNUAL MEETING

May 18, 2013 • Austin County Fair Convention and Expo Center • Bellville, Texas

CHAIRMAN'S REPORT

The year 2012 was another busy one for your cooperative. We had many things that demanded our focus, both from a board perspective and the cooperative's personnel. Some will be ongoing, while others are behind us. All in all, I'm happy to report that your cooperative continues to be a strong, viable organization. We will continue to put our membership's well-being first and foremost as we continue moving forward to face the new opportunities and challenges that lie ahead.

We continue to work through the litigation process with the Lower Colorado River Authority over the early termination of our Wholesale Power Agreement. We still feel that this is going to be a long battle within the confines of a courtroom, but we are resolved in our position to see this to the end. After termination of this contract, San Bernard Electric Cooperative's management team negotiated a contract with a new power supplier, Garland Power and Light, which will take us through June 2016. After that, other contracts that we negotiated will start. We feel that we have positioned this cooperative to be competitive in the electric rates that we charge, if not lower than most. Since September, we have been able to reduce our rates 10 percent by dealing with Garland. We will also have the flexibility of shorter-term contracts; a luxury that was not offered by extending our contract with the LCRA.

Starting in late 2011, SBEC began changing our meters because the existing meters were no longer supported by their original manufacturer. Responsible employees had tried several ways to extend the life of these original meters, but the "Band-Aids" were just that—short-term solutions for eventual long-term problems. Every meter has now been replaced, and with very few complaints or problems. We plan to give the membership greater flexibility with the addition of the new metering system. Look for some of these applications later this year.

I'm sure that you have noticed the effects of the drought over the past two years. There were scores of trees affected. These dead trees could possibly hit overhead power lines and cause an outage—which is exactly what happened in Waller County on Christmas Day. We are very aware of this fact. So much so, your board authorized \$400,000 in emergency funds to remove many of the reported dead trees. While the employees are always on the lookout for these types of situations, members should always report dead trees (or any other dangerous situation involving power lines) as quickly as possible.

For the fourth straight year, SBEC paid capital credits to its membership. In 2012 we were able to return \$950,000 to our membership. This is attributed to the financial health of your cooperative. It is our job to oversee the well-being of the cooperative, and we credit the employees for a job well done.

As always, this board that I preside over is very member-conscious. Each decision we make is based not only on sound judgment, but on being a member as well. On behalf of the board and employees of San Bernard Electric Cooperative, I want to thank you, the members, for your continued support.

BOARD OF DIRECTORS

San Bernard Electric Cooperative, Inc.



ROY H. COOK
BOARD DISTRICT 1



KARL MICKLITZ
BOARD DISTRICT 2
2nd Vice Chairman



BRUCE PILCIK
BOARD DISTRICT 3
1st Vice Chairman



ELROY KIECKE
BOARD DISTRICT 4
Asst. Secretary-Treasurer



SAMMY CONDRA
BOARD DISTRICT 5



GUS MILLER
BOARD DISTRICT 6
Chairman



CHARLES MATULA
BOARD DISTRICT 7
Secretary-Treasurer



S.E. GOLSCH
BOARD DISTRICT 7



MILTON WHITING
BOARD DISTRICT 8
3rd Vice Chairman



LOU LEE WOOD
Director Emeritus
(inactive)



BILLY MARRICLE
PRESIDENT/GENERAL MANAGER

SUMMARY OF COOPERATIVE BYLAWS

Pertaining to Membership, Annual Meetings, Board Representation, Nomination and Election Procedures

MEMBERSHIP: Any natural person, firm, association, corporation, business trust, partnership, Federal agency, State or political subdivision thereof, or any body politic (each hereinafter referred to as person or applicant) shall be eligible to become a member of and at one or more premises owned or directly occupied or used by the member, to receive electric service from SAN BERNARD ELECTRIC COOPERATIVE, INC. (hereinafter called the Cooperative). No person shall hold more than one membership in the Cooperative.

ANNUAL MEETING: For the purposes of electing directors, hearing and passing upon reports covering the previous fiscal year, and transacting such other business as may properly come before the meeting, the annual meeting of the members shall be held on the third Saturday of the month of May each year, at such place in one of the counties in Texas within which the Cooperative serves, and beginning at such hour, as the Board of Directors shall from year to year fix ... Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting or an annual meeting at which business requiring special notice is to be transacted, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) days nor more than thirty (30) days before the date of the meeting, either personally or by mail, by or at the direction of the Secretary, or upon a default in duty by the Secretary... If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the member at the member's address as it appears on the records of the Cooperative... At all meetings of the members, all questions shall be decided by a majority of the members voting thereon, except as otherwise provided by law or by the Cooperative's Articles of Incorporation or these By-laws. Members may not cumulate their votes.

DIRECTORS: The business and affairs of the Cooperative shall be managed by a Board of nine (9) Directors. The Board shall exercise all of the powers of the Cooperative except such as are by law or by the Cooperative's Articles of Incorporation or By-laws conferred upon or reserved to the members. No person shall be eligible to become or remain a director of the Cooperative who is a close relative of an incumbent director or of an employee of the Cooperative, or is not a member in good standing of the Cooperative and receiving service therefrom in the district that he/she is elected to represent. No person shall be eligible to become or remain a director of, or to hold any other position of trust in, the Cooperative who is not at least twenty-one (21) years of age or is in any way employed by or financially interested in a competing enterprise, or a business selling electric energy or supplies to the Cooperative, or a business primarily engaged in selling electrical or plumbing appliances, fixtures or supplies to, among others, the members of the Cooperative. At each annual meeting of the members, directors shall be elected by secret written ballot by the members...

NOMINATIONS: It shall be the duty of the Board of Directors to appoint not less than eighty (80) days, nor more than one-hundred thirty (130) days before the date of an annual meeting of the members, a committee of nominations for each district from which a director is to be elected consisting of three members and two alternates, all of whom shall be members in good standing of the Cooperative and shall reside within the district.

Each committee shall nominate at least one but not more than two members from their respective districts and shall prepare and

post at the principal office of the Cooperative at least thirty (30) days before the meeting a list of nominations for each directorship up for election. Any fifty or more members acting together may make other nominations by petition not less than thirty (30) days prior to the meeting and the Secretary shall post such nominations at the same place where the list of nominations made by the committee is posted. Any member making a nomination by petition shall be a member in good standing of the Cooperative and shall reside within the district for which the nomination is made. Each member shall mark the ballot and deposit same for counting by the credentials and election committee. The candidate from each district from which a director is to be elected receiving the majority of votes of those members at this meeting who cast ballots shall be declared elected as director. The credentials and election committee shall report the results thereof before the meeting adjourns.

Complete copies of the cooperative's bylaws are available from the headquarters upon request.

OFFICIAL NOTICE OF ANNUAL MEMBERSHIP MEETING

San Bernard Electric Cooperative, Inc. • Bellville, Texas

To All Members:

Pursuant to the bylaws of San Bernard Electric Cooperative, Inc., the Annual Membership Meeting will be held at the Austin County Fair Pavilion, Highway 159 E., Bellville, Texas, on Saturday, May 18, 2013, to take action on the following:

1. Reports of directors, officers and committees.
2. Election of three directors. In connection with the election of three directors scheduled for this meeting, the following named members have been nominated by a Committee on Nominations appointed by the Board of Directors of the cooperative, pursuant to the bylaws:

BOARD DISTRICT 2

KARL MICKLITZ

P.O. Box 366, Brookshire, TX 77423

BOARD DISTRICT 4

ELROY KIECKE

P.O. Box 1000, Bellville, TX 77418

BOARD DISTRICT 6

GUS MILLER

1908 Milam St., Columbus, TX 78934

3. Hear comments and questions.

Every member is urged to attend the annual membership meeting.

Respectfully,

CHARLES MATULA

Secretary-Treasurer

San Bernard Electric Cooperative, Inc.

Dated this 19th Day of March 2013

2013 NOMINEES FOR SBEC DIRECTOR

BOARD DISTRICT 2

KARL MICKLITZ is a retired state judge. Since 1970, he and his wife, Lucy, have lived in the Pattison area, where he is a member of the Pattison Area Volunteer Fire Department. He has been a director of SBEC since 1980.

Upon graduation from Texas A&M in 1960, he attended law school and graduated from the South Texas College of Law in 1965. He also served 30 years in the Army and the Texas National Guard, retiring with the rank of colonel in 1990. Micklitz, who was a paratrooper, is also a licensed pilot and flies frequently. He and his wife have four children and eight grandchildren. They attend Sts. Peter and Paul Catholic Church in Bellville.



BOARD DISTRICT 4

ELROY E. KIECKE has been a director of San Bernard Electric for 16 years. He and his wife, Jeanette, are the parents of three sons, have three daughters-in-law and eight grandchildren. After graduating from Blinn College, he served in the U.S. Air Force for four years. Upon an honorable discharge at the rank of staff sergeant, he entered Sam Houston State University, where he received a master's degree. Kiecke was an educator for six years and then was in the insurance business for 35 years, retiring as president of Lynn, Kiecke, Lackey. He has served as a member, an officer or director of many organizations, including the Bellville Methodist Church, Bellville General Hospital, Industrial Foundation, Little League, Brenham State School and the old Austin County State Bank. He has also served as an election judge. Kiecke has been recognized with prestigious awards such as the Lions Club Citizen of the Year, the Bellville Chamber of Commerce Good Neighbor Award, Texas Lions Foundation Fellow Award and the Blinn College Ex-Student Association's Outstanding Alumnus Award. He was honored as being selected as grand marshal for the Austin County Fair Parade. Kiecke appreciates the opportunity to serve with the other directors, the administrators and the employees, but most of all he is cognizant of the responsibility he has in representing the interests of all SBEC members.



BOARD DISTRICT 6

GUS H. MILLER JR. has served on the San Bernard Electric Cooperative Board of Directors for 23 years and has been elected by his colleagues chairman of the board since 2006. Miller was employed with First State Bank in Columbus and served as its president for 20 years. After he retired from the bank, Miller has remained a member of the board of directors and serves on its loan committee. Miller and his wife, Margaret, reside in Columbus and have a ranch southwest of the city limits. They have four children, seven grandchildren and one great-grandchild. Miller graduated from Columbus High School and attended The University of Texas in Austin. He is a past president of the Columbus Rotary Club, the Columbus Chamber of Commerce and The Columbus Community Chest. He attends and is a board member of the First United Methodist Church, is the chairman of the board for the Leon & Beatrice Obenhaus Goodhaus Foundation and is a member of the Texas Farm Bureau. Miller served in the Army during World War II with the 97th Infantry Division in Europe and Japan.



IMPORTANT NOTICE

This is your official notice that the Annual Membership Meeting of San Bernard Electric Cooperative, Inc., will be held May 18, 2013, at the Austin County Fair Association Convention and Expo Center, Highway 159 East in Bellville, beginning at 10 a.m.

PROGRAM FOR ANNUAL MEETING

Saturday, May 18 • Austin County Fair Convention and Expo Center, Bellville

REGISTRATION OF MEMBERS 8:30 a.m.

Registration closes at 10:00 a.m.

BUSINESS MEETING 10:00 a.m.

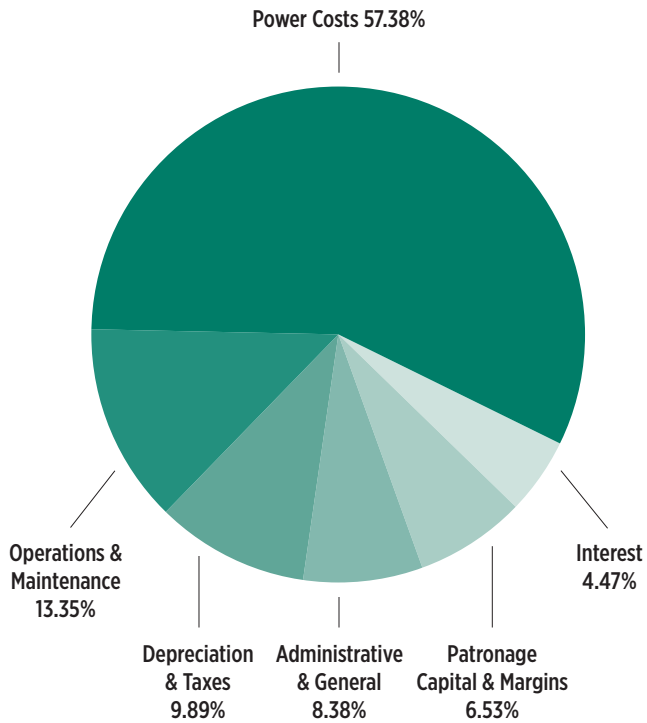
- Call to Order
- Invocation
- Reading of Notice of Meeting
- Minutes of Previous Meeting
- ELECTION OF DIRECTORS**
- Report of Officers
- Questions and Answers
- Drawing for Attendance Prizes

BARBECUE DINNER 11:30 a.m.

One free ticket per member; additional tickets may be purchased.

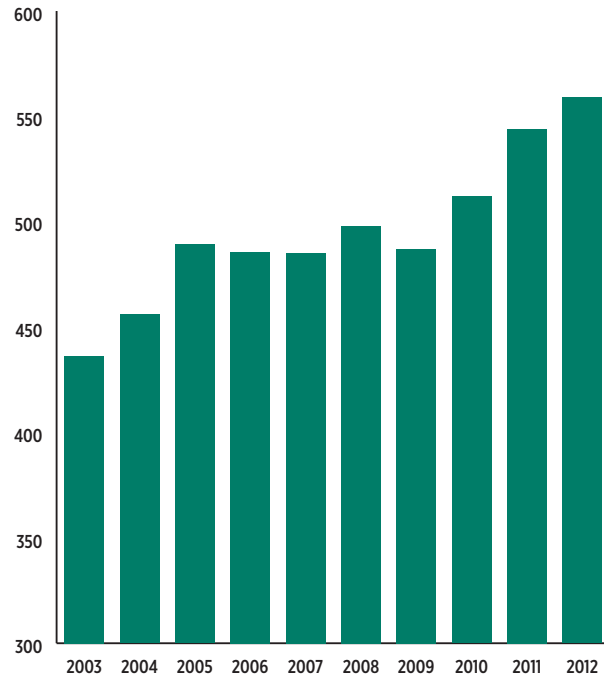
USES OF REVENUE

2012 Revenue Allocation



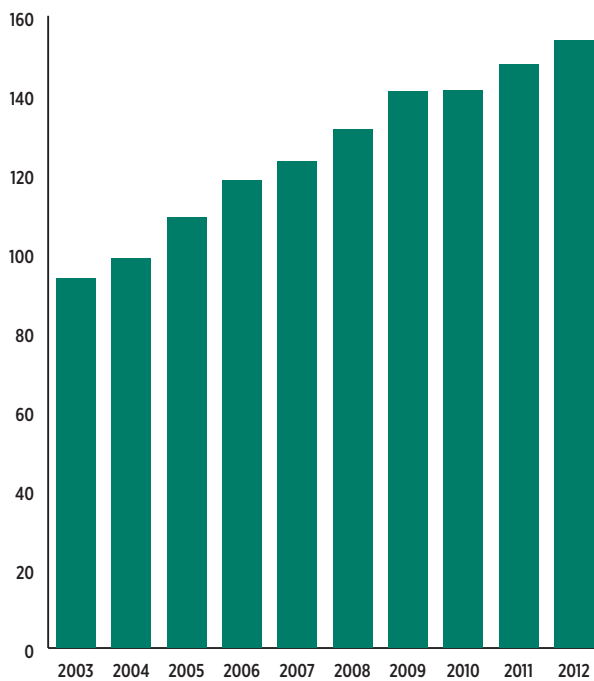
KWH SALES

(Millions, Past 10 Years)



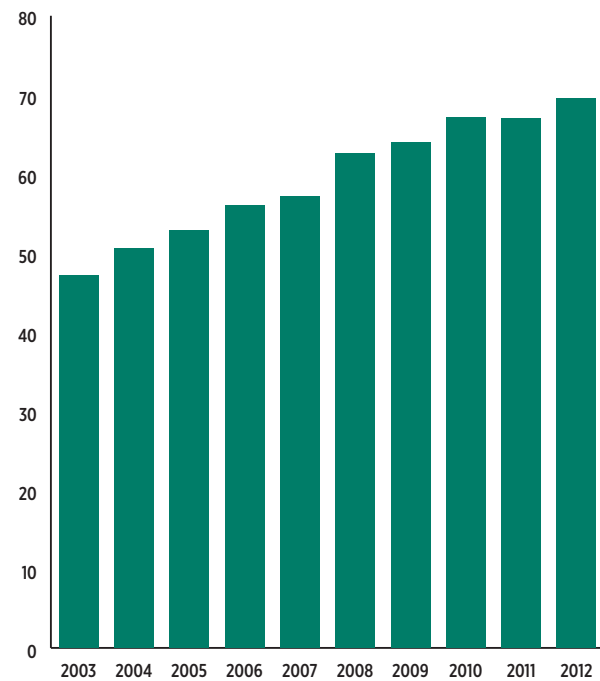
ASSETS

(Millions of Dollars, Past 10 Years)



EQUITY

(Millions of Dollars, Past 10 Years)



OPERATING STATEMENT

2012 and 2011

	2012	2011
REVENUES		
Sales of Electric Power	\$59,047,394	\$58,843,875
Other Electric Revenue	1,658,608	4,448,937
TOTAL REVENUE	\$60,706,002	\$63,292,812
EXPENSES		
Purchased Power	\$34,834,949	\$36,639,367
Operations and Maintenance	8,106,566	7,287,750
Administrative and General	5,085,615	5,437,268
Depreciation	5,732,812	7,944,533
Taxes	273,259	288,488
Interest	2,710,958	2,859,745
TOTAL EXPENSES	\$56,744,159	\$60,457,151
MARGINS		
Operating Margins	\$ 3,961,843	\$ 2,835,661
Nonoperating Margins	388,721	463,113
TOTAL MARGINS	\$ 4,350,564	\$ 3,298,774

BALANCE SHEET

As of December 31, 2012, and December 31, 2011

	2012	2011
ASSETS		
Net Utility	\$139,172,205	\$132,900,412
Investments	4,830,755	4,729,203
Cash	1,795,750	4,620,998
Notes and Accounts Receivable	2,302,628	2,170,970
Materials and Supplies	3,640,032	2,803,210
Other Current and Accrued Assets	1,695,767	259,889
Deferred Charges	369,192	205,349
TOTAL ASSETS	\$153,806,329	\$147,690,031
EQUITY		
Memberships	\$ 74,225	\$ 76,915
Patronage Capital and Margins	69,468,309	66,884,182
TOTAL EQUITY	\$ 69,542,534	\$ 66,961,097
LIABILITIES		
Long-Term Debt	\$ 71,995,414	\$ 63,041,500
Accounts Payable	7,296,481	7,197,285
Other Current and Accrued Liabilities	2,885,050	7,249,265
Deferred Credits	2,086,850	3,240,884
TOTAL LIABILITIES	\$ 84,263,795	\$ 80,728,934
TOTAL LIABILITIES and EQUITY	\$153,806,329	\$147,690,031