



2012 ANNUAL REPORT
FEDERATED CO-OPERATIVES LIMITED



Profile of:

Federated Co-operatives Limited 2012 Annual Report



Report to the 84th Annual Meeting of
Federated Co-operatives Limited
March 5, 2013
TCU Place, Saskatoon, Saskatchewan

Federated Co-operatives Limited (FCL) provides central wholesaling, manufacturing and administrative services to its owners: 236 locally-owned retail co-operatives which operate in more than 500 communities across Western Canada. FCL's member retail co-operatives are owned by more than 1,500,000 active co-op members. Together, FCL and its member retail co-operatives are known as the Co-operative Retailing System (CRS). FCL operates in accordance with its Vision and Mission, Aspirational Statements, the Statement on the Co-operative Identity, the Code of Ethical Standards for Co-operatives, and FCL's Values which are all included within this annual report.

Home Office:
Box 1050
Saskatoon, Saskatchewan
S7K 3M9
www.coopconnection.ca

Regional Offices:
Edmonton - Calgary - Regina - Saskatoon - Winnipeg

Distribution Centres:
Edmonton - Calgary - Saskatoon - Winnipeg

Feed Production Plants:
Edmonton - Calgary - Moosomin - Melfort -
Saskatoon - Brandon

Co-op Refinery Complex:
Regina

Wholly-Owned Subsidiaries:
Co-op Refinery Complex, Regina
The Grocery People Ltd., Edmonton

Associated with:
Interprovincial Cooperative Limited

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2012 Consolidated Financial Statements have been produced as a separate document and is found in the centre of the annual report.

Board of Directors' Report

2012 saw FCL continue to progress through an unprecedented period of change. CEO Scott Banda announced a number of changes to FCL's organization structure last year; this was the first significant organization restructure in over 30 years. The changes position FCL to pursue a growth agenda and support the CRS to compete effectively in today's rapidly evolving marketplace by providing more focus on strategic priorities, improving overall integration and co-ordination across business units and meeting the future demands and expectations of our membership.

The Board of Directors and the Senior Leadership Team met for their joint strategic planning session in January 2012 to set the corporate direction for 2013. Decisions were made in the context of FCL's Vision, Aspirational Statements and Mission (shown on page 6) and reflected FCL's values of Integrity, Excellence and Responsibility.

FCL's 2013 budget was presented to the Board for its approval in October, prior to the commencement of the 2013 fiscal year. The Board also approved the 2013 "corporate scorecard" at its October meeting. The corporate scorecard is the Board's main framework and tool for organizational performance oversight.

The acceleration of the change process will continue to put demands on all aspects of operations and our governance model. By working together as a strong Federation, we have many advantages to bring our values of Integrity, Excellence and Responsibility to life for the benefit of our members and customers.

PATRONAGE REFUNDS

\$528 million was allocated to members as patronage refunds on their 2012 purchases from FCL. The 2012 patronage refund rates, with comparisons to those in 2011, were:

Commodity	2012	2011
Crop Supplies	6.251%	6.418%
Meat	3.441%	3.596%
Feed	1.994%	0.000%
Grocery	4.655%	4.706%
Home and Building Supplies	5.610%	5.082%
Petroleum – Fuels	9.267¢/L	10.158¢/L
– Propane	14.074¢/L	10.808¢/L
– Oil & Grease	16.097%	20.796%

In 2012, the Board authorized the redemption in cash of members' shares totalling \$425.6 million.

Board of Directors



1 - Judy Clavier
Region Chair



2 - Glenn van Dijken



3 - Don Fluney



4 - Doug Potentier
Region Chair



5 - Randy Kott



6 - Rolf Traichel



7 - Marilyn McKee
Region Chair



8 - Dusty MacDonald
Vice-Chair of the Board



9 - Herb Carlson



10 - Don Russell
Region Chair



11 - Beryl Bauer



12 - Larry Karakochuk



13 - Ken Jenner
Region Chair



14 - Jocelyn VanKoughnet



15 - Glen Tully
President/Chair of the Board

Honourary Presidents



Vern Leland



Ed Klassen



Dennis Banda

BOARD OF DIRECTORS

The Board met nine times in 2012. In addition to their regular and in-camera meetings, Board members increased their knowledge of FCL and its operations by participating in ten business unit reviews. These reviews provide an opportunity for discussion between the Board and management employees within FCL. The Directors within each of the five regions also met with their Region and Retail Operations Directors, various region management employees and the Executive Management Committee representative four times last year. The Board's four standing committees (identified on page 4) met throughout the year.

The Board continued to upgrade specific competencies in areas such as Enterprise Risk Oversight, Social Responsibility and Brand Alignment, and attended an interactive workshop that provided understanding of a systems approach to oversight of Corporate Performance Management. The Board also received education on International Financial Reporting Standards (IFRS), which were incorporated into this annual report.

At the 2012 annual meeting, Board members and delegates bid farewell to Barry Gosnell, who had served on the Board since March 1997. At the same meeting, Jocelyn VanKoughnet was elected Director.

District	Director	Meeting Days	Term Expires
1	Judy Clavier, Sunset Prairie, BC	18	2013
2	Glenn van Dijken, Dapp, AB	18	2014
3	Don Fluney, Dewberry, AB	16	2015
4	Doug Potentier, Victoria, BC	18	2014
5	Randy Kott, Calgary, AB	18	2015
6	Rolf Traichel, Medicine Hat, AB	18	2013
7	Marilyn McKee, Mossbank, SK	17	2013
8	Dusty MacDonald, Carlyle, SK	18	2015
9	Herb Carlson, Buchanan, SK	18	2014
10	Don Russell, Rosetown, SK	18	2015
11	Beryl Bauer, Lake Lenore, SK	18	2013
12	Larry Karakochuk, Wynyard, SK	17 ¹ / ₂	2014
13	Ken Jenner, Minnedosa, MB	18	2013
14	Jocelyn VanKoughnet, Carman, MB	12*	2015
15	Glen Tully, Saskatoon, SK	18	2014

* Elected at the 83rd annual meeting.

Board Committees

Governance Committee – Acts for the Board, as may be required, between scheduled Board meetings. Oversees the processes and structures used to manage the business of the Co-operative's operations and activities and other governance related issues.

G. Tully (chair), D. MacDonald, J. Clavier, D. Potentier, M. McKee, D. Russell, K. Jenner

Audit Committee – Assists the Board in fulfilling its oversight responsibilities for: the integrity of FCL's consolidated financial statements; FCL's compliance with legal and regulatory requirements; the qualifications and independence of FCL's external auditor; and, the performance of FCL's internal audit function and external auditor.

D. MacDonald (chair), J. Clavier, G. van Dijken, K. Jenner

Human Resources Committee – Primarily focuses on three areas: human resources, compensation, and learning and development.

D. Potentier (chair), M. McKee, D. MacDonald, H. Carlson, B. Bauer

G. Mearns, Vice-President Human Resources

Social Responsibility Committee – Assists the Co-operative in making it a leader in social responsibility (SR) initiatives that are aligned with the organization's Values, Vision, Mission and Aspirations. Monitors the Co-operative's commitment to an SR program. Ensures the Board is aware of SR issues and opportunities facing the Co-operative, and that they receive timely and appropriate reports on progress against key SR goals and objectives. Ensures the Co-operative prepares and delivers an SR report to stakeholders.

R. Traichel (chair), D. Fluney, L. Karakochuk, J. VanKoughnet

V. Huard, Vice-President Corporate Affairs

President/Chair of the Board G. Tully served as an ex-officio member of all committees.

**Board Representative to
Central Learning & Development Committee**

H. Carlson

**Board Representatives on
Region Learning & Development Committees**

Edmonton	D. Fluney
Calgary	R. Kott
Regina	H. Carlson
Saskatoon	L. Karakochuk
Winnipeg	J. VanKoughnet

Member and Public Relations

Democratic Process / Member communication and participation are extremely important for good governance. The FCL Board of Directors strives to ensure that the democratic process, member relations and communications programs maintain an effective link with member retail co-operatives and their members. FCL is looking at ways

to make communication more effective by being aware of, and utilizing, a wide range of technologies. The goal is to continually enhance the communication services available within the Co-operative Retailing System and to make tools available to improve business processes.

Forums such as the annual meeting, June district meetings and fall conferences are ideal for reviewing activities, discussing opportunities and solutions, and putting ideas forward. Throughout the year, Board members utilized these meetings as opportunities to engage the democratic body in a number of different discussions. For example, participants at the 2012 fall conferences took part in discussions focused on long-term governance strategies that would protect our co-operative identity and the Federation for future generations. Ideas generated at these discussions formed the basis of the delegate discussion session held prior to the 2013 annual meeting.

Resolutions are a part of the democratic decision making process and a means of communication between retail co-operatives and FCL. In January 2010, the Resolutions Committee began a review of the resolutions process. The Committee discussed a number of aspects of the process, including: timing of resolutions; origin of resolutions; purpose of resolutions; and, the need to have informed debate and voting at fall conferences. Feedback from fall conference participants in 2010 and 2011 was also considered, and a revised resolutions process was introduced at the caucus meetings held prior to the 2012 annual meeting.

As a result, the cycle of events to bring forward resolutions to the annual meeting begins in the summer when retail boards of directors are encouraged to discuss possible policy and strategic resolutions. Resolutions that are formally adopted by retail boards are then submitted by the FCL Member to the district Resolutions Committee member. These resolutions are forwarded to the FCL Corporate Secretary by October 1 of each year, then sent to retail boards in advance of the fall conferences in order to ensure an enhanced understanding of the resolutions and allow for more informed discussion and voting.

Approved resolutions are then reviewed by the Resolutions Committee during its December meeting and sent to retail co-ops and their delegates in advance of the annual meeting. This process ensures that retail co-operative boards of directors have the opportunity to discuss the resolutions and give guidance to their delegates prior to the consideration of motions at the annual meeting. A report on approved resolutions is provided at fall conferences and a final report is prepared for the next year's annual meeting.

In addition to these formal opportunities, our System utilizes a number of other communication vehicles. FCL's website and the retail portal contain information on FCL operations and highlight various retail co-operative operations and activities. The annual report offers a comprehensive review of the results of the past year.

Co-operative Education / FCL has always been involved in the development of youth leaders. Examples of this involvement are: the youth camp programs which FCL sponsors through provincial co-operative associations every summer; and, donations made to provincial 4-H associations in the four western provinces.

At the post-secondary level, FCL assists in the advancement of co-operative theory and practice through financial contributions to the Centre for the Study of Co-operatives at the University of Saskatchewan and the Centre for Co-operative and Community-Based Economy at the University of Victoria. In 2012, FCL joined a coalition of co-operative organizations in a five-year sponsorship of a Chair of Co-operative Enterprise at the University of Winnipeg. FCL also supports the activities of the Co-operative Chair in Agricultural Marketing and Business at the University of Alberta and the Agribusiness Chair in Co-operatives and Group Marketing at the University of Manitoba by providing Board representation to these programs.

In addition, FCL also provides a comprehensive program of retail director learning and development. These "in-house" programs help develop leaders not only for retail co-op boards but also for the community, where many co-operators take on leadership positions in various community-based organizations. The Board approved a process that will see a review of retail director training requirements take place during 2013.

Regions host, when numbers warrant, a New Directors' Orientation Program where newly elected directors gather to learn more about their roles and responsibilities, region services, FCL and the history of the CRS. This orientation program was hosted by the Regina Region in 2012.

FCL Membership Changes

At October 31, 2012, the members of FCL were made up of 236 member retail co-operatives, 2 affiliate members and 10 associate members. Ten changes occurred during the year:

- Broadview and Grenfell Co-ops amalgamated to form Hometown Co-op;
- Herbert and Pioneer Co-ops amalgamated to form Pioneer Co-op;
- Boundary and Hartney Co-ops amalgamated to form Boundary Co-op;
- Beeland and Bjorkdale Co-ops amalgamated to form Beeland Co-op;
- New Horizon and Valleyview Co-ops amalgamated to form New Horizon Co-op;
- Borderland and Whitewood Co-ops amalgamated to form Borderland Co-op; and
- Burnaby, Kinasao, Magrath and Orion Co-ops were removed from membership.

The Co-operative Sector

Throughout the year, members of the Board represented the CRS at gatherings of other co-operatives. By attending these meetings, Directors gain a broader understanding of the co-operative sector and the challenges and opportunities facing the sector. The Board also participated in representation to governments in order to advance the positions of the co-op sector either directly or indirectly through co-operative associations.

FCL participates in the larger co-operative sector through its membership in the Ottawa-based Canadian Co-operative Association (CCA) and through CCA's membership in the International Co-operative Alliance (ICA). CCA represents the interests of co-operatives at home and abroad on matters of

economic and social policy and international development. Vice-Chair of the Board Dusty MacDonald represents FCL on CCA's board of directors. Board members also represent FCL on provincial co-operative associations in the four western provinces. The provincial bodies co-ordinate youth programs, educational activities and provincial government relations.

By proclaiming 2012 the "International Year of Co-operatives", the United Nations recognized the important role co-ops play in the social and economic development of communities worldwide. Canadian co-operatives, and indeed our own Co-operative Retailing System, celebrated this proclamation throughout the year with a variety of different events:

- The "International Summit of Co-operatives" held in Quebec City brought together 2,800 co-operative leaders from 91 countries. The summit ended with a declaration calling on the co-op movement to focus its efforts on the development, strengthening and promotion of the co-operative business model. The declaration cited the economic and social significance of co-ops and urged that they continue to develop their overall performance and increase their capacity for innovation. The declaration was then presented at the International Co-operative Alliance's general assembly in Manchester and to the United Nations during the official closing of the International Year of Co-operatives.
- Co-operatives in Manitoba supported "Co-op Day at the Forks" held in Winnipeg. This event celebrated an awareness campaign of the co-operative model.
- The "Co-operating to Build a Better West Conference" saw 300 participants meet in Saskatoon. This conference addressed the important contributions co-ops make in shaping the emerging economic, social and environmental realities in Western Canada.
- Approximately 150 participants attended the "Gathering of Alberta Co-operatives" held in Red Deer. This event explored how co-ops could increase their presence and impact with collaborative actions targeted over the next five years.

Merit/Distinguished Co-operator Awards /

During the year, individuals and organizations were recognized for their contributions to co-operatives. Congratulations to those honoured:

British Columbia:

Tim Beachy, Vancouver
Victoria Community Health Co-operative

Alberta:

Carol Rollheiser, Camrose
Ray Coates, Cold Lake
Helen "Betty" Jensen, Calgary

Saskatchewan:

Saskatchewan Co-operative Youth Program

Manitoba:

Barry Gosnell, Carman
Red River Cooperative Ltd., Winnipeg
Chris Dzisiak, Dauphin
Natural Cycle Worker Co-op Limited, Winnipeg

FCL's Vision, Aspirational Statements and Mission

Vision

"Federated Co-operatives Limited will set the world standard in consumer co-operative excellence."

Aspirational Statements

- Exemplary organizational governance, modeling of democratic principles and co-operative values
- Broad consumer awareness and positive perceptions of CO-OP brand, products and services
- Best-in-class member loyalty
- Outstanding employee engagement levels
- Growing market presence and relevance in urban Canada
- Market leader in rural Canada
- Consistently strong financial performance
- Environmentally-responsible practices and products
- Vital economic and social force in our home communities

Mission

"To provide responsible, innovative leadership and support to the Co-operative Retailing System, for the benefit of members, employees and Canadian communities."



Scott Banda
Chief Executive Officer



Randy Boyer
Vice-President
Treasurer



Vic Huard
Vice-President
Corporate Affairs

Business Unit Reports

Consumer Products

Business Unit



Brad Bauml
Vice-President
Consumer Products

The Consumer Products Business Unit is comprised of the Food, Home & Building Supplies, Crop Supplies and Feed Departments. The business unit plays a key role in assisting retail co-operatives in meeting the changing needs of today's consumer in an extremely dynamic marketplace. Key aspects of the business unit's role include providing innovative marketing and advertising programs for the retails, developing quality products and facilitating employee training.

Each department must cope with the challenge of a rapidly changing marketplace, while remaining competitive and providing the products and services that our consumers value. Virtually every retail segment in the markets we serve is experiencing new or evolving competition, whether it be from long-standing national firms or mega international companies.

FOOD

The food market in Western Canada continued to see an increasingly competitive market in 2012 along with significant changes to the retail landscape for 2013. We will continue monitoring and responding as appropriate to the new initiatives undertaken by existing competitors and the entry of new players into the markets that we currently serve.

Improving and redefining the "value equation" for Co-op consumers has been and will continue to be the focus of our efforts in the Food Department. Integral to the value equation is the need to provide greater everyday price and value. The CRS's new "Price Drop" program was expanded in 2012, focusing on providing extremely competitive pricing on key items during targeted selling periods. Key to the success of this program is the in-store execution of product merchandising and point-of-sale material.

A significant flyer redesign project was also undertaken and completed early in 2012. The redesign objective was to more closely align the consumer flyer with the overall Co-op brand values and provide improved price perception and product quality, especially in the fresh departments.

Also in 2012, the Food Department began the launch of its new private label store brands portfolio. The private label portfolio was consolidated



from 13 brands down to 4 main brands: CO-OP® GOLD, CO-OP® CENTSIBLES, CO-OP® MARKET TOWN and CO-OP® CARE +. Over 2,000 products are involved in this project, with approximately 600 of the products having new labels created in 2012, with the remainder to be completed in 2013. A strong, well positioned private label program can have significant impact on product quality, product selection and price perception, all of which are key drivers in determining store choice for consumers.

Understanding our consumers and their purchase behaviors has also been a key focus for the department. In 2012, the department created a new position – Business Analyst of Consumer Insights. The person in this position will lead a project involving analysis of our consumer data, which will allow the CRS to make improved marketing, merchandising and pricing decisions to best serve consumers.

HOME & BUILDING SUPPLIES

In 2012, the General Merchandise Department was renamed Home & Building Supplies (HABS) to more accurately reflect the nature of the business unit.

The department has been affected by a number of factors, including a stronger underlying economy, coupled with ideal mild weather conditions in most areas in the fall, winter and spring that significantly extended the building season in 2012. These factors have in turn provided a lift in sales, particularly in the building materials area.

In 2012, a number of retailers implemented a new home centre design and merchandising concept that was developed in 2011. The new concept significantly improved store layout, fixturing, merchandising and customer appeal.

While technology will be a key focus going forward, the HABS Department did make progress in this area in 2012.



Early in the year, the Product Catalogue was converted from a monthly CD-based system to an online format, available on the retail portal with daily up-to-date information. Also in 2012 a system was developed to allow FCL to electronically upload item information, costs and prices directly to the retail point-of-sale systems. This new program was introduced and demonstrated at the Fall Buymart and will begin rollout in 2013.

CROP SUPPLIES

A return to "normal" seeded acres in Western Canada, coupled with high disease and insect pressure, resulted in strong sales for the Crop Supplies Department. Strong commodity prices also affected the department, as many farmers invested heavily in crop inputs to improve yields to take advantage of these high commodity prices. These factors also contributed to the CRS having a very successful year in the large diameter grain bin market.

Market and competitor changes in 2012 and those upcoming in 2013 have provided both new challenges and opportunities. The crop supplies industry and the business of farming is becoming more sophisticated with the introduction of new technologies in both product and farming methods which creates the need for closer relationships between retailers and customers.

One significant achievement during 2012 was the introduction of a comprehensive marketing program that provided financial incentives for bundling together the purchasing of crop inputs and fuel. Combining our

strength in farm fuel with crop inputs has great potential going forward.

This year, the Crop Supplies Department also introduced a CRS private label glyphosate under the private label brand Vector. Having a private brand allows the CRS to remain price competitive and provides greater marketing opportunities across crop protection and seed products.

Training was also a key factor in 2012. The Crop Supplies Department was involved in extensive sales training through the RC Thomas program, which will be extended to include retail employees in 2013.

FEED

The Feed Department faced significant increases in the grain and protein markets through the spring and summer months, resulting in increased feed prices and raw ingredient costs. Last winter's warm weather also had a negative impact on beef feed sales as the demand for complete beef feeds was significantly reduced.

One area of significant growth for the department was in the mineral feeder market. A marketing program was developed where three free bags of mineral product were provided with the purchase of a mineral feeder. Sales of mineral feeders tripled in May and June during the promotion.

The department also enhanced its horse feed offering by working with Wetaskiwin Co-op to promote Hoffman's Horse Products throughout the distribution system to CRS retailers. This is an area that has great growth potential for many retail co-ops.

Corporate Affairs

Business Unit



Vic Huard
Vice-President
Corporate Affairs

This past year, the Corporate Affairs Business Unit expanded the scope of its activities. Corporate Affairs remained responsible for: legal affairs; marketing services; brand; social responsibility; communications; research and development; government relations; and, Corporate Secretary support for FCL's Board of Directors. Two additional responsibilities were added: insurance services and environmental affairs.

Building upon 2011's strong foundation, the business unit made a great deal of progress on a number of key initiatives.

An ambitious brand initiative was a priority in 2012, with a focus on the establishment of new visual identity elements and guidelines for business units across the organization. These renewed visual identity guidelines, including the soft launch of the new positioning line – "You're at home here." – began to be introduced in the fall of 2012 and will become more prevalent in the year ahead. In addition to the visual identity work, a cross-functional team from a range of business units developed a comprehensive plan to support FCL and retail employees to "live the brand" beginning in 2013.

The Communications Department worked closely with outside consultants, FCL's Information Technology Business Unit and ten retail co-ops agreeing to act as pilot partners, to develop a new web site design for FCL and participating retail co-ops. Significant progress was made in 2012, with rollout of new design taking place in 2013. At the same time, the CRS's digital presence was significantly enhanced by the introduction of the first co-op mobile application. This locator application is compatible with Blackberry, iPhones, Android and Windows smart phones and will enable co-op members and customers to quickly and easily locate retail co-op facilities across all business lines and regions.



The Environmental Affairs Department continued to oversee the Contaminated Sites Management program and to develop innovative research into improved remediation of contaminated sites across the CRS. The department also added a new position – that of Sustainability Manager – to enhance the CRS’s already strong commitment to environmentally sustainable operations across all business units.

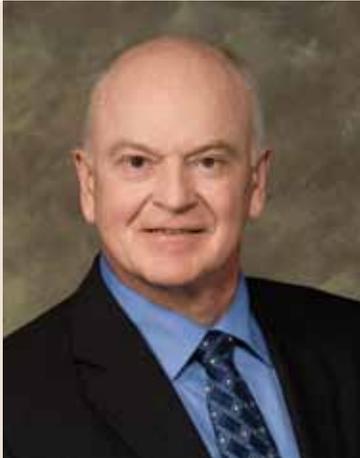
The Sustainability Manager position was also a critical element in the continued development of a comprehensive social responsibility strategy for FCL and the CRS. The Research and Development Unit, and the newly formed Social Responsibility Committee of the Board, are working closely with Environmental

Affairs to develop a comprehensive social responsibility reporting framework that will position the CRS as a leader in social responsibility initiatives for years to come. FCL’s first social responsibility report is scheduled for completion and distribution in the summer of 2013.

In the fall of 2012, work began to develop a comprehensive government relations strategy for FCL. This initiative is an essential component of FCL’s enterprise risk management strategy. This work is critical to ensuring that FCL and CRS activities across a wide range of business lines in multiple jurisdictions anticipate all the challenges and opportunities presented by various levels of government.

Co-op Refinery Complex

Business Unit



Bud Van Iderstine
Senior Vice-President
Refinery Operations

A wholly-owned subsidiary and a strategic business unit of FCL, the mission of the Co-op Refinery Complex (CRC) for more than 77 years has been to serve the Co-operative Retailing System with a supply of petroleum products. The CRC's financial results are consolidated with those of the Petroleum Department.

CORE PRINCIPLES

The management of the Co-op Refinery Complex is totally committed to four core principles that are always to take priority over production. These principles, in order of priority, are: to ensure safety, to ensure equipment integrity, to ensure environmental stewardship and to ensure quality in all products and services. All employees understand and embrace these principles.

OPERATIONS

Crude processing was negatively impacted by an extended spring turnaround and also by a pumphouse fire in May that caused an additional 10-day shutdown and subsequent 16-day turndown of one crude unit. Crude processed for the year was 30.3 million barrels. Product purchases of both gasoline and diesel were required throughout the summer and fall in order to ensure product supply requirements.

EXPANSION

The construction on Section V was completed and full operation commenced for the new expansion on October 17, 2012. The start-up was safe and executed with world-class skill.

The expanded CRC now has a crude processing capacity of 145,000 barrels per day, making it the fourth-largest refinery in Canada.

The construction completion of five remaining revamps to existing process units and utility areas is expected by December 2012.

Plans have been developed to utilize some new refinery capacity for third-party sales in order to enhance profitability.



Construction continued on the Carseland Terminal in 2012

SYSTEMS & STRATEGY

The role of the Systems & Strategy group, in addition to ensuring product supply, is to provide support to the operations group at the Refinery through the following business units:

- Supply and Distribution
- Human Resources
- Safety, Environment and Training
- Finance and Administration

Some of the highlights in 2012 were as follows:

Supply and Distribution – The Carseland Terminal is being constructed near Carseland, Alberta to receive gasoline and diesel product by rail from the Co-op Refinery Complex. The terminal will provide up to one billion litres of fuel per year. Construction progressed well in 2012, and key personnel are in place. The terminal is expected to be in operation in the latter half of 2013.

Additional crude oil feed stock has been secured for the new Section V expansion. This will allow the Refinery to meet its production objectives throughout 2013 and beyond.

Human Resources – The permanent employee complement as of October 31, 2012 was 809 employees (188 management and 621 in-scope). This represents a 9.3% increase in the permanent employee complement over the previous year.

The Refinery successfully implemented a Drug and Alcohol Policy in 2012. The policy is aligned with industry standards.

The Refinery's Health Services continue to provide health programs for employees. 2012 marked the 17th year of Refinery participation in a flu immunization program. Additionally, an on-site blood donor clinic by Canadian Blood Services has occurred annually since 2006.



Safety, Environment & Training – Safety is the number one core principle at the Refinery. CRC continued to utilize DuPont in advancing a comprehensive Process Safety Management system with full implementation by 2015.

The Refinery is advancing on a Wastewater Improvement Project that will be completed in 2013 and will increase the reuse of water on-site. This project will essentially eliminate water effluent and also significantly reduce emissions and odours.

Training and maintaining required safety competencies is essential to support Refinery operations. Employees and contractors completed 890 safety courses in 2012.

Energy Business Unit



Mel Adams
Vice-President
Energy

The Energy Business Unit is comprised of the Propane, Petroleum and Crude Oil Departments. The mission of the business unit is to provide responsible, innovative leadership and support to the Co-operative Retailing System in setting a world standard in consumer co-operative excellence in the marketing of propane and petroleum products.

PROPANE

The focus of the Propane Department is to provide the expertise and infrastructure needed to service and grow the Co-operative Retailing System's propane customer base in an efficient and effective manner, while maximizing the marketing potential of the propane supply produced at the Co-op Refinery Complex.

During the year, the South Alberta propane branch was relocated from Airdrie to its newly constructed facility in Crossfield, and a new location was also purchased in La Ronge, Saskatchewan. Once major renovations are completed, the North Saskatchewan branch at La Ronge will be relocating to this facility. These new facilities will provide the space needed for efficient long term operations and will result in better service to retailers and their customers.

With a continued focus on efficient, effective and safe operations, a new Propane Safety & Training Co-ordinator position was added to the employee complement in 2012. This position is primarily responsible for increasing the focus on safety programs while ensuring continued adherence to all legislative requirements.

To align with the corporate brand strategy, a new propane delivery unit identification package was finalized and introduced this past year. This new identification is now proudly displayed on seven delivery units.

PETROLEUM

The Petroleum Department provides leadership and support to the Co-operative Retailing System to effectively supply the petroleum requirements of retail co-ops and their members, with a focus on sales growth.

During the year, significant progress was made in the construction of the Carseland Terminal as well as the Corporate Bulk Plant program. Completion of these two initiatives will have a significant positive



impact on the distribution and supply of petroleum products to retail co-ops and their customers, especially in peak demand seasons. The rollout of the new "Card Record on Host" cardlock system was also completed in 2012. This will now allow for a planned approach to convert all customer cards to magstripe.

The development of new and upgraded cardlocks and gas bars continued to be a major focus for the department as the CRS continues to grow its volume and increase market share. During the year, six new gas bars with convenience stores and eight new cardlocks were constructed in the CRS, with an additional twenty-eight locations upgraded or totally rebuilt.

To align with the corporate brand strategy, a new facility and delivery unit identification package was finalized and introduced this past year. All future upgrades and new petroleum assets will be completed with the new identification standard.

CRUDE OIL

The Crude Oil Department encompasses all aspects of "upstream" oil and gas, which includes the exploration, development, production and operation of crude oil and natural gas assets. All FCL crude oil and natural gas properties are located within Western Canada. This past year, the department acquired Triwest Exploration Inc. This strategic acquisition increased production by approximately 40% and effectively doubled the size of FCL's operated assets managed by Adonai Resources Corporation. Adonai is the management firm providing expertise to FCL in the exploration, development and operation of crude oil assets.

In the last couple of years, the department has invested in strategic oil properties. These properties allow FCL to extract profit on the upstream side of the oil business, which complements other business lines such as Refining and Petroleum Marketing, and thus adds to the overall profitability of the organization.

Human Resources

Business Unit



Gary Mearns
Vice-President
Human Resources

The primary goal of Human Resources is to provide leadership in the development and delivery of human resources management programs to enhance the competitive advantage and economic success of the Co-operative Retailing System. This includes the recruitment, learning and development, and compensation of FCL's approximately 3,000 employees, as well as programs and services related to labour relations, safety, EFAP and leadership development. The business unit also provides many of the same services to member retail co-operatives throughout Western Canada.

The past year saw the beginning of a significant change in the various human resource management practices used within FCL. It began with the introduction of a competency model – “Path to Performance” – that will become the foundation of an integrated talent management framework for the organization. In conjunction with the Organizational Development Department, Human Resources held a series of meetings with managers throughout FCL and its subsidiaries to introduce the model and its applicability to future human resources processes. A new performance management process was developed in 2012 that will shift the focus of our performance management activities away from being strictly results-oriented to one that also includes performance development and enhancement for our management employees. As well, a compensation review was completed and will result in the introduction in 2013 of a new salary structure for management positions which more closely reflects structures common to most large employers in Canada. These new programs and processes, based on research and industry-standard content, will be reflective of some of the most progressive human resources programs used in the industry today.



“Path to Performance” Competency Model



HUMAN RESOURCES STRATEGIES

Competencies were introduced into our Talent Acquisition processes in late 2012. Interview guides were revised to incorporate questions that will better assess competencies related to job requirements.

Students in the Co-op Work Study Program from the Edwards School of Business at the University of Saskatchewan and from the University of Regina were employed in various departments in Home Office during 2012. This program has been a source of high quality employees for FCL, as many of them have been employed by FCL following the completion of their post-secondary studies.

The Learning and Development function continued its expansion of eLearning offerings which resulted in several new modules added in 2012. As well, three new seminars were launched and nine more received major revisions in order to ensure the content continued to be relevant to employee and elected official audiences. The Talent Acquisition function (formerly referred to as Recruitment) began the introduction of competencies into interviewing and selection practices.

Training and development of retail management employees continued through the various training programs available in the CRS. In total, 170 management trainees underwent development during the year to continue to provide the CRS with an ongoing supply of qualified managers for retail co-operatives.

HUMAN RESOURCES ADVISORY SERVICES

Work commenced on a new HR technology system to replace the legacy system that has been housed on FCL's mainframe. Human Resources has been involved in technology projects associated with introducing a new payroll system for the CRS as well as a time and attendance system. The business unit started a change in its service delivery model that will place emphasis on more service provided directly from region HR teams in all functional areas of human resource management.

LABOUR RELATIONS

Assistance with collective bargaining was provided to a number of retail co-operatives in 2012, which resulted in settlements providing competitive wages and working conditions for the employees at those retailers. New collective agreements were successfully negotiated, covering wholesale employees at FCL Home Office and FCL Saskatoon as well as at FCL Winnipeg.

SAFETY

Progress is being made in achieving our goal of being a top performer in safety. Work is underway at all FCL locations towards achieving a Certificate of Recognition (COR) standard in safe work practices. In addition to the certification in place at FCL Calgary's operations, COR was also achieved in 2012 in FCL Edmonton and TGP's facilities in Edmonton. The increased focus on safety has resulted in reductions in time-loss injury rates throughout the organization.

Information Technology

Business Unit



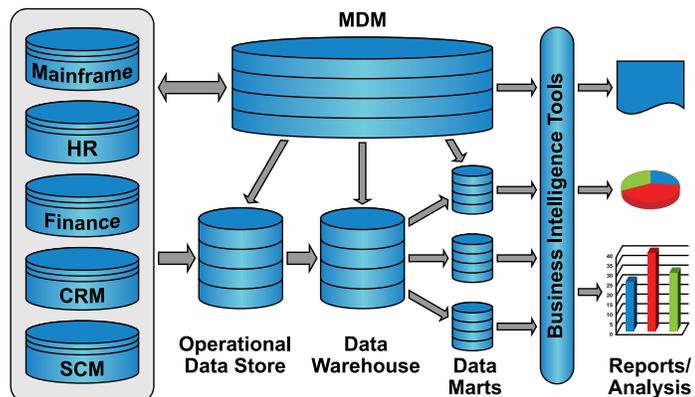
Faramarz Farahani
Vice-President
Information Technology

The mandate of the Information Technology Business Unit is to define and implement innovative technology solutions in support of FCL's Vision, by addressing the increasing demands from retailers for an integrated and unified approach to Information Technology (IT). The business unit evaluates solutions, defines roadmaps, sets guidelines and implements best-of-breed solutions that meet the needs of clients within FCL and across the CRS.

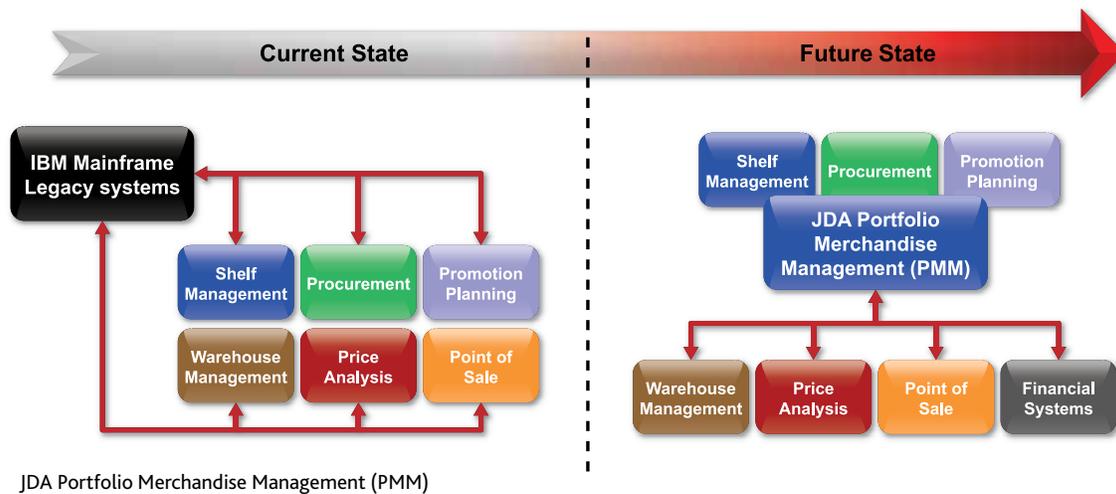
After the successful completion of the "due diligence phase", the mainframe hardware and support was transitioned to ISM Canada. The business unit continued the transformation of IT systems by initiating a payroll project, an upgrade of web infrastructure, a store locator mobile application, an event management web application and a work force management project.

MASTER DATA MANAGEMENT

The successful implementation of integrated technology solutions requires a central data repository (i.e. Master Data). Master Data is common data about members, suppliers, products, employees, accounts and other critical entities that is commonly stored and replicated across IT systems. It is an organization's strategic asset and is at the heart of every business transaction, application, report and decision. Master Data Management (MDM) improves the efficiency and effectiveness of business processes by providing an accurate, trusted view of important data and making it available to all key business processes across the enterprise. MDM is a key enabler of FCL's strategic and tactical objectives. It helps increase sales and net savings, reduce operational costs and improve employee productivity, satisfaction and retention.



Master Data Management (MDM)



To date, IT has developed the vision, strategy and roadmap; gathered business requirements; analyzed various solutions; and, purchased key software components. IT will begin implementation in 2013 by addressing some of the Food Department's and the Petroleum Department's requirements.

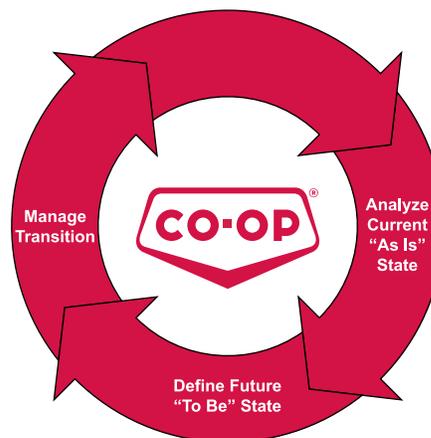
PORTFOLIO MERCHANDISE MANAGEMENT

JDA Portfolio Merchandise Management (PMM) has been selected as the future foundation of retail merchandising systems at FCL. PMM is a leading supply chain solution and will be the central hub for the management of items throughout their life cycles; vendor information and terms; inbound and outbound orders; costing and pricing; execution of promotions; and, interaction with point-of-sale and financial systems. Documentation of the existing legacy mainframe applications has been completed and this multi-year, three-phase project will commence at the start of the 2013 fiscal year. The consolidation of a number of existing systems into a single, cohesive system will set the stage for future growth and capability, and retailers will directly benefit from optimized business processes and enhanced functionality. As a major stride forward, this initiative will extend the inventory visibility to the retail store level and greatly improve planning capabilities throughout the supply chain of the CRS.

BUSINESS PROCESS RE-ENGINEERING

In 2012, IT introduced Business Process Re-engineering (BPR), which is a structured and collaborative approach to developing better solutions by analyzing

and optimizing business processes for upcoming IT projects. BPR takes a business view of the current and future needs, identifies opportunities to improve and delivers effective solutions that support IT-enabled transformation. BPR partners with the business to analyze Current "As Is" State, visualize Future "To Be" State and map out a clear path to better processes and improved performance. The "process maps" produced by BPR can be leveraged to support IT solution design, employee education and other efforts at continuous improvement. Business Process Re-engineering is one way business and IT are working together to more effectively serve members and customers.



Business Process Re-engineering (BPR)

Operational Support Business Unit



Eric Lawrenz
Vice-President
Operational Support

The Operational Support Business Unit encompasses warehousing and trucking operations as well as Co-op facility development. The Retail Facilities Department provides retail co-operatives with planning and development support for new construction, expansion and renovation of food stores, home centres, agro centres and convenience stores. The Petroleum Facilities Department is involved in both the design and construction of bulk plants, gas bars and cardlocks, as well as supplying and servicing retail bulk petroleum delivery trucks. The Logistics Department is responsible for the safe and efficient flow of goods from suppliers to FCL's five distribution centres and through to retail co-operative stores.

TRUCKING

The highway trucking fleet consists of 230 merchandise trailers and 165 petroleum tankers hauled by 37 company drivers and 230 lease operators. The merchandise fleet travelled 16.6 million kilometres and hauled 530,977 tons of product. The petroleum fleet consists of 33 nine-axle tankers and 132 eight-axle tankers. The petroleum fleet travelled 44.9 million kilometres and hauled 3.1 billion litres of fuel.

WAREHOUSING

Work was completed on the Home & Building Supplies warehouse expansion in Calgary. 75,000 square feet were added to the warehouse complex to provide space for new product lines and capacity to meet future CRS service requirements.

The Saskatoon Food warehouse expansion has progressed well during the year. The dry grocery expansion of 135,000 square feet was completed in October along with a new employee entrance, an employee service area and offices. The project will be completed in 2013 with the addition of 29,000 square feet of freezer capacity and renovation of storage areas for perishable goods.

The Warehouse Operations Department continued to focus on productivity, service level and quality.



RETAIL FACILITIES

In addition to facility development expertise, the Retail Facilities Department also provides retail co-operatives with land acquisition services and property management guidance related to landlord/tenant activities.

In 2012, the department continued to improve on energy efficiency in food stores by adding new and emerging refrigeration technologies and through increasing the use of LED lighting in signage, exterior lights and refrigeration.

Standard floor plans for convenience stores were updated to ensure the increasing product programs and services could be accommodated, and to change the structural and other building specifications with the view to controlling construction costs.

The department is supporting the new corporate brand initiative by developing signage concepts for implementation at new and renovated retail facility projects.

The proper use of the Co-op Shield and Wordmark are also being incorporated into all exterior signage to ensure standardization across the system.

PETROLEUM FACILITIES

The Petroleum Facilities Department continued to construct modern and efficient petroleum facilities for both retail co-operatives and FCL corporate sites. These sites have proven to be extremely functional and continue to enhance the image of local retails in their communities and grow their petroleum businesses.

The department worked on 331 automotive (gas bar, cardlock, convenience store and car wash) construction projects and 31 bulk plant construction projects during the year. In addition, retail co-operatives purchased 43 new petroleum delivery units (3 single-axle, 23 tandem-axle and 17 tridem-axle) through the preferred truck supplier program.

Retail Operations & Market Development Business Unit



Gerard Muyres
Vice-President
Retail Operations &
Market Development

The Retail Operations & Market Development Business Unit works directly with retail co-operatives to enhance financial results and maximize Lifetime Membership Benefits. The business unit provides marketing, merchandising, financial, human resource and operational services to retail co-operatives from region offices in Edmonton, Calgary, Regina, Saskatoon and Winnipeg.

Retail viability, profitability and market growth continue to be the fundamental focuses of the business unit. To help ensure that these areas receive increased attention, a new Director of Retail Operations & Market Development position was created and filled during the year. In addition, the Retail Accounting function moved from the Treasury Business Unit to the Retail Operations & Market Development Business Unit. This reorganization helps ensure a stronger working relationship between Retail Operations and Retail Accounting functions for the betterment of retail co-operatives.

2012 was the second full year of operations for the Loss Prevention Department. Retail co-operatives have endorsed the work of this department by strongly supporting the purchase of system-recommended surveillance equipment, security systems and other related electronic tools. As well, the Loss Prevention Bulletin and Tip of the Week have seen good acceptance and usage.

In the past year, 16 retail co-operatives have made solid business decisions to form eight new co-operatives as a way to reduce costs and, more importantly, increase the services their members receive from larger, more diversified businesses that are better positioned to take on new challenges. The Retail Operations & Market Development Business

Region and Retail Operations Directors:



Trevor Livingstone
Edmonton



Barry Manovich
Calgary



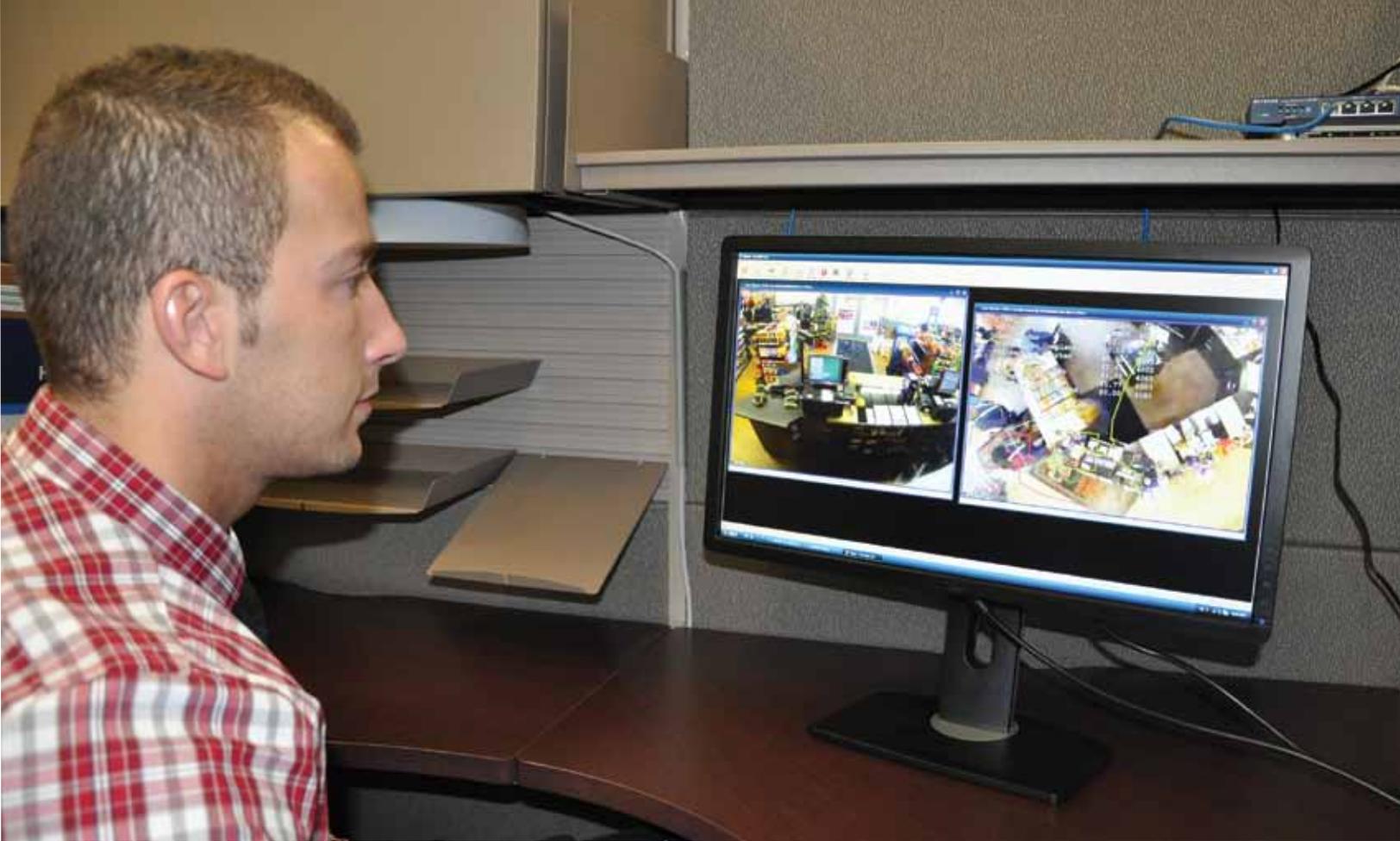
Doug Wiebe
Regina



Dean McKim
Saskatoon



Barry McPhail
Winnipeg



Unit continues to work with retail co-operatives who want to work together to create efficiencies, reduce costs and increase member services wherever possible. The sharing of fuel deliveries, bulk plants, accounting, management services, building estimates, accounts receivable, bin hauling and security services by retail co-operatives are other examples of initiatives that have resulted in cost reductions, larger profits and ultimately larger patronage refunds returned to individual co-op members.

Having quality, well-trained people to manage retail co-operatives has always been one of the key components of a successful co-op. For this reason, there has been an increased effort to ensure that retails are making full use of the training programs which will enhance the service experience customers receive at their local co-op. Working closely with retail co-operative general managers, the business unit has placed greater emphasis on identifying people with the competencies and desire to take on leadership roles at retails and then ensuring there is a personalized training plan suited for each individual. These initiatives will ensure there are capable people ready to lead retail co-ops into the future.

During the year, the business unit assisted retail co-operatives with identifying and evaluating 46 major projects that have

resulted in new or modernized facilities. In addition, retails also received the same assistance on 133 smaller-scale projects (i.e. under \$1 million). This commitment by retails to grow and maintain modern facilities has once again supported record sales achievements.

Executive Management Committee

The Executive Management Committee (EMC) is comprised of retail co-operative general managers elected by their peers to represent each region, as well as the CEO of Calgary Co-op who is appointed to the committee by FCL's CEO. The EMC advises FCL's CEO and Senior Leadership Team on CRS marketing, operations and administrative initiatives. A sincere thank you is extended to the members of the EMC for their participation and contribution to this committee.

The members of the Executive Management Committee are:

Carol Rollheiser	Camrose, AB
Ted Rodych	Medicine Hat, AB
Deane Collinson	Calgary, AB
Ken Bahuaud	Assiniboia, SK
Ray Bourgeois	Wadena, SK
Les Howard	Beausejour, MB



International Co-operative Alliance

Statement on the Co-operative Identity

Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1. Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6. Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Manchester, United Kingdom, September 23, 1995

Code of ETHICAL STANDARDS FOR CO-OPERATIVES

We recognize that this consumer-owned co-operative has a responsibility to respect, to promote, and to protect the rights of consumers, and that these rights include:

- The right to safety • The right to be informed • The right to choose • The right to be heard

In support of its responsibility to appreciate the rights of consumers, this co-operative shall aim to observe and apply in all of its activities, the following:

Ethical Standards

1. All claims, statements, information, advice, and proposals shall be honest and factual.
2. Sufficient disclosure of pertinent facts and information shall be made to enable others to adequately judge the offered product, service, or proposal, and its suitability for the purpose to be served.
3. Due regard shall be given to public decency and good taste.
4. Unfair exploitation in any form shall be avoided.
5. Comparison of co-operative merchandising, products, services, philosophy, principles, or practices, to those of others shall only be made honestly and fairly, and without intent to harmfully disparage.
6. The interests of the membership as a whole shall be paramount to the interests of the institution.
7. The co-operative shall aim to be equitable in the treatment of its members.
8. Knowingly advising or persuading individuals to take action that may not be in their best interests shall be avoided.

Application of the Code

Having acknowledged that the consumer has certain rights, and being resolved to conduct our activities in the interests of the consumer, we shall, at all times, when applying this code or interpreting its intent, emphasize ethical human relations and values rather than technicalities or legalisms.

Our test for compliance to this Code of Ethical Standards shall be the effect of a communication or action on the ordinary or trusting mind. We recognize that it is not sufficient that a discerning, knowledgeable, or analytical person may derive a correct interpretation if others may be misled.

The Code of Ethical Standards is adopted by the Board of Directors as an official policy of Federated Co-operatives Limited, and is recommended for adoption by all retail co-operatives served by FCL.
