



Annual Report
Federated Co-operatives Limited

2013





Profile of:

Federated Co-operatives Limited 2013 Annual Report

Report to the 85th Annual Meeting of
Federated Co-operatives Limited
March 3, 2014

TCU Place, Saskatoon, Saskatchewan

Federated Co-operatives Limited (FCL) provides central wholesaling, manufacturing and administrative services to its owners: 234 locally-owned retail co-operatives (as of October 31, 2013) which operate in more than 500 communities across Western Canada. FCL's member retail co-operatives are owned by more than 1.6 million 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.

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Federated Co-operatives Limited

Board of Directors' Report

The 2014 annual meeting of Federated Co-operatives Limited (FCL) marks the 85th meeting of members. In addition to this historical milestone, members can also be proud of the results achieved in fiscal 2013: record net earnings from operations of \$879 million and record sales of \$9.4 billion. These accomplishments were achieved as a result of the dedicated work of FCL employees and the support of employees and elected officials from member retails across the Co-operative Retailing System (CRS).

FCL is pursuing a focused growth strategy that will assist the CRS in meeting the challenges posed by its competitors. The Board is confident that management has the tools, including the necessary capital, to grow and support members' requirements and the system's growth strategy.

As an example of the growth strategy embarked upon during the year, FCL purchased 17 fertilizer, seed and agriculture chemical supply centres on behalf of the CRS. Ownership and operations of 15 of the sites were transferred to nine retails.

Another significant achievement in 2013 was the completion of the \$2.7 billion refinery expansion and revamps project. Refinery employees, retail co-op representatives and a number of special guests celebrated the official opening last October. The Co-op Refinery Complex now has the capacity to process 130,000 barrels of crude oil per day. This new capacity will allow the refinery to meet the growing petroleum product requirements of the CRS.

FCL has a rich history and has grown to become the largest company in Saskatchewan and the 48th largest in Canada, (based on 2012 sales), and the 58th largest co-operative

in the world (based on 2011 sales). FCL's vision, "to set the world standard in consumer co-operative excellence" was developed by the Board of Directors and Senior Leadership in 2011 and is foundational to provide long-range guidance to management.

Patronage Allocation and Share Redemption

The Board of Directors approved a patronage allocation of \$573.7 million to members on the basis of their purchases from FCL for the fiscal year ended October 31, 2013. The 2013 patronage refund rates, with comparisons to 2012, were:

Commodity	2013	2012
Crop Supplies	6.234%	6.251%
Meat	3.393%	3.441%
Feed	1.273%	1.994%
Grocery	4.953%	4.655%
Home and Building Supplies	5.585%	5.610%
Petroleum – Fuels	9.480¢/L	9.267¢/L
– Propane	12.885¢/L	14.074¢/L
– Oil & Grease	22.029%	16.097%

In 2013, the total cash membership share redemption approved by the Board of Directors was \$463.7 million. Over the past 10 years, cash returned to members has totaled over \$3.5 billion.



Board of Directors

From left to right: Dusty MacDonald (Vice-Chair of the Board), Beryl Bauer, Laura Sullivan, Jocelyn VanKoughnet (Region chair), Herb Carlson, Doug Potentier, Judy Clavier (Region Chair), Larry Karakochuk, Glen Tully (President/Chair of the Board), Don Russell (Region Chair), Don Fluney, Glenn van Dijken, Sharon Alford , Rolf Traichel (Region Chair) and Marilyn McKee (Region Chair).

Board of Directors

The Board met nine times in 2013. In addition to their regular and in-camera meetings, Board members increased their knowledge of FCL operations by participating in nine business unit reviews. These reviews provided an opportunity for discussion between the Board and FCL management employees; they were also the forum for the applicable business units to provide environmental reports to the Board. In addition, FCL's General Counsel provided the annual status report on regulatory compliance and outstanding litigation.

During the year, the Directors within each of the five regions also met with their region Associate Vice-President and various region management employees. Directors were provided with updates on the activities, opportunities and challenges of the retails in their region and were involved with planning events for elected officials.

Board members continued to enhance their competencies in areas such as brand, enterprise risk oversight and social responsibility. The Board participated in a session on its role in supporting brand renewal in June and sessions on enterprise risk management and corporate performance in October.

The Board's four standing committees met at various times throughout the year. The members and objectives of each committee are listed below. The President/Chair of the Board sits as an ex-officio member of all committees.

1. Governance Committee – G. Tully (chair), D. MacDonald, J. Clavier, R. Traichel, M. McKee, D. Russell, J. VanKoughnet

(a) Act for the board, as may be required, between scheduled board meetings.

(b) Oversee the processes and structures used to manage the business of FCL's operations and activities and any other governance related issues.

2. Audit Committee – D. MacDonald (chair), J. Clavier, G. van Dijken, D. Potentier, H. Carlson

Assist the board in fulfilling its oversight responsibilities for:

- (a) the integrity of FCL's consolidated financial statements;
- (b) FCL's compliance with legal and regulatory requirements;
- (c) the qualifications and independence of FCL's external auditor; and

(d) the performance of FCL's internal audit function and external auditor.

3. Human Resources Committee – R. Traichel (chair), D. Potentier, D. MacDonald, M. McKee, B. Bauer (G. Mearns, Vice-President Human Resources, serves as secretary to the committee)

(a) Assist the board in fulfilling its responsibilities as stewards of FCL and its subsidiaries by advising the board on the effective implementation and application of sound human resource policies that are aligned with the organization's values, vision, mission and aspirations.

(b) Recommend to the board, for its consideration, matters relating to FCL's human resources and compensation policies as applicable to the function of the FCL Board of Directors; guide the review of annual objectives for the CEO and President/Chair and leads the annual evaluation thereof.

(c) Carry out any other related initiatives as may be necessary or desirable to enhance board performance, including but not limited to board learning and development.

4. Social Responsibility Committee – J. VanKoughnet (chair), D. Fluney, D. Russell, L. Karakochuk, S. Alford (V. Huard, Vice-President Corporate Affairs, serves as secretary to the committee)

(a) Assist FCL in making it a leader in social responsibility (SR) initiatives that are aligned with the organization's values, vision, mission and aspirations.

(b) Ensure that the board of directors is aware of SR issues and opportunities facing FCL.

(c) Ensure that the board of directors received timely and appropriate reports on progress against key SR goals and objectives.

(d) Ensure that senior leadership prepares and delivers an annual SR report to stakeholders.

In addition, the FCL Board is represented on each of the Region Learning and Development Committees: Edmonton – D. Fluney; Calgary – R. Traichel; Regina – M. McKee; Saskatoon – B. Bauer; and Winnipeg – S. Alford; and M. McKee sits on the Central Learning and Development Committee. Representation on these committees ensures that a consistent message is communicated.

At the 2013 annual meeting, Board members and delegates bid farewell to Ken Jenner, who had served on the Board since March 2010. At the same meeting, Sharon Alford was elected Director.

In September, Laura Sullivan replaced Randy Kott, who served two years as the Director for District 5.

The Board appointed Vern Leland, Ed Klassen and Dennis Banda as Honourary Presidents of FCL.

Corporate Performance Management

The Board of Directors oversees the strategic direction and performance of FCL. The Board has been strengthening governance practices and is focused on providing strategic leadership through high level, long-range planning and effective oversight on behalf of Members.

The Board and the Senior Leadership Team set the corporate direction which consists of five-year evolving goals and yearly strategic priorities. The goals and strategic priorities are

informed by strategic analysis, enterprise risk management and various data and research. Once the strategic priorities are set, each business unit develops its plan, which is then supported by its budget. The overall budget is then reviewed and approved by the Board.

The Board measures FCL's performance using a corporate performance management approach. This comprehensive best-practice process uses a balanced scorecard and metrics to drive and track performance. The Board receives a six-month progress report and corporate scorecard in June and a final report and scorecard in December. The Board then determines how successful FCL was in the implementation of its plans and holds leaders accountable for delivering results that are measured and reported on. Accountability is cascaded down engaging all employees in the success of the organization.

Member and Public Relations

Social Responsibility

Board approval of a social responsibility principles and procedures document led to the development and implementation of a number of new and enhanced SR initiatives, and publication of FCL's first Social Responsibility Report which profiled FCL's commitment to doing business in a sustainable, socially-responsible way. This SR Report to the Community will continue to evolve as FCL develops the methodology and metrics to report to internationally-recognized standards.

Governance

Some regions currently host a New Directors' Orientation Program, if warranted, where newly elected directors gather to learn more about their roles and responsibilities. Topics include region services and an overview of FCL and the federation. This orientation program was hosted by the Saskatoon Region in 2013.

FCL provides further learning and development opportunities for retail directors to develop skills in areas such as leadership, community engagement and financial planning. These courses help retail directors succeed in their roles within the co-operative and are transferable to the leadership positions they may hold in other community-based organizations.

Early in the year, the Board approved the development of a competencies-based program for retail directors in order to meet future requirements for co-operative governance. The new program will

District	Director	Meeting Days	Term Expires
1	Judy Clavier, Sunset Prairie, BC	22	2016
2	Glenn van Dijken, Dapp, AB	22	2014
3	Don Fluney, Dewberry, AB	22	2015
4	Doug Potentier, Victoria, BC	22	2014
5	Laura Sullivan, Calgary, AB	7*	2015
6	Rolf Traichel, Medicine Hat, AB	21 1/2	2016
7	Marilyn McKee, Mossbank, SK	22	2016
8	Dusty MacDonald, Carlyle, SK	22	2015
9	Herb Carlson, Buchanan, SK	22	2014
10	Don Russell, Rosetown, SK	22	2015
11	Beryl Bauer, Lake Lenore, SK	22	2016
12	Larry Karakochuk, Wynyard, SK	22	2014
13	Sharon Alford, Swan River, MB	16**	2016
14	Jocelyn VanKoughnet, Carman, MB	22	2015
15	Glen Tully, Saskatoon, SK	22	2014

* Elected September 1, 2013.
 ** Elected at the 84th annual meeting.

provide the latest information on best practices for governance, competency requirements and tools to enhance directors' skills in these areas. Development of the program included an online survey and meetings with the Board and region focus groups. Key findings were then shared with fall conference participants who discussed and ranked the competencies that directors need to be successful in fulfilling their role and responsibilities as elected leaders. This input will be presented at the 2014 annual meeting and the new Director Development Program will be launched soon after.

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 continues to look at ways to make communication more effective by using internal portals and social media.

Forums such as the June district meetings, fall conferences and the annual meeting 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 on substantive issues like the Director Development Program.

Resolutions are a part of the democratic decision-making process and a means of communication between retail co-operatives and FCL. The cycle to bring forward resolutions to the annual meeting begins at the June district meetings when retail boards of directors are encouraged to discuss possible policy and strategic resolutions. Resolutions that are formally adopted by retail boards are submitted to the district Resolutions Committee member. These resolutions are forwarded to the FCL Corporate Secretary by October 1 of each year and sent to retail boards in advance of regional fall conferences in order to give retail boards an opportunity to consider the resolutions and allow for more informed discussion and voting at the fall conferences.

Resolutions approved at the fall conferences are then reviewed by the Resolutions Committee during its December meeting and sent to retail co-ops and their delegates in advance of FCL's 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 the following fall conferences and a final report is prepared for the next year's annual meeting.

Co-operative Education

At the end of the fiscal year, the Board approved a \$1 million donation to the University of Saskatchewan for a new initiative in co-operative business development in rural and aboriginal communities in Western Canada. The project will be led by the Centre for the Study of Co-operatives in partnership with the Johnson-Shoyama Graduate School of Public Policy, the International Centre for Northern Governance and Development, the Edwards School of Business and the Plunkett Foundation in the U.K. Working with rural and aboriginal communities, the partners will explore ways to expand the co-operative business model in communities where co-ops have not previously been present. The project has a strong research and education component, with the expectation that research will translate into real-world applications. The donation will be made over two years and is to support initial planning, research and capacity development. Following an assessment of the program in late 2015, long-term funding to support continued research and community engagement, as well as identified projects, will be considered.

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, the Centre for Co-operative and Community-Based Economy at the University of Victoria and the 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 FCL Board representation to these programs.

FCL continues to be 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.

FCL Membership Changes

At October 31, 2013, the membership of FCL was comprised of 234 member retail co-operatives, two affiliate members and eight associate members. Various amalgamations and membership changes occurred during the year:

- Central Alberta at Innisfail and Red Deer Co-ops amalgamated to form Central Alberta Co-op;
- Shamrock and Tugaske Co-ops amalgamated to form Palliser Plains Co-op; and
- associate members The Grocery People Ltd. and FCL Enterprises Co-operative 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 it. The Board also participated, directly and indirectly through co-operative associations, in representations made to various levels of governments to advocate for the co-operative sector.

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). In June, delegates to both the Canadian Co-operative Association and the Conseil canadien de la coopération et de la mutualité annual meetings approved the creation of a new bilingual national association that will represent co-ops, credit unions and mutuals across Canada. The new organization, Co-operatives and Mutuals Canada (CMC), will take over the domestic mandates of both organizations in 2014. CCA will continue to exist but it will only be responsible for international co-operative development activities. Vice-Chair of the Board, Dusty MacDonald, represents FCL on CCA's Board of Directors as well as on the founding board of CMC.

Board members also represent FCL on provincial co-operative associations in the four western provinces. These provincial bodies co-ordinate youth programs, educational activities and provincial government relations.

Merit/Distinguished Co-operator Awards

During the year, the provincial co-operative associations and provincial governments recognized the following individuals and organizations for their contributions to co-operatives:

Alberta:

Robert Chessor, Lacombe
Terry Geib, Calgary
Harvey Yoder, Lac LaBiche
Lloydminster & District Co-op

Saskatchewan:

Heather Hale, Saskatoon
(Grover) Harvey Heavin, Melfort
Bev Maxim, Regina
Andre Perras, Montmartre
Sandy Richards, Unity
Ilene Roy, Regina
Advantage Credit Union, Melfort

Manitoba:

Peter Vandermeulen, Portage la Prairie
Urban Eatin' Gardeners Worker Co-op, 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."



Senior Leadership Team

From left to right: Gil Le Dressay (Vice-President, Refinery Operations), Dan McMurtry (Vice-President, Refinery Systems & Strategy), Eric Lawrenz (Vice-President, Operational Support), Vic Huard (Vice-President, Corporate Affairs), Cal Fichter (Vice-President, Energy), Scott Banda (Chief Executive Officer), Gerard Muyres (Vice-President, Retail Operations & Market Development), Randy Boyer (Vice-President, Treasurer), Brad Bauml (Vice-President, Consumer Products), Gary Mearns (Vice-President, Human Resources) and Faramarz Farahani (Vice-President, Information Technology).



Business Unit Reports



Consumer Products Business Unit

Brad Bauml, Vice-President, Consumer Products

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

Brand Strategy

The adoption and implementation of new visual identity elements and guidelines was a key priority for all departments in 2013. Retail decor elements at home centres, agro centres, food stores and convenience stores were updated. The home centre flyer was redesigned to provide alignment and consistency with the brand strategy. A new retail uniform program was introduced this year, with the launch expected in early 2014. The Grocery People (TGP), a wholly-owned subsidiary of FCL, also completed an ambitious brand initiative in 2013 focusing on building new visual identity elements and guidelines, which will be introduced in 2014.

Visual identity is only one aspect of the Co-op brand. FCL, TGP and member retail co-ops continue a long-standing tradition of promoting and increasing the availability of local, responsibly-sourced products. Sixteen local producers grew and marketed over 300,000 kilograms of fresh produce exclusively for Co-op under the Home Grown Saskatchewan brand. The positive response from Saskatchewan consumers is leading FCL to explore ways to expand product offerings and increase volumes next year as well as pursue discussions with producers in other provinces.

Digital presence

Building on Co-op's digital presence was also a key priority for consumer engagement. The Co-op CRS App was released in late 2012. The launch of digital coupons in July significantly increased downloads and usage of the app, laying the groundwork to form more meaningful relationships with Co-op customers online. The Crop Supplies and Feed departments also incorporated web-based digital advertising as part of their marketing programs. Fuel Up to Win engaged retail food and gas customers in a fun and exciting contest offering free products, coupons and chances to win great prizes. FCL and retail co-ops were able to engage customers through social media channels, such as Twitter and Facebook, and develop an email database to expand engagement initiatives to individual customers in the future.

Business Intelligence

In conjunction with FCL's Research and Development Unit, the Food, HABS and Convenience Store departments completed consumer surveys throughout the year to measure consumer perceptions. These scorecards provide benchmarks on which the departments can build strategy and business plans to assist in growing their markets.

The HABS Department began using data insights from retailers' points-of-sale information to evaluate the effectiveness of specific flyer programs and items. The Crop Supplies Department implemented a new forecasting tool for retailers, helping to estimate product demand before the crop season, resulting in lower ending inventories and improved service levels in key crop protection products.

Agriculture initiatives

In August, FCL entered into an agreement to acquire 17 fertilizer, seed and agriculture chemical supply centres across Alberta, Saskatchewan and Manitoba. The second part of the transaction involved transferring ownership and operations to local retail co-ops. These sites provide significant new growth for the CRS and increase the CRS' agricultural presence in a number of key markets.

The Feed Department sales team completed a professional training course in 2013. The course included training in methods to develop sales by building relationships, providing service and promoting oneself as a reliable resource with knowledge, skills and experience of the product and industry.

The Excellence in Ag Program is a new initiative providing a scholarship up to \$20,000 over four years, work internships and opportunities for future employment with a retail co-op to post-secondary students pursuing careers in agriculture and business. FCL selected four students from across Western Canada for this program, with internships at retail co-op locations to begin in May 2014.



Corporate Affairs Business Unit

Vic Huard, Vice-President, Corporate Affairs

The Corporate Affairs Business Unit remained responsible for: brand; marketing and communications; social responsibility; research and development; government relations; environmental affairs; and legal affairs and insurance.

Corporate Affairs assumed responsibility for FCL's privacy portfolio in 2013. Canadian federal and provincial laws require that FCL maintain the accuracy, confidentiality and security of personal information collected, used and retained by FCL. A comprehensive, multi-year project is underway to ensure that policies and procedures are in place to ensure good privacy management and governance.

This project is a critical component of FCL's strategic risk management strategy and will lay the groundwork for effective Customer Relationship Management (CRM) initiatives in the future.

An effective CRM strategy is essential to success in today's highly competitive, information-heavy economy. CRM in today's environment means getting to know customers in new and innovative ways, including personalized emails, enhanced experiences via mobile apps and easily-navigated websites. In 2013, Corporate Affairs assumed the coordinating role in shaping FCL's CRM strategy. FCL made significant progress to enhance its digital media presence in 2013, including laying strong foundations that will enable FCL and local retail co-ops to know their customers better, provide personal shopping and service experiences and provide meaningful offers and information.

Both the new CRM strategy and privacy initiatives were part of a continued reintroduction of the Co-op brand, the public phase of which began in earnest in 2013. The public rollout was anchored around the new positioning line, "You're at home here." However, the positioning line is only one small part of the brand reintroduction. Local retail co-ops have been provided with tools to ensure the consistent presentation of new visual standards, consistent messaging about lifetime membership benefits and customer service standards that reintroduce co-op members and consumers to the Co-op they've always known. Co-ops are truly differentiated from the competition by their commitment to local ownership, local presence and reinvestment in communities and individual members. Research shows that people recognize that co-ops are locally invested and community minded, and they deliver lifetime membership benefits. The brand strategy is focused on reminding co-op members, and potential new members, of the reasons why shopping at Co-op benefits not only individuals but entire communities.

The brand initiative is supported by comprehensive research conducted across Western Canada. More than 140 research projects in support of corporate objectives were completed in 2013. Key brand and marketing metrics were identified and baseline measures were established to guide both operational and marketing strategies. Major initiatives supporting retail growth included the completion of six consumer scorecards in three business lines, measuring shoppers' perceptions of Co-op and its competitors in food stores, gas bar/convenience stores and home centres. Significant improvements in the retail-initiated Market Analysis Studies, which assist retailers in making strategic decisions at the local level, were also implemented in 2013 with further enhancements planned for the future.

Brand-specific research included: the second Co-op Brand Study – the first was completed in 2011 – gauging consumer perceptions of the Co-op brand across Western Canada; corporate social responsibility research in the Trust Index Study; and monitoring public opinion and support of the Co-op Refinery Complex as it operates in alignment with both FCL's values and values important to the public.

Another key element in enhancing brand and maintaining a commitment to socially-responsible operations is the ongoing work to improve environmental performance across a range of business lines. Corporate Affairs led contaminated site research at approximately 20 sites across Western Canada in 2013. Three of these projects received Government of Canada funding through the Natural Science and Engineering Research Council (NSERC) and involved partnerships with the University of Saskatchewan, SIAST, Yukon College and the Canadian Light Source. Significant strides were made in developing innovative techniques for the remediation of contaminated sites, including the use of new techniques and technologies that will both improve the effectiveness of site remediation and reduce costs to FCL and local retailers over the long term. This important work helped advance FCL's existing knowledge base and develop future talent to help successfully manage impacted sites both now and in the future.

These environmental initiatives were just one aspect of a broader social responsibility initiative that remained a primary focus for Corporate Affairs. FCL's first-ever Social Responsibility Report was published in September 2013. This was a major, cross-functional initiative. The report provides a solid foundation upon which to build more comprehensive reporting frameworks moving forward.

Trevor Carlson, left, FCL Environmental Affairs Director, and Dr. Richard Farrell, Associate Professor of Soil Science at the University of Saskatchewan, analyse soil samples to determine the impact of phytoremediation on contaminated sites.



Co-op Refinery Complex Business Unit

Gil Le Dressay, Vice-President, Refinery Operations • Dan McMurtry, Vice-President, Refinery Systems & Strategy

A wholly-owned subsidiary and a strategic business unit of FCL, the mission of the Co-op Refinery Complex (CRC) for more than 78 years has been to serve the Co-operative Retailing System with supply of petroleum products. The CRC's financial results are consolidated with those of the Petroleum Department.

Core Principles

The Co-op Refinery Complex provides quality products and services to ensure safety, high reliability through equipment integrity and environmental soundness, accomplished by employees demonstrating FCL's values of integrity, excellence and responsibility.

Approximately 36.5 million barrels of crude were processed in 2013, a 20 per cent increase over 2012 and the largest volume processed in the history of the CRC. Production was negatively impacted by an extended spring turnaround and by a coker unit fire in February, both of which limited heavy crude processing for 45 days. However, the new Section V led to a record 80,000 barrels per day (BPD) processed during turnaround, maximizing production when one third of the facility was undergoing maintenance. The high demand for product in the fall resulted in purchases of diesel to meet product supply requirements.

For the past three years, CRC has been enhancing a comprehensive Process Safety Management (PSM) system to target safety initiatives and manage operational risks through independent consultation. A PSM system improves safety, reliability and sustainability and includes essential elements to prevent a major release of materials. The system's implementation phase has begun and will continue over the next few years.

A new equipment reliability group was established in 2013 to help improve equipment integrity by assessing current preventative maintenance programs, developing new programs and advising on long-range turnaround plans.

Expansion and Revamps Project

The revamps of four processing units and one utility area were all successfully completed in 2013. All the new equipment was safely started with production from the last unit established in August. To celebrate

the completion of the expansion and revamps, CRC held an official grand opening on October 17, 2013, the one-year anniversary of crude feed into the new Section V.

The expanded CRC currently has a balanced product capacity of 130,000 BPD and potential for 145,000 BPD. The expansion and revamps increased gasoline production by 30 per cent and diesel production by 25 per cent from 2010 volumes. To utilize the new facility capacity year round, additional commercial and third-party sales have been established. Optimization plans for production and product blending will continue throughout the next several years to ensure that the facility reaches its full potential.

The waste water improvement project is nearing completion and will limit environmental impact by returning treated water into the system and reducing odours and air emissions. Commissioning and start-up activities of the new treatment plant are to commence in spring 2014 with full operation by July 2014.

Supply And Distribution

The Carseland Terminal in Alberta is near completion with commissioning activities planned throughout the winter. The terminal will receive gasoline and diesel product by rail from the Co-op Refinery Complex. It will distribute up to one billion litres of fuel per year to retail locations in southern Alberta and the British Columbia Interior. The terminal is expected to be operational in the spring of 2014.

Growth Through People

The CRC's most important asset is its employees. In order to reach its potential and sustain its operation, CRC will need to grow the capacity of its people through training, re-organization and hiring. The permanent staff complement as of October 31, 2013, was 896 employees (227 management and 669 in-scope). This represents a 10.8 per cent increase in the permanent staff complement over the previous year.

A \$2.7 billion project to expand and revamp the Co-op Refinery Complex was completed in 2013





Energy Business Unit

Cal Fichter, Vice-President, Energy

The Energy Business Unit encompasses the Petroleum, Propane and Crude Oil departments. The main role of the business unit is the successful procurement and distribution of energy-related products and services in support of the Co-operative Retailing System. In 2013, the business unit focused on growth and brand development.

Petroleum

The Petroleum Department supports the growth of petroleum sales within the CRS through: marketing programs; market analysis; member and customer service; technical support; operations support; and project management. The department also manages commercial sales of additional gasoline and diesel volumes produced by the Co-op Refinery Complex.

The additional supply of petroleum products as a result of the expansion at the CRC led to significant new commercial sales contracts with other petroleum marketing companies, creating positive growth and financial returns.

Eight new corporate bulk plants were opened in 2013, and an additional eight plants are under construction. The completion of the Co-op Carseland Terminal will, along with the corporate bulk plants, significantly enhance inventory management and increase distribution efficiencies. Gas bar development continues with 34 new or major upgrade projects currently approved for development or under construction. Most notably, gas bars are being developed in the Edmonton, Alta., Lethbridge, Alta., and Dryden, Ont., markets that are currently underserved by the CRS.

The Petroleum Department ensures all facilities are aligned with the corporate brand strategy; FCL subsidizes retail facility upgrades and new installations. Materials displayed at facilities for various promotions, such as Fuel Up to Win, are carefully designed to align with the Co-op brand.

Cardlock facilities continued to be updated in 2013 with the replacement of most retail punch cards with new magnetic stripe cards. This card replacement program will be completed in the next year. The new Hydra Fuel Delivery System is being rolled out to FCL propane outlets and retail co-operatives. This new system, developed by FCL and National Energy Equipment, offers many innovative features and benefits that are not available on older systems.

Fuel Up to Win, the first major joint promotion between the Petroleum and Food departments, was launched in 2013. The contest ran for eight weeks at 676 Co-op gas bar and food locations and provided excitement for customers and incremental sales for the Co-operative Retailing System.

Change within the energy industry is constant. By allocating resources to research new fuel technologies, including the creation of a new position, FCL will analyse the opportunities and threats they present to the CRS. This strategy will help the CRS maintain a leadership role as an energy supplier into the future.

Propane

The Propane Department provides the CRS with services to enable the growth of propane sales and manages the commercial sale of propane produced at the Co-op Refinery Complex.

The bulk propane delivery service was expanded into the Edmonton area with a new branch office opening in May 2013, allowing significant growth in the area. Propane delivery is being offered in close proximity to Edmonton, with plans in place to expand service to all retail Co-op customers in the Edmonton region. The existing north Saskatchewan propane branch was relocated into a renovated office and shop facility in La Ronge with a new bulk propane storage tank system featuring loading and unloading equipment designed to reduce emissions and increase safety.

Significant new commercial contracts were realized in 2013 in the mining and industrial sectors, which will be supplied with additional production from the recently expanded Co-op Refinery Complex.

Crude Oil

FCL is active in all aspects of the upstream crude oil business, including exploration, development and operation of crude oil resources in Western Canada, with the majority of the assets in southern Saskatchewan. FCL's involvement in upstream production complements the other downstream oil refining and petroleum marketing business lines. FCL's upstream crude oil assets are managed by Adonai Resources Corporation.

In 2013, FCL focused on increasing production and realized (in average daily production) a 59 per cent increase year over year.

Eight new corporate bulk plants were opened in 2013, with another eight under construction.



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 (CRS). 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, Employee and Family Assistance Program (EFAP) and leadership development. The business unit also provides many of the same services to member retail co-operatives throughout Western Canada.

As part of the goal of attracting and retaining a highly-qualified workforce, FCL continued to transform human resource management practices in 2013. As well, FCL conducted its second employee engagement survey – the first survey was completed in 2010 – to gauge the current level of employee commitment and engagement. These surveys provide important information to assist in the development and implementation of human resource programs for the organization.

Safety

A comprehensive strategy was developed in 2013 as part of the goal to be a top quartile performer in safety. A new health and safety program was developed to assist retail co-ops to understand and respond to the various changes that have occurred in occupational health and safety legislation in their respective provincial jurisdictions. Most FCL locations have now achieved the Certificate of Recognition (COR) standard in safe work practices. In order to provide consistent safety information across FCL's operations, a safety management system was implemented to better capture information related to workplace accidents and statistical information to assist in identifying workplace risks.

Performance Management

A new performance management process improves the alignment of employee performance with FCL's business plan. This has been achieved by having all management employees draft individual performance plans that include specific goals linked to those of their business units. Progress is discussed quarterly between employees and their respective supervisors. As well, the performance evaluation processes now include a focus on achieved results but also competency development of management employees.

Total Rewards

A two-year project to overhaul the compensation program at FCL culminated in the introduction of a new salary structure for management positions. The goal of this change was to ensure that salaries were both internally equitable but also externally competitive. A Total Rewards Strategy has been developed to encompass all aspects of FCL's employee value proposition and includes cash compensation, benefits, work-life balance, professional development and recognition. Enhancements to our benefits

program included the introduction of a prescription drug card for employees and access to the Benefits Now program offered by our benefits provider.

Learning and Development

Electronic Learning (eLearning) continued to be expanded in response to an increase in requests for this type of learning delivery. New eLearning courses introduced in 2013 included Bringing the Co-op Brand to Life, as well as several related to petroleum products and enterprise risk management. Performance management videos were also produced. There were a total of 22,859 course completions during the year.

As well, a total of 346 workshops were delivered to just over 5,500 employees and elected officials. Four workshops were revised to align with FCL's brand strategy.

Retail Workforce and Succession Planning

Ensuring an ongoing supply of qualified managers for the CRS requires a continued focus on management development. This includes the use of one-to-one training for general managers and commodity managers, group training in the areas of home and building supplies, agro, food, and retail manager, the Accelerated ADVANCE program in all commodities, the student development program and mentorship programs by all region management employees. A total of 316 employees received management development through these various programs in 2013.

Technology Projects for Human Resources

In conjunction with Information Technology, the Core HR technology project was officially launched. This project will ultimately see employee information captured and moved between payroll and time and attendance systems, and will provide the foundation for all of the talent management processes used in the CRS. Additional work is underway to implement both an applicant tracking system to assist with our recruitment processes and a new learning management system to assist with capturing the learning and development activities of our employees and board members.

Labour Relations

Assistance with collective bargaining was provided to 25 retail co-ops in 2013, which represents more than half of all unionized retail co-operatives in the CRS. Settlements were negotiated at 19 locations. Six agreements were still being negotiated as of FCL's yearend. This service continues to provide expertise and information to general managers and boards of directors in order to assist them in achieving settlements that are competitive in the retailing industry. Collective agreements were also successfully negotiated covering refinery employees in Regina as well as FCL employees at the Melfort and Edmonton feed plants, the TGP Warehouse in Edmonton, the TGP Warehouse Market and the Selkirk Marketplace facility.

Human Resources supports the learning and development of FCL and CRS employees, with nearly 23,000 eLearning courses and 346 workshops completed in 2013.





Information Technology Business Unit

Faramarz Farahani, Vice-President, Information Technology

The Information Technology Business Unit continues to define and implement innovative technology solutions in support of FCL's vision and to address the increasing demands from retails for an integrated and unified approach to information technology (IT).

The business unit mandate is to evaluate solutions, define road-maps, set guidelines, implement and support best-of-breed solutions that meet the needs of the federation.

The business unit continued its transformational mandate by initiating a number of foundational projects while continuing with the implementation of projects that started in previous years.

New IT Recovery Model

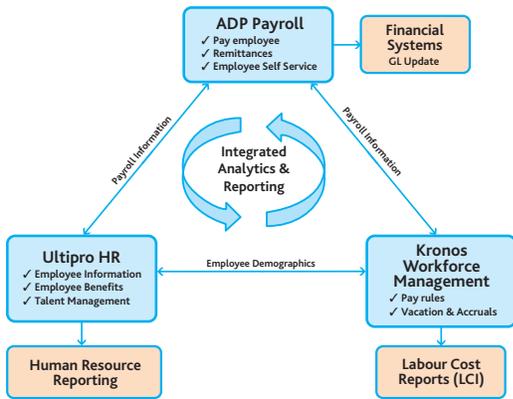
The transformation depends on delivering standardized, innovative and integrated systems to all retails regardless of their size or business scope. This will drive stronger, more timely decisions to better serve customers and facilitate growth. When competing in a sophisticated market, complete insight into all information is vital. CRS-wide adoption of new IT technologies will help achieve this insight.

In 2013, IT proposed a new recovery model which is more fiscally responsible, justifiable, transparent and understandable. Starting in fiscal 2014, a large portion of IT costs will be allocated to overhead instead of being directly recovered from the retails. This approach allows the CRS to focus on strategic change instead of the individual expense of each new technology introduced. The model also transforms IT from a profit centre into an expense centre while reducing retail pre-allocation expenses.

Project Management Office

The Project Portfolio Management Process, introduced in 2011 to manage the intake of requests, created the foundation of the Project Management Office (PMO). A PMO increases the success rates of projects by providing standards and metrics to ensure projects are on time and on budget. A full PMO team was assembled in 2013, which included seasoned project managers and business analysts, with specialized knowledge and experience in various technology and business domains. The PMO introduced FCL's project management methodology, including the gating process which examines project quality at defined checkpoints to decide to move forward, stop, hold or recycle, and released a collection of tools and templates to standardize, increase visibility and provide better reporting and metrics.

Integrated HR, Workforce Management and Payroll Systems



Integrated solutions

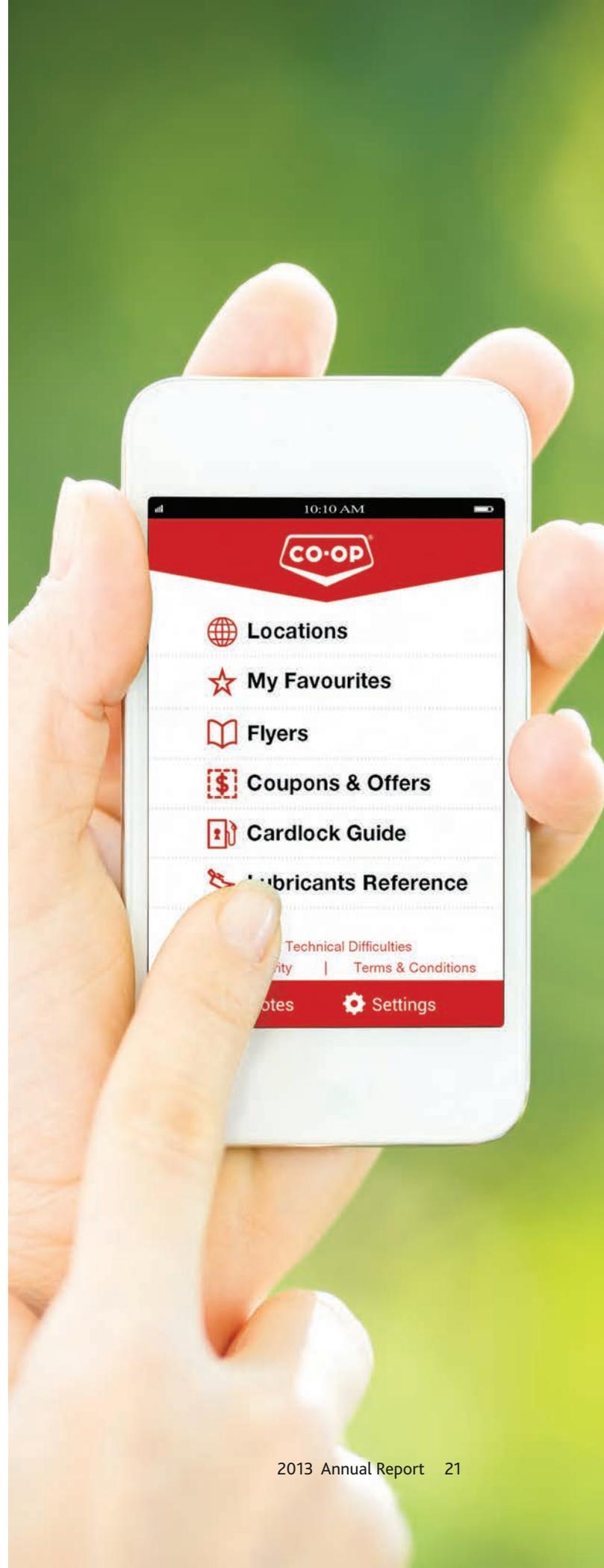
After successfully implementing and rolling out the ADP payroll project to retail, the business unit initiated Kronos' Workforce Management and Ultimate's Human Capital Management projects. The goal is to effectively integrate these solutions to provide users with a positive and seamless experience.

The integrated solution provides secure and reliable means for applications to share data without compromising the integrity of data. The systems integration is accomplished by using enterprise service bus and identity management solutions. Improved data integration and cross-functional reporting will be addressed using other initiatives such as business intelligence and data warehousing projects.

Co-op Mobile Application

In 2013, FCL took the first leap into mobile technologies by successfully launching the multi-platform Co-op CRS app. The initial focus of the mobile app was to provide CRS members and customers the ability to locate Co-op facilities across Western Canada. In order to keep the location and related information current, the Co-op profile application was developed for local co-ops to update their own locations, hours and services.

The app is constantly evolving. The recently-added coupons and offers feature was well received and led to a spike in the number of downloads. In the near future, new features such as personalized shopping lists and mobile-friendly retail websites will be added to better serve our customers in the evolving digital landscape.



The Co-op CRS app helps engage customers on their mobile devices by providing access to information such as locations, hours, services, flyers and coupons.

Operational Support Business Unit

Eric Lawrenz, Vice-President, Operational Support

The Operational Support Business Unit encompasses warehousing and trucking operations as well Co-op facility development.

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-op stores.

The Retail Facilities Department provides Co-ops 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 the design and construction of bulk plants, gas bars and cardlocks, as well as supplying and servicing retail bulk petroleum delivery trucks.

Trucking

The highway trucking fleet consists of 229 merchandise trailers and 189 petroleum tankers hauled by 38 company drivers and 240 lease operators. The merchandise fleet travelled 17.2 million kilometres and hauled 527,236 tons of product. The petroleum fleet travelled 48.3 million kilometres and hauled 3.2 billion litres of fuel.

FCL created six new images reflecting Co-op's new brand strategy for the merchandise fleet and applied them to 17 trailers by year end. One new image was designed for the petroleum fleet and was applied to 62 b-train tankers.

Warehousing

FCL completed work on the Saskatoon warehouse, adding 29,000 square feet of freezer space and renovating 102,000 square feet in the perishable products area. New produce rooms, banana ripening rooms, dairy cooler and cross dock areas were constructed as part of the renovations. This expansion and renovation project will provide the capacity to support continued CRS market development and growth in Saskatchewan.

With the assistance of a consultant, the warehouse operations and industrial engineering team implemented an engineered labour management system at the Calgary food warehouse in 2013. This system uses industry best practices and preferred methods to serve a number of purposes: improve management practices and performance expectations; reduce operating costs; improve customer service through timely deliveries; and improve warehouse safety. The Calgary warehouse is already achieving increased productivity. The program will be expanded to all food warehouses in 2014.

Retail Facilities Department

Retail Facilities continues to focus on improving efficiencies in project development. In 2013, the department developed 12 typical food store floor plans based on retail sales volume categories. These plans also included building design and construction standards to control cost from

an initial construction perspective and to ensure proper materials were used from a life cycle perspective.

Food store refrigeration continues to evolve with the retail system now fully implementing LED lighting in new refrigeration display cases and using glass door cases for dairy and smoked meat products. The department is also assisting retailers in converting existing glass door freezer cases and convenience store walk-in coolers to LED lighting. All of these initiatives improve energy performance and product integrity.

FCL promoted brand signage and new image standards at Marketing Expo 2013. Numerous retailers have installed new exterior signage elements and brand values messaging and more are planned in conjunction with future construction and renovation projects.

Petroleum Facilities Department

During the year, the Petroleum Facilities Department continued to be focused on finding ways to reduce construction timelines and costs. The rollout of the new Co-op branding elements for all petroleum facilities began.

The department worked on 223 automotive construction projects (gas bars, cardlocks, convenience stores and car washes) and 29 bulk plant construction projects during the year. Retail co-ops purchased 46 new petroleum delivery units (22 tandem axle, 19 tridem axle, one semi-trailer, and four pup trailers) through the preferred truck supplier program. In addition, another 11 lumber trucks, equipped with rear mounted forklifts or truck mounted cranes, were supplied to co-ops. Consolidating retail truck orders through a national truck purchasing program has provided significant financial benefits for the CRS.

FCL supports retail members by focusing on improving efficiencies, such as the implementation of LED lighting in the new refrigeration display cases and using glass door cases for dairy and smoked meat products.





Retail Operations & Market Development Business Unit

Gerard Muyres, Vice-President, Retail Operations & Market Development

The Retail Operations and 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 resources and operational services to retail co-operatives from region offices in Edmonton, Calgary, Regina, Saskatoon and Winnipeg.

Retail viability, profitability, market growth and development of human resource talent continue to be the key priorities of the business unit. These priorities are intended to assist retails to one day set the world standard in consumer co-operative excellence.

The business unit is comprised of the following departments: Retail Accounting; Loss Prevention; Retail Operations; and five regional offices. The close working relationship between retail co-ops and the business unit is one of the key benefits of the federation and ensures retail co-ops remain successful.

In the past year, 18 retail co-ops have made carefully considered business decisions to amalgamate and form nine new co-ops as a way to reduce costs and, more importantly, increase services to their members.

The larger, more diversified businesses which resulted from these amalgamations are better positioned to take on new challenges. The Retail Operations and Market Development Business Unit continues to work with retail co-ops that want to work together to create efficiencies, reduce costs and most importantly increase member services wherever possible. Joint management initiatives in areas like fuel deliveries, bulk plants, accounting, management services, bin hauling and security services, for example, have resulted in cost reductions, larger profits and ultimately larger patronage refunds returned to individual co-op members.

Over the past decade, retails increased sales by 136 per cent, from from \$3.9 billion to an expected \$9.2 billion. This growth has been a direct result of continuous redevelopment of existing facilities and the addition of new locations. Continued efforts in this area

resulted in the modernization and new construction of 47 retail sites costing where individual project costs exceeded \$1 million and 37 building upgrades where individual project costs were less than \$1 million.

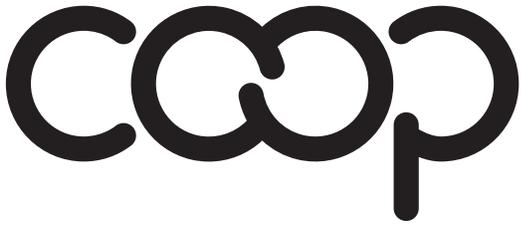
During the year, FCL purchased 17 fertilizer, seed and agriculture chemical supply centres with the intent of transferring the outlets to retail members. This purchase resulted in one new co-op entering the agricultural business and seven other retails growing and strengthening their agricultural presence.

Having quality, well-trained people to manage retail co-ops has always been one of the key components of success. For this reason, retail co-ops were asked to make talent management a priority. Retail co-ops have worked with region teams to develop stronger, more robust action plans to identify talent and provide more personalized training plans for identified employees. These increased efforts will ensure there will be capable people ready to lead co-ops into the future.

The use of technology as a cost-saving and decision-making tool is key to the long-term success of any retail. The Retail Operations and Market Development Business Unit has started the multi-year process of developing and implementing new technology solutions to provide more accessible, fact-based information on which to make business decisions. These solutions will increase revenues and manage costs effectively. The four major projects that were started in 2013 for retail use in the future are: Core HR, Time and Attendance, Core Financial and a new payroll system. These systems are being designed with input from retail co-op management and will ensure continued retail co-op success.

FCL works with retail co-operatives, supporting their growth and development. In 2013, FCL helped several retails establish or expand their agricultural business.





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.
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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.



Integrity

Be honest and trustworthy

- Communicate openly and with respect
- Act ethically at all times
- Respect your colleagues, our members and our business partners

Excellence

Strive to be the best

- Focus on continuous improvement
- Innovate and evaluate
- Celebrate our success

Responsibility

Accountability matters

- Focus on success every day
- Support our communities
- Respect the environment



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