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BANDERA ELECTRIC COOPERATIVE, INC.

POLICY NO. C05-4

ORIGINAL Sheet No. 1

SUBJECT: Code of Ethics

EFFECTIVE: April 1, 2005

I. OBJECTIVE

1. To define the expected behavior of the directors, executive officers and employees of Bandera Electric Cooperative, Inc. (BEC). The Code of Ethics (the “Code”) is a decision-making tool that should be consulted anytime we make a decision or begin a task.
2. The Code is intended as an overview of BEC’s guiding principles and not as a restatement of BEC policies and procedures. The Code cannot and is not intended to cover every applicable law or provide answers to all questions that might arise. For that, BEC must ultimately rely on each person’s good sense of what is right, including a sense of when it is proper to seek guidance from others on the appropriate course of conduct. Because BEC’s business depends upon its reputation and its directors, officers and employees for integrity and principled business conduct, in many instances the Code goes beyond the requirements of the law. It is not intended to and does not in any way constitute an employment contract or assurance of continued employment, and does not create any rights in any employee, customer, vendor or any other person or entity.

II. POLICY

1. We treat each other with fairness, respect, and dignity, offering equal opportunities for employment to all individuals. We value different backgrounds and encourage different perspectives and ideas – understanding that diversity is a strength that unlocks our full potential and helps us achieve our goals. Intimidation, harassment, offensive conduct, or discrimination based on race, sex, age, color, religion, national origin, veteran’s status or disability is not tolerated. We are encouraged to speak out when conduct makes us uncomfortable, and to report harassment when it occurs. We take personal responsibility for individual and organizational success, while recognizing the value that each of us contributes. Threats or acts of violence or physical intimidation are prohibited.
2. We do not compromise safety and health. Because we care, we value the health and safety of each other, our contractors, and the public by conducting business in a manner designed to preserve the well-being of all. We work safely, watch out for each other, and are responsible for immediately reporting accidents, injuries, and unsafe equipment, practices or conditions to a supervisor, the safety administrator or other designated person.
 - (a) In order to protect the safety of all of us, we must report to work free from the influence of any substance that could prevent us from conducting work activities safely and effectively.
 - (b) BEC is committed to providing the education training, time and equipment necessary to complete all tasks in a safe manner.

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3. We respect the law. BEC expects its directors, officers and employees to comply with all applicable laws and regulations. We have a responsibility to understand the laws and how they apply to our jobs. BEC supports each employee in this responsibility and provides the necessary resources for compliance. If it is found that any laws or regulations have been violated, corrective and responsible action will be taken. When we have any questions or concerns about the legality of an action, we are responsible for checking with management, who if necessary, will consult with BEC's general counsel.
4. We use confidential information only for the purpose for which it was developed or given. We respect the confidentiality of information about BEC, its members, employees, vendors and business partners. We must protect member information that is sensitive, private or confidential just as carefully as our own. Confidential information will not be used for personal benefit. We protect the intellectual property rights, including copyrights, patents, licenses and trademarks, and other proprietary information of BEC and others. Highly confidential information should be handled appropriately. Only those who have a need to know should have access to confidential information.
5. We avoid conflicts, or the appearance of conflicts, between personal interests and official responsibilities on behalf of BEC. We use corporate resources – time, personnel, equipment and supplies – only for BEC business or BEC approved activities.
 - (a) Directors, officers and employees are under a continuing obligation to disclose any situation that presents the possibility of a conflict or disparity of interest between them and the company. Disclosure of any potential conflict is key to remaining in full compliance with this policy.
 - (b) We do not take personal advantage of business opportunities that are discovered through the use of BEC property, information or position. BEC directors, officers and employees do not engage in business with, become employees of, become materially affiliated with or retain material financial interest in any competing enterprise or business selling electric energy, services or supplies to BEC.
6. Directors, officers and employees are prohibited from receiving gifts, fees, loans or favors from suppliers, contractors, consultants, or financial houses, which are intended to obligate them or induce them to compromise their responsibilities to negotiate, inspect, audit, or award contracts with the best interest of BEC uppermost in mind. This does not prohibit receiving gifts or favors of nominal value or casual entertainment or reimbursement for business expenses which meet all standards of ethical business conduct and which receipt involves no element of concealment.
7. We have a responsibility to protect the BEC assets entrusted to us from loss, damage, misuse or theft. BEC assets, such as cash, funds, vehicles, equipment, products, or computers, may only be used for business purposes and other purposes approved by management. BEC assets may never be used for illegal purposes.

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8. We are prudent in our expenditures on behalf of BEC and we record all business transactions in accordance with accepted accounting principles. We maintain appropriate internal controls designed to prevent or detect fraud and ensure every accounting or financial record, and supporting data, describes the transaction accurately without omission, concealment or falsification. We maintain and retain all business records accurately and in compliance with applicable laws and BEC policy.
 - (a) We are committed to building a culture of trust, not only with our officers, directors and employees, but also our members and vendors. BEC seeks to always maintain the highest standards of integrity and objectivity in our working relationships and will not conduct business with anyone who does not operate with integrity or who compromises BEC's values and ethical standards.
 - (b) We require honest and accurate recording and reporting of information in order to make responsible business decisions. This includes such data as quality, safety, time and personnel records, as well as all financial records.
 - (c) We recognize the need for a truly independent audit. BEC's directors will select a competent independent financial auditor and create an audit committee comprised of board members to oversee the audit.
9. All employees share a serious responsibility for BEC's good public relations. We are encouraged to support community, charity and political organizations and causes of our choice, provided we make it clear that our views and actions are not those of BEC, unless we are specifically authorized by BEC to speak on its behalf. We must ensure that our outside activities comply with applicable law and BEC policies, and that these activities do not interfere with our job responsibilities and performance.
10. Our employees are BEC. We will be recognized by the actions of our employees. Each of us has a clear mandate to act ethically on BEC's behalf and is obligated to report promptly to management any activities that may be in violation of the Code or any applicable laws, regulations, or BEC policies. BEC has in place appropriate processes to provide for the timely and effective review of such reports and will not tolerate any retaliation against those fulfilling this obligation. Reports may be in person or in writing.
 - (a) Each of us is encouraged to discuss concerns or questions with our supervisor or BEC management. Each of us may report concerns regarding ethics, accounting practices, internal accounting controls, auditing matters or violations of the Code directly to your supervisor. If you feel uncomfortable about discussing the matter with your supervisor or feel it would be inappropriate to discuss the matter with your supervisor, you are encouraged to report it directly to BEC upper management. In those instances where the CEO/General Manager is implicated in the allegation of violating the Code, direct reporting to the Board of Directors is permitted.

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- (b) All reports of known or suspected violations of the law or this Code will be handled sensitively and with discretion. BEC will protect your confidentiality to the extent possible, consistent with law and BEC's need to investigate your concern. BEC prohibits retaliation against any director or employee who, in good faith, seeks help or reports known or suspected violations.
 - (c) BEC will accept and investigate anonymous reports to the extent possible; however, it should be recognized that the depth of any investigation may be limited by the amount of information provided.
11. Each year, BEC will ask all directors, officers and employees to certify that they have complied with the Code and are not aware of any unreported violations of the Code that may have occurred.
 12. The Code does not supersede, change or alter the BEC policies and procedures already in place and/or communicated to BEC employees, including without limitation, the policies and procedures in BEC's Policy Handbook, as amended from time to time. Employees are instructed to refer to the Policy Handbook for the policies and procedures contained therein.
 - (a) No company policy can provide definitive answers to all questions. If employees have questions regarding any of the goals, standards discussed or policies referenced in the Code or are in doubt about the best course of action in a particular situation, the employee should refer all questions or requests to BEC's executive management. Employees should also consider the questions listed in Exhibit A attached hereto when deciding a course of action.
 13. There may be instances where, following a due diligence process, it is determined that it is in the best interest of BEC to conduct some type of business that in general would be in conflict with this policy (e.g. – purchasing a piece of land from an employee or director at a reasonable price). In such instances, the employee or director should seek a waiver of the code prior to completing the business transaction. Waivers for employees may be approved only by the CEO/General Manager of BEC. Any waiver for our directors or the CEO/General Manager may be approved only by our Board of Directors.

III. SUMMARY

1. At BEC, ethics mean more than merely obeying laws and following policies. Ethics also encompass “doing the right thing for the right reasons” no matter what our job or responsibilities with BEC may be. Much more is expected today than ever before of our industry with regard to our ethical standards and behaviors. All of us are expected to maintain the highest ethical practices in our work and dealings both inside and outside BEC.

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POLICY NO. C05-4

ORIGINAL Sheet No. 5

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IV. PROVISIONS FOR ENFORCEMENT

1. The CEO/General Manager is generally responsible for overall enforcement of this policy, except in instances where the CEO/General Manager or a board member is alleged to have violated the Code. In such instances, the Board of Directors shall be responsible for the overall enforcement of this policy.