

2019 Annual Report



Federated
Co-operatives
Limited

HERE FOR THE WEST



**We're serving your local
co-ops' needs.**

**Together, we're making a
difference in our communities.**

We're here for the West.





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SHARON ALFORD

President/Chair of the Board

PRESIDENT'S MESSAGE

It was a year for the history books. It was a year of continued success, during which our co-operative model and the strength of our Federation enabled us to thrive despite the significant challenges we faced.

Federated Co-operatives Limited (FCL) is a complex organization governed by directors elected by its 170 member-owners: local co-ops representing over 580 communities. Together, FCL and these local co-ops make up the Co-operative Retailing System (CRS). Members of the CRS share many common values and a commitment to communities, but there are many differences as well. With this complexity comes challenges, and unity and alignment between all members of the CRS are critical to our success. As we move into a new chapter of our history, we must continue to tell our story and share the benefits of co-operation.

In August, I was elected President/Chair of the Board of FCL. As the first woman to hold this position, I have been encouraged by the positive reception from across our Federation and throughout the Co-op family. Over the past 30 years, I have personally experienced the co-op difference at every level, starting as a member and customer at my local co-op in rural Manitoba and then serving as both a local retail director and an FCL director. These experiences along with ongoing training, conferences, and networking are the reasons that I value the co-op system. Co-ops invest in the communities that we live in, and our committed approach to communities across Western Canada for the long term is what sets us apart. As we move into a new decade of opportunities and challenges, we are committed to discovering, developing and supporting the next generation of co-operative leaders.

As directors of this organization, we are tasked with providing oversight of FCL, protecting local co-op member-owners' investments in FCL and protecting the future of the CRS. Sustainable board governance requires directors who don't simply understand the theory of the co-op model: they must also believe in the model to ensure that it thrives for the long term.

Two initiatives are helping us advance that support for the next generation.

First is our continued expansion of the Director Development Program (DDP). Launched in 2015, the program provides online modules and in-person workshops that equip elected officials with the tools and training they need to be strategic and effective leaders. The new Board Chair Effectiveness sessions have been well received and beneficial to the attendees. In 2019,

together with the Canadian Centre for the Study of Co-operatives, we initiated Series 3 of the DDP, which will be a progressive session that expands on information in earlier phases and covers topics such as the co-operative model, financial stewardship and reporting.

Second are reforms to the board calendar and electoral process. To increase efficiency and reduce barriers to participation, our Board has adopted concurrent committee meetings, reduced the number of meetings and increased its use of technology. In response to changing demographics within our electoral structure, our Board is proposing a revised district-director election model and boundaries. These reforms will ensure a larger pool of candidates every election, increase delegate engagement and reduce geographical barriers to participation. We continually look for ways to ensure we have the most qualified directors to lead our co-ops and FCL. Succession in governance is a critical and primary responsibility.

Why does this matter? Calgary Co-op's announcement in August that it had chosen to become a direct competitor in the food business will not only provide fodder for history books and case studies, but its decision also presented all of us with a significant challenge. It was also an opportunity to consider the strength of our system and the value of our model. Members throughout the CRS have responded with a renewed desire to be unified and to support the co-operative system that has successfully served their communities for decades.

The co-operative system is reinforced by committed and engaged leadership. That's what allows us to continue to tell our story. Looking ahead, we have new generations and newcomers to Western Canada who are less likely to visit a physical retail location and are located increasingly in urban areas with increased competition. They may not have the co-operative background that many of us take for granted. The co-operative difference sets us apart, but if we don't play our role in passing on the roots of our differences and our strengths as co-operatives, we run the risk of being just another wholesale/retail business that people don't distinguish from the competition.

It was a historic year for FCL, one that we will build on, learn from and remember. Going forward, we will continue to use the benefits of the co-operative model to overcome adversity, embrace diversity and build sustainable communities together. United, our story continues, and together our future is bright.

CEO'S MESSAGE

The past year was characterized by a challenging environment. Economic conditions in Western Canada varied from stable to poor across our trading areas. The weather was predictably unpredictable and created havoc for the agricultural sector. The regulatory environment remained unsettled, especially as it relates to the energy sector. Despite these challenging conditions, the CRS held its own in terms of market share and was solid in terms of overall impact and performance in Western Canada. This is due to the cohesion of our Federation, diverse geography and business lines, and resilient people committed to their home communities across the West.

Although FCL's overall sales and profitability were down in 2019 from the record year of 2018, this past year saw us achieve our second-highest levels of earnings ever. While we have been able to benefit from favourable market conditions in our energy business over the past two years, we saw market conditions return to normal in the fourth quarter. We expect this situation to continue going forward.

We continue to experience very competitive conditions for our local co-ops. Competitors are larger and more aggressive in tougher times, which has had a negative impact on local co-ops' results. This culminated in FCL's plans to redistribute more of its earnings to its local co-ops in an expedited and predictable fashion starting in 2020.

In spite of the more challenging environment, FCL continued to invest in our processes, our people, our brand presence and our facilities in Western Canada. Several major technological initiatives that form the basis for future business processes went live in 2019. These initiatives allow us to implement several enhancements, including point of sale changes, improved digital presence, and new financial and maintenance systems. We continue to invest in our employees, with a continuation of our diversity and inclusion journey as well as the introduction of new leadership and wellness programs. Our marketing and commodity teams won national awards for energizing marketing campaigns and innovative new products. We also enhanced Co-op's presence in the community through programs such as Co-op Community Spaces and the Red Cross partnership, and Co-operatives and Mutuals Canada named FCL Large Co-operative of the Year in Canada. The maintenance turnaround at the Co-op Refinery Complex (CRC) continued on a path of continual improvement that is

repeatable and predictable. Construction of a third fertilizer terminal began at Grassy Lake, Alta., and we purchased Terra Grain Fuels, an ethanol-production facility.

The ongoing evolution of the energy sector and the regulations governing it provide challenges for the sustainability of our operations. In 2019, we began scoping our Refinery Roadmap to future sustainability, a focus on alternative fuels and ways to diversify our business.

The immediate future will require significant investments in our energy business, new technologies in all business lines, supply chain enhancements, enhanced customer-experience programs and strategies to improve our presence and profitability in all business lines.

The most disappointing news of 2019 was Calgary Co-op's decision to move its food business to a competitor. While FCL teams worked diligently to assess the impact of this decision and adapt our business to ensure long-term success, the damage done to local co-ops stemming from Calgary Co-op's decision will be felt for some time. That decision also led to our saddest moment of the year, when over 200 employees were advised that their employment with FCL would end and that our Calgary Food Distribution Centre would have to close.

In response to the challenges of 2019, the CRS has come together to unite around principles, values and each other. It is inspiring to see the commitment, support and belief in Co-op, the CRS and FCL. Leaders across the Federation have re-committed to the idea that the strength of the Federation is working together in the face of the many challenges that lie before us.

As we look to 2020, we do so with optimism. Co-ops are made up of extremely talented team members, visionary boards of directors who are the keepers of Co-op principles and philosophy, and individual members who care about their local Co-op business and their communities.

We will continue to evolve and build our Co-op business, and we will continue to enhance our relationships with each other, our suppliers and our communities. Working together, we will make a difference in members' lives by sustaining our operations and doing our part to improve Western Canada.

We are here for the West.



SCOTT BANDA
Chief Executive Officer

SENIOR LEADERSHIP



SCOTT BANDA
Chief Executive Officer



ROMAN COBA
Vice-President, Technology



CAL FICHTER
Vice-President, Energy



RON HEALEY
Vice-President,
Ag and Consumer
Business



VIC HUARD
Executive Vice-President,
Customer Experience and
Stakeholder Engagement



TOM KISHCHUK
Vice-President,
Operational Support



GIL LE DRESSAY
Vice-President,
Refinery Operations



HEATHER RYAN
Vice-President,
Human Resources



PAM SKOTNITSKY
Vice-President, Strategy



PATRICK SMITH
Vice-President,
Retail Operations



TONY VAN BURGSTEDEN
Vice-President, Finance

ABOUT US

Wholesaling

FCL sources and distributes products across all primary consumer-goods lines: food, home and building supplies, crop inputs, livestock feed and energy. The Co-operative Retailing System (CRS) benefits from combined purchasing power in all business areas, which allows local co-ops to remain competitive with larger, integrated companies.

Manufacturing

The Co-op Refinery Complex (CRC) in Regina has the capacity to process 130,000 barrels of crude oil per day, enough to fuel the needs of the CRS. Terra Grain Fuels has the capacity to produce 150 million litres of ethanol per year. FCL is also a member of Interprovincial Cooperative Limited (IPCO), which produces crop-protection products. FCL operates three feed plants located in Saskatchewan and Alberta. FCL also contracts the manufacturing of a variety of Co-op-brand products: CO-OP® GOLD, CO-OP CENTSIBLES®, MARKET TOWN®, CO-OP GOLD PURE®, CO-OP® CARE+® and HOMEBASE®.

Administrative Support

FCL provides a range of services to enhance retail members' capacity and reduce members' costs of doing business. For example, FCL provides IT infrastructure support, accounting services, risk-management services, human-resources support, recruitment and ongoing employee training. FCL also assists with planning and developing capital construction projects and owns and maintains a trucking fleet for distribution of fuel, food, and home and building supplies across the CRS.

Marketing Support

FCL provides comprehensive marketing support across all major business lines, including centralized and regional campaigns, point-of-sale promotions, centralized flyers and digital marketing services. FCL also provides market-research analysis to identify consumer needs and perceptions and to determine the viability of new programs and services, as well as product and service development.

Aspirational Statement

Strong co-operative governance is the foundation upon which we pursue a common purpose with our retail owners. Working together, we sustain a vibrant, unified Federation by creating shared value. We leverage our financial strength to steward the sustainable growth of our Co-operative Retailing System. At Co-op, our members and customers feel at home, because we are part of the fabric of the communities we serve. We foster meaningful careers and inspire our employees to bring our brand to life every day. We model and celebrate a culture of teamwork, learning and innovation.

Mission

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

Vision

Building sustainable communities together

Values

Integrity | Excellence | Responsibility



YEAR IN REVIEW



November 2018

- FCL launched the Co-op Give Card campaign. For every Give Card purchased, we donated \$1 to the Canadian Red Cross.

December 2018

- The CRC installed a gasoline desulphurization splitter column to reduce the amount of sulphur in the gasoline we produce.
- Co-op debuted the "Home for Christmas" holiday commercial.



January 2019

- Co-op launched GROWN WITH PURPOSE™, a new farm stewardship program for agricultural producers. It's designed to improve yields and efficiency with on-farm practices that are mindful of air, soil and water quality.
- The CRC received the SUEZ Water Technologies and Solutions' Resource Revolution Award (Wastewater Improvement Project).

February 2019

- FCL announced a new fertilizer terminal to be built near Grassy Lake, Alta. This new terminal will warehouse, blend and distribute a full suite of crop-nutrition products to local Co-op Agro Centres.



April 2019

- The Saskatchewan Association of Watersheds presented the 2019 Watershed Stewardship Award to the CRC (Wastewater Improvement Project).



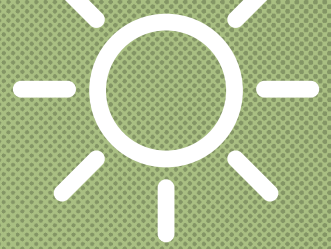
May 2019

- The first edition of *Co-op Table* was launched in Co-op Food Stores across Western Canada. The magazine featured culinary inspiration, recipes and product information for the grilling season.
- FCL acquired Terra Grain Fuels, an ethanol plant located near Belle Plaine, Sask.
- FCL won the Retail Council of Canada's Excellence in Retailing Awards: Retail Marketing Award (Made by Us).
- Co-op Communities in Full Colour gave Vancouver Island's Amfitrite Point Lighthouse a fresh coat of paint.
- FCL won three Retail Council of Canada Grand Prix New Product Awards: Co-op Gold Pure Fish Fillets, Co-op Gold Potstickers and Co-op Gold Pure Soap.

June 2019

Co-op Community Spaces funded 27 new projects, bringing its five-year total to over 100 projects





June 2019

- Co-operatives and Mutuels Canada announced FCL was the recipient of the Large Co-operative of the Year Award.
- FCL launched a new financial system, modernizing many internal processes.
- FCL placed 54th on the *Financial Post's* Top 500 Companies in Canada.



August 2019

- Co-op ranked the best national gas-station washroom brand in Canada by GasBuddy.
- Sharon Alford of Swan River, Man., is elected President/Chair of the Board, the first time a woman has held this position in FCL's 91-year history.

September
2019

Co-op ranked second in
the inaugural list of best
gas-station coffee in
Canada by GasBuddy.





September 2019

- The third annual Fuel Good Day on Sept. 17 raised more than \$685,000 for local charities and organizations across Western Canada.
- FCL and 26 local co-ops are named to *SaskBusiness* Magazine's Top 100 list.
- FCL launched Co-op HCR Diesel, the first time a diesel blend made mostly of renewable diesel will be commercially available in Canada.

October 2019

- FCL adopted the new Egg Quality Assurance certification mark identifying locally produced eggs that uphold world-leading animal-welfare and food-safety standards.
- In celebration of Ag Month, FCL announced a \$500,000 investment in the Saskatchewan Food Industry Development Centre's expansion project. This means more locally grown food can be processed and sold at co-ops across Western Canada.

DIRECTORS

Governance

Elected by the delegates of member co-operatives, FCL's Board of Directors supervises the management of the business and the affairs of the co-operative in accordance with the *Canada Cooperatives Act* and the provisions of FCL's bylaws. The directors must act honestly and in good faith with a view to the best interests of the Federation as a whole.

The Board is committed to FCL's values: integrity, excellence and responsibility. This means adhering to the highest standards of ethics, honesty and good governance. The Board believes that operating according to these standards is critical to protecting the interests of FCL, its member-owners and its customers.

One of the Board's core responsibilities is to set the long-term strategic direction for FCL and to provide oversight that guides FCL towards achieving its goals. The Board and Senior Leadership Team establish five-year corporate goals that are supported by annual, evolving strategic priorities. Each business unit develops its plan and budget to support these corporate priorities, with the Board then approving the overall budget for FCL. The Board receives regular progress reports on the status of the strategic priorities and each business unit's plans and uses a balanced scorecard with key performance indicators to measure corporate performance.

The Board examined a number of governance matters in 2019. At the 2019 annual meeting, members approved a bylaw change that gives the Board the discretion to pay out a withdrawing member's equity over up to 20 years, rather than five years.

The Board spent considerable time in 2019 examining the district structure and how directors are elected, approving a special resolution for consideration at the 2020 annual meeting that recommends moving from 15 to five districts.

The Board approved a new schedule for 2020 that will make more efficient use of its time, and a new Leaders Conference was planned for 2019 to replace the five Region Fall Conferences. In addition, the Board reviewed the term of the President/Chair, the residency of the President/Chair, the size of the Board, the June district meeting format and the committee structure, among other matters.

The Board held nine meetings during the year, and the four standing committees of the Board – Governance, Audit, Human Resources and Sustainability – met throughout the year. Brad Schultz was elected President/Chair in March for a second term, but he resigned in July for personal reasons. As per FCL's bylaws, Vice-Chair Sharon Alford then became acting President/Chair until a Board meeting was held in August, where she was elected President/Chair to complete the term.

Board Development

The Board held 10 business unit reviews, in which it spent time with each business unit hearing directly from the business leaders and subject-matter experts on current and future initiatives.

The Board met in Edmonton in August for its annual Board Dynamics session. This year, the meeting was a facilitated session to discuss the various governance topics facing the Board, most notably the term of the President/Chair, how directors are elected and the future of the districts. The Board also toured TGP's facilities while in Edmonton. In addition, the Board discussed at length the impacts of Calgary Co-op's decision to source supplies for its food stores from a competitor.

The Board carried its director election discussions over to its October Board development day, when it also heard presentations on board dynamics, harassment and director liability.



SHARON ALFORD
President/Chair of the Board



JUDY CLAVIER
Director



STEFFEN OLSEN
Director



TARA BURKE
Director



DOUG POTENTIER
Director



JOE BOWHAY
Director



RUSSELL WOLF
Director



DON MATHIES
Director



ROBERT GRIMSRUD
Director



BRAD SCHULTZ
Director



VALERIE PEARSON
Director



RANDY GRAHAM
Vice-Chair of the Board



RYAN ANDERSON
Director



JOCELYN VANKOUGHNET
Director



JOHN RUDYK
Director

FCL Membership Changes

At Oct. 31, 2019, FCL was made up of 170 member local co-operatives, two affiliate members and six associate members. Eleven changes occurred during the year:

- Heritage Co-op and Strathclair Co-op amalgamated to form Heritage Co-op.
- Corning Co-op and Peebles Co-op amalgamated to form Living Sky Co-op.
- Saskatoon Co-op and Hepburn Co-op amalgamated to form Saskatoon Co-op.
- Homestead Co-op and Portage la Prairie Co-op amalgamated to form Homestead Co-op.
- Boundary Co-op and Killarney-Cartwright Co-op amalgamated to form Boundary Co-op.
- Hazlet Co-op and Pioneer Co-op amalgamated to form Pioneer Co-op.
- Yorkton Co-op and Churchbridge Co-op amalgamated to form Legacy Co-op.
- Lowe Farm Co-op and Winkler Co-op amalgamated to form Winkler Co-op.
- Dilke Co-op and Archerwill Co-op were removed from membership because of dissolution.
- Neechi Foods Co-op had its membership terminated.

Committees

Governance Committee

S. Alford (Chair), J. VanKoughnet, S. Olsen, R. Wolf, R. Graham, B. Schultz

Audit Committee

R. Graham (Chair), J. Clavier, D. Potentier, J. VanKoughnet, D. Mathies

Human Resources Committee

R. Anderson (Chair), R. Graham, J. Bowhay, J. Rudyk, V. Pearson

Sustainability Committee

T. Burke (Chair), V. Pearson, R. Wolf, R. Grimsrud, J. Clavier

Code of Conduct and Ethics Committee

R. Graham (Chair), S. Alford, R. Anderson

Credentials Committee

R. Graham (Chair), B. Schultz, J. Rudyk, D. Potentier

The President/Chair of the Board sits as an ex-officio member on all committees.

District	Director	Board Meetings ¹	Total Days	Term Expires
1	Judy Clavier , Dawson Creek, B.C.	9	72	2022
2	Steffen Olsen , Rimbey, Alta.	9	67	2020
3	Tara Burke , Wainwright, Alta.	9	55	2021
4	Doug Potentier , Victoria, B.C.	9	94.50	2020
5	Joe Bowhay , Didsbury, Alta.	9	80.50	2021
6	Russell Wolf , Red Deer County, Alta.	9	74	2022
7	Marc Topola , Assiniboia, Sask.	3.5	18	2019
7	Don Mathies , Herbert, Sask. ³	5.5	43	2022
8	Robert Grimsrud , Estevan, Sask. ³	5.5	37.50	2021
9	Brad Schultz , Melville, Sask.	9	191.50 ²	2020
10	Valerie Pearson , Saskatoon, Sask.	9	47	2021
11	Randy Graham , Battleford, Sask.	9	51	2022
12	Ryan Anderson , Melfort, Sask.	9	50.50	2020
13	Sharon Alford , Swan River, Man.	9	134 ²	2022
14	Jocelyn VanKoughnet , Carman, Man.	9	54	2021
15	John Rudyk , Fisher Branch, Man.	9	65.25	2020

¹ Includes business unit reviews, corporate planning, board development, board committees, retail and other meetings and travel.

² President/Chair of the Board changed on July 15, 2019.

³ Elected at the annual meeting in March 2019.

FINANCIAL HIGHLIGHTS

Membership Returns

FCL is owned by its local co-operative members. A significant portion of FCL's earnings are returned to its member-owners in the form of patronage allocations based on their purchases throughout the year. The Board has approved the following patronage allocation rates:

	2017	2018	2019
Crop Supplies	4.508%	4.684%	3.878%
Feed	0.964%	0.000%	0.000%
Food	4.185%	4.346%	3.462%
Home and Building Solutions	5.072%	5.230%	3.410%
Freight	20.443%	15.430%	8.610%
Energy-Fuels (¢/L)¹	5.193¢/L	12.286¢/L	10.340¢/L
Energy-Propane (¢/L)¹	5.536¢/L	7.105¢/L	7.130¢/L
Energy-Oil and Grease	17.236%	14.975%	10.438%
Fertilizer (\$/MT)²	1.958 \$/MT	2.140 \$/MT	2.006 \$/MT

¹ Cents per litre (¢/litre)

² Dollars per metric ton (\$/MT)

\$9.2B

SALES

\$959M

NET INCOME

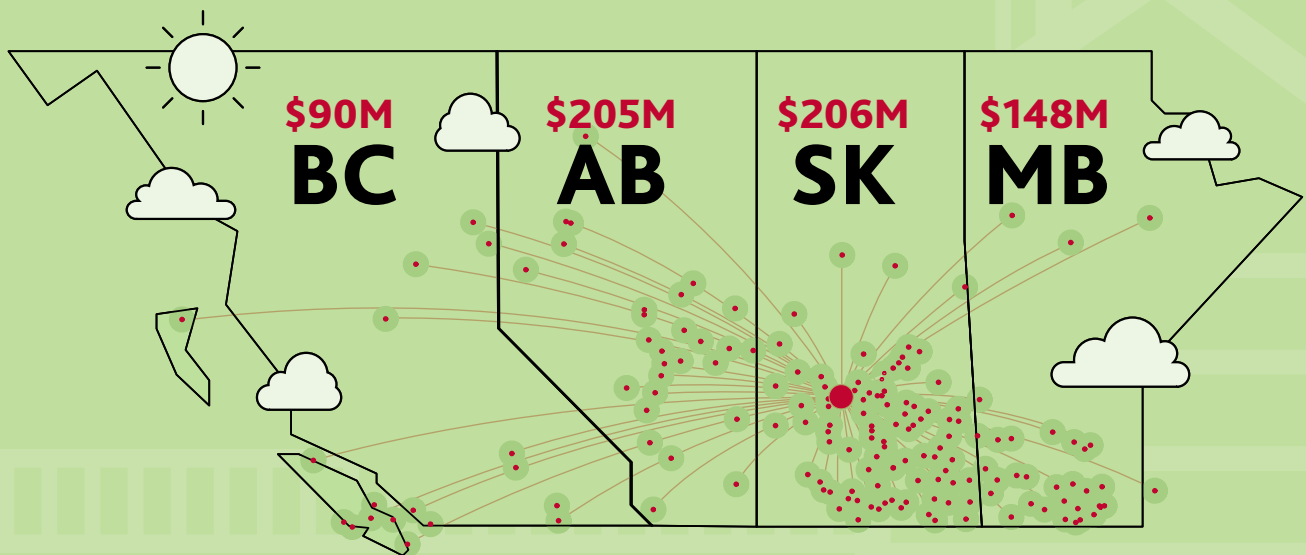
\$649M

PATRONAGE
ALLOCATION

\$565M

SHARE
REDEMPTION

Over the last five years, FCL has made patronage allocations of nearly \$2.6 billion and share redemptions of nearly \$2.3 billion in cash to its member-owners.



Our profits stay local

Every dollar of our profits stays right here to support Western Canadians and make a difference where we live and work. That's something we can all be proud of.

3

Canadian Grand Prix New Product Awards from Retail Council of Canada won in 2019

516

Number of Grow and Equip Team experts providing trusted, local advice to farmers

0

Lost days because of injury at Co-op Fertilizer Terminals while receiving/shipping over 250,000 metric tons of product

The Ag and Consumer Business Unit is responsible for product supply and development, marketing and training in the food, home and building solutions, crop supplies, feed and fertilizer business areas.

AG AND CONSUMER BUSINESS

Some familiar challenges impacted our businesses in 2019: poor weather hampered the ag market, economic conditions pressured the home and building sector, and the food sector remained highly competitive. Despite this adversity, the Ag and Consumer Business Unit made significant progress on foundational pieces that will set up the CRS for long-term success.

This includes increasing the use of technology to make informed business decisions. We completed the rollout of the agro centre point-of-sale platform (Tronia) and began rolling out the new home centre point-of-sale platform (Mi9). Pilots for a click-and-collect system at select food stores were delayed, but are expected to occur in early 2020. We've also successfully tested a new ordering system for local co-ops, which will be rolled out in 2020, making procurement easier and more secure through mobile, handheld devices.

We continue to invest in our people, providing support and training across all sectors for FCL and local co-op employees. The Crop Supplies Department added five new Regional Grow Team Advisors to enhance agronomic support to local co-ops, and the Home and Building Solutions Department has restructured to increase our focus on lumber.

Having a solid foundation means we're offering the right products and programs that meet the needs of our customers. Grown with Purpose is such a program, designed to improve a producer's yields and efficiency using on-farm practices that focus on sustainability. As of Oct. 31, 77 farms with 240,000 acres were participating in the program. We continued to develop innovative

new store-brands products that resonated with consumers and were recognized by industry, as evidenced by the three awards we received for Co-op Gold Pure Soap, Co-op Gold Potstickers and Co-op Gold Pure Fish Fillets.

Just in time for back-to-school shopping, we relaunched the Co-op Kids Club Program, which aims to make the shopping experience more enjoyable for parents and their children. Our team also initiated a five-year, comprehensive project, where we focused on delivering targeted improvements to earnings in the food business in collaboration with local co-ops.

Our teams have also supported our local co-ops as they've renovated, expanded and added facilities. At FCL, we began construction of a third centralized fertilizer terminal near Grassy Lake, Alta., which will improve service levels and secure supply for Co-op customers in southern and central Alberta.

We also made the difficult decision to consolidate our feed business. This entailed closing the Melfort and Brandon plants as well as transitioning operations at the Edmonton plant to Wetaskiwin Co-op in the latter part of the year. This will allow us to make significant capital investments to modernize our remaining plants in Calgary, Saskatoon and Moosomin. TGP also closed two underperforming corporate-owned stores in 2019, but it plans to move its warehouse discount store in Edmonton to a new location in 2020.

Overall, we'll continue to expand our efforts and work with local co-ops to build upon these foundations.

Investing in farm-to-fork

Farm-to-fork is more than a buzzword at Co-op. It describes our unique position in the marketplace, highlighting our involvement at multiple stages of the food-production cycle. This cycle moves from supplying growers with fuel and crop inputs to working directly with food manufacturers to stocking the resulting products in Co-op Food Stores.

Co-op places a priority on sourcing our food products from Western Canada, and we work directly with large and small food producers to offer a variety of high-quality

Co-op brand items. These products range from flash-frozen fruits and vegetables from British Columbia to premium-flavoured butters from Alberta, hearty lentils from Saskatchewan and naturally smoked bacon from Manitoba.

We support the local food-manufacturing industry by partnering with organizations like the Saskatchewan Food Industry Development Centre, where Co-op brand smoked meats and fruit spreads are produced.

Our \$500,000 investment in the Food Centre's expansion project allows even more locally grown food to be processed at the centre and sold by local co-ops across Western Canada.

By investing in Western-Canadian-made food producers, we continue to build our local communities and provide our members with high-quality products.



CO-OP REFINERY COMPLEX

In 2019, the CRC continued to focus on the safety and reliability of its operations, and that focus allowed us to capture existing market potential. As a result, the CRC once again achieved strong operational and financial results.

The CRC's equipment was mechanically available approximately 99 per cent of the time outside of turnaround. In 2019, we processed about 39.6 million barrels of crude, up from 38.8 million the previous year. Overall, gasoline production decreased to 18.3 million barrels in 2019 from 19.3 million barrels in 2018. Diesel production increased to 18.2 million barrels in 2019 from 17.7 million barrels in 2018.

We realized strong gasoline and diesel refining margins for the entire fiscal year. These results were driven by favourable market factors, such as strong diesel demand across North America. This led to below average product inventories for a second year in a row, which maintained high pricing for finished diesel product. Gasoline refining margins were slightly weaker than 2018 but remained above the five-year average by approximately 15 per cent.

Heavy crude differential pricing remained strong early in the fiscal year but began to decrease following Alberta's decision to curtail crude production in December 2018. As crude

inventories in Western Canada increased over the summer months, heavy crude differentials increased slightly to about \$12 US per barrel for the balance of the fiscal year. Going forward, we expect heavy crude production curtailments will continue to be adjusted to attempt to stabilize the West Texas Intermediate to Western Canadian Select (WTI-WCS) differential between 21 and 25 per cent of WTI.

Despite a very positive financial year, the refining industry still faces many challenges. Climate change and the low-carbon economy, new pipeline announcements, regulatory requirements and policy discussions about alternative energy sources will apply pressure on us and our refinery business moving forward.

To help meet these challenges, the CRC will continue to build on the strong foundation we have put in place by controlling costs and creating value for the CRS. In 2019, we completed several revamps throughout the refinery, including the Tier III gasoline project.

We'll continue to focus on opportunities to increase our competitive position in the refining industry, including continued focus on reliability, energy efficiency and overall business performance.



The CRC processes up to 130,000 barrels of crude oil every day to provide petroleum products such as gasoline, diesel and propane for the CRS. The CRC also blends and distributes packaged private-label oil and lubricant products, such as motor oil.



\$237M

Amount invested to maintain and upgrade the refinery in 2019



90MT

Mass of gasoline splitter column in metric tons

Reducing the impact of sulphur

We believe that being an industry leader means planning for the future and making smart choices about our environmental stewardship. In the last year, we've focused on reducing the impact of sulphur in the refining process and in the gasoline and diesel fuels we produce.

As a byproduct of the refining process, sulphur is captured at different points throughout the refinery, processed into a liquid and delivered to customers by rail for use in fertilizer and other chemicals. Over the past five years, we've invested in upgrades at the refinery to improve sulphur quality while reducing hydrogen sulphide (H₂S) emissions.

In late 2018, we installed a gasoline desulphurization splitter (GDS) column to help us achieve ultra-low sulphur gasoline specifications and reduce

sulphur emissions into the atmosphere. The 15-storey column is a major part of a \$140-million project that will ultimately help produce fuel with higher octane levels compared to what is currently produced.

We're also reducing our sulphur emissions on-site. We commissioned our \$17-million product sulphur degassing project that reduced our liquid sulphur emissions by 99 per cent. We are building two new liquid sulphur tanks, which are expected to become operational in 2020. The tanks will be 20 per cent larger, which will provide more storage and have a gas-recovery system that further reduces our sulphur emissions. We'll invest an estimated \$27 million in this project.

These projects at the CRC are building on our vision to be a recognized industry leader in safety, reliability and sustainability.



CUSTOMER EXPERIENCE AND STAKEHOLDER ENGAGEMENT

The Customer Experience and Stakeholder Engagement Business Unit is responsible for Marketing and Communications (including at the CRC), Customer Experience and Brand strategies, Insights and Analytics, and Social Responsibility.

The Customer Experience and Stakeholder Engagement Business Unit was established in 2019 to allow for greater organizational focus in these two important areas. The Customer Experience (CX) function continued to evolve, with the completion of a comprehensive current-state analysis and the activation of three priority work streams: Local and Community, Loyalty and Membership, and People. By reallocating the work of existing human and organizational resources, the CX Program will continue to position the CRS as a market leader in these three critical areas.

Working in conjunction with Innovation, we delivered several important new technologies to the CRS in 2019. The CRS Hub Phase Two brought more than 160 local co-op contributors onto the CRS intranet platform, creating for the first time a shared two-way online communication tool between FCL and the rest of the CRS. Online Membership Signup, a strategic priority for FCL, was also delivered in 2019, giving local co-ops an important tool to attract new members. Marketing Mission Control, a tool that provides marketers across the CRS with powerful analytics and marketing utilities, was also launched in 2019. Finally, another important marketing application called AdBuilder was delivered to marketers across the CRS. AdBuilder provides templates that local co-ops can modify easily to maximize the efficiency of frequently used advertising materials at the local level. This gives local co-ops more control over their local advertising, significantly increases efficiency and reduces costs for both local co-ops and FCL.

Our Communications Team completed the implementation of the FCL Emergency Notification System, including emergency signage, Notify Now functionality and emergency preparedness resources and training. Communications also worked with Innovation to deliver Hub authoring to local co-ops, allowing local co-ops to share their own news, updates and training with their own team members on the intranet. We also ramped up earned media activity to great effect, attaining an audience reach of 49.8 million in 2019, a 100 per cent increase over 2018. Additional support was provided to several critical organizational initiatives, including the Food Centre funding announcement and Terra Grain Fuels acquisition.

It was a banner year in marketing the Co-op brand. We launched the second phase of our integrated farm marketing strategy and the new Grown with Purpose on-farm sustainability brand. Co-op was also recognized for leadership in several areas of marketing, including the Retail Council of Canada's 2019 Excellence in Retailing Award (Retail Marketing) for our Made by Us campaign.

In early 2019, the Co-op Give Card initiative was launched. An evolution of FCL's long-standing partnership with the Canadian Red Cross, the Give Card Program contributed \$1 to the Red Cross for the sale of each themed Co-op Gift Card. The inaugural year of this program was a success, with 82,000 cards worth nearly \$5.2 million sold via an in-store and digital campaign that attained a reach of 2.2 million on Facebook and Instagram.

Making a Difference in Members' Lives

In 2019, we unveiled Co-op's new Customer Experience (CX) North Star Statement: Making a Difference in Members' Lives.

Consumer behaviour in Canada and around the world is undergoing a significant evolution. More than ever before, customers are shifting their spending and preferences to favour experiences and relationships with retailers over simple transactions. This shift impacts nearly every industry, including those in which Co-op operates, and this is one of the reasons we are continuing to increase our investment in and focus on improving the Co-op customer experience.

In order to better align how the CRS understands the Co-op customer experience and to help inspire and inform our work in this area, we undertook a project to develop a North Star statement for CX. A North Star statement is an aspirational guiding statement that can easily be applied to all of the organization's work in this area.

In consultation and collaboration with all FCL business units and local co-ops across

the CRS, we adopted Making a Difference in Members' Lives as our North Star.

The phrase brings renewed focus to making a difference, which local co-ops have been doing for generations. With the purposeful use of the word "members," it also speaks to the importance of the co-operative business model, where membership is at the heart of the CRS and continues to be key to our success. Finally, it speaks not just to making a difference in members' shopping experiences but also and more meaningfully in their lives.

Co-ops make that difference in many ways, including charitable giving and voluntarism, to deliver a dynamic and rewarding relationship with members and to return financial benefits. Co-op team members positively impact members' lives every day across Western Canada, and this represents an opportunity to drive both business success and impact our members and communities positively.

Making a difference: it's a Co-op thing.



ENERGY

In 2019, the Energy Business Unit focused on a number of growth initiatives and sustainability projects that position FCL as a supplier of choice in the developing low-carbon economy.

Gasoline and diesel sales to local co-ops and commercial customers totaled 6.3 billion litres, an increase of 2.9 per cent from the previous year. Retail sales decreased by 1.6 per cent, but commercial sales increased by 33.4 per cent. The decline in retail sales was the result of a few factors, such as general economic conditions, a late fall harvest and a labour disruption in Saskatoon. We completed the rebrand of our TEMPO™ reseller network and helped add 11 new Co-op Gas Bars and Co-op Cardlocks across the CRS.

We expanded our petroleum distribution network in 2019 with the opening of three new corporate bulk plants, increasing distribution efficiency to ensure reliable customer service throughout the year. The CRC shipped a record number of railcars of gasoline and diesel this year as we added offloading capacity in central British Columbia and began several projects to remove loading bottlenecks at the refinery.

Propane sales were a record 169.1 million litres, an increase of 6.7 per cent from the previous year. This was primarily a result of increased grain drying activity because of wet harvest conditions and increases in home heating sales. We opened a new branch office in Grande Prairie, Alta., which led to new customers and additional sales. We continue to make progress on renewable

energy initiatives, including the completion of two new Co-op HCR Diesel projects in British Columbia. Expected to be open in early 2020, these facilities will provide high-cetane renewable (HCR) diesel fuel that contains more than 50 per cent renewable content. In addition to this, biodiesel blends – up to two per cent biodiesel – are now being shipped to northern British Columbia year-round. We also launched CO-OP FLEX E-85 GASOLINE™ – which contains more than 50 per cent renewable content in gasoline for consumers – at one gas bar in British Columbia this year, with two more gas bars to offer the fuel in 2020. These initiatives are supported in part by agreements with the British Columbia government to increase renewable content in transportation fuels in the province.

Through the Lubricant Strategic Growth Strategy, we're focusing on the tools and equipment local co-ops need to increase their value proposition to consumers. Several new delivery units to be deployed in 2020 are expected to enhance the customer experience and improve our sales.

Crude oil production averaged 2,900 barrels per day, a decline of 27.5 per cent. The decreased production is a result of natural production declines in existing wells and limited drilling of new wells. Production is expected to increase in 2020 as a result of additional production from new wells and acquired assets that have come on-stream late in 2019.

The Energy Business Unit includes the supply, distribution, marketing and other supporting services for all energy products to the CRS and other customers, as well as the production of crude oil for consumption by the CRC and other refiners.

6.7%

Increase in propane sales in 2019

9,631

Record number of railcar shipments of gasoline and diesel in 2019

Local co-ops drive Fuel Good Day

Since 2017, 450 charities and community organizations chosen by local co-ops have benefited from the funds raised on Co-op's FUEL GOOD DAY®. During this event, we donate five cents for every litre of gasoline and diesel purchased at participating Co-op Gas Bars; local co-ops may add to this amount.

In 2019, 109 local co-ops participated in Fuel Good Day. Together, FCL and these co-ops raised over \$685,000 for their chosen organizations, up from \$600,000 in 2018 and \$570,000 in 2017. This year's total includes more than \$10,000 that was raised through a new promotion – the sale of Co-operative Coffee and CO-OP BIG COOL® beverages.

Each year, the Fuel Good Day momentum grows, and it's all thanks to efforts put in by local co-ops to make the day their own. By sharing the news through media, hosting barbecues and pancake breakfasts, and bringing in local musicians and sports teams, local co-ops have made the day a party that people want to be part of.

\$1.9M

Raised during Fuel Good Day since 2017



900

Tax returns completed for FCL and our subsidiaries in 2019



Laying a new foundation

FCL has been working to transform our financial systems and transition data to a modern digital platform over the past several years.

We made significant progress in 2019 with the launch of our new core financial system. In June, we transitioned FCL's accounts payable, accounts receivable, fixed assets and general ledger activities to this new system.

This platform is the foundation of a multi-phase project to build a modern financial system across the CRS. Having a common enterprise-wide system will offer a global financial view that will assist the CRS in being efficient, competitive and profitable.

The modern functionality supports improved reporting, governance and financial controls while being more intuitive and will allow for processing efficiencies across the CRS.

175

Feasibility studies – used to analyse viability of capital projects at FCL and local co-ops – prepared and reviewed in 2019



FINANCE

The Finance Business Unit's role within FCL is strategic and diverse, from day-to-day processing of invoices and preparation of corporate reports to projects impacting every facet of the organization. Our role also extends to supporting local co-ops in areas such as insurance, auditing, lending and feasibility studies.

For years, we've helped secure more favourable insurance rates for the CRS by combining our purchasing power to offer a group program for local co-op insurance needs. The group program allows for the pooling of losses, which results in lower premiums and less rate fluctuation. Local co-ops in the program also have access to administrative support, policy expertise and loss-control services, which help them manage their own risks and better serve their individual members and communities. On average, we process 590 claims every year.

In 2019, we also introduced a new strategic priority for FCL – the Procurement Transformation initiative. Right now, procurement practices differ across FCL and the CRS. We've found opportunities to reduce fragmented and duplicated procurement efforts. Our goal is to align our processes, invest in our people and digital capabilities, and implement a common approach across business areas to better leverage our buying power, reduce our costs and deliver full potential procurement value to the organization.

To support stable and predictable patronage allocations and share redemptions to local co-ops, we use commodity hedging to reduce volatility of our cash flows. We follow strict governance practices to ensure we comply with the direction of the Board.

Our Audit Services Department administratively falls within the Finance Business Unit, but it reports directly to the FCL Board's Audit Committee. It oversees FCL governance, compliance, and risk and controls, and also manages and investigates FCL's Ethics Alert Hotline. The department also provides audit assistance to over 140 local co-ops, saving them over \$3 million in annual audit fees.

This isn't the only service provided to local co-ops. We oversee payment card standards and services, and we continue to provide the Retail Lending Program, which approved \$109 million in new applications this year. In 2020, we'll be rolling out an operating line of credit to meet another need of local co-ops, while keeping the interest that will be generated within the CRS.

The Finance Business Unit is responsible for Procurement, Corporate Accounting, Retail and Corporate Audit Services, Financial Planning and Analysis, Credit and Collections, Tax, Treasury and Risk Management, as well as Business Performance at the CRC.

HUMAN RESOURCES

Our focus in recent years has involved spending a great deal of time and effort strengthening our foundational people programs and practices. In 2019, we were able to pivot our focus to programs – such as diversity and inclusion, wellness, career framework and leadership – dedicated to changing our workplace culture and engaging employees.

We launched a comprehensive diversity and inclusion strategy – titled Connect + Belong + Grow – in 2019. This strategy provides a roadmap of where we are going and an action plan on how to get there. The strategy was shared with employees, and we began implementing it through the development of inclusion networks – which allow employees to participate in initiatives that build a welcoming workplace for all employees – and learning opportunities, such as Indigenous and LGBTQ2S+ information sessions. We're working to create a welcoming environment that builds engagement and strengthens the effectiveness of leaders and employees in their everyday roles.

Late last year, we launched a holistic and integrated wellness strategy – Thrive. Through the strategy, we want to ensure programs and practices are in place that support the physical, emotional, financial and social well-being of our employees. This will involve aligning existing programs across the organization with the strategy and enhancing our offerings through the introduction of new programs and resources to encourage and support employees.

We continue to bring careers to life through the FCL Career Framework, which was launched in 2018. The framework demonstrates how employees can build their careers and move between roles across the CRS. It will also allow us to attract new talent and identify skills and competencies for success at different levels. Ultimately, we are supporting our employees as they move through their careers to better support their individual success and the success of our organization. The career framework and Inspire leadership experience both illustrate the connection in developing people across the CRS.

Another service that supports not only FCL but also local co-ops is the work we do in labour relations. We provide collective bargaining strategies and negotiation support, including business continuity planning. Education and support to interpret and administer agreements covering bargaining units from four to more than 900 employees are also part of our service offering.

There are 3,400 employees at FCL and more than 23,100 employees at local co-ops throughout Western Canada. We're working to clearly define the Co-op employee experience and ensure our talent practices are enabling an experience that is both valuable and rewarding.

Inspiring leaders at every level

To achieve FCL's vision of Building Sustainable Communities Together, we require strong, forward-thinking leadership. In an effort to build, sustain and continually improve our leaders, we launched Inspire: The Co-op Leadership Experience.

Inspire is a self-directed opportunity for team members to develop and refine their leadership abilities. We recognize leadership potential in all team members, regardless of role, which is reflected by the four development streams offered through Inspire.

The Personal Leadership Stream offers development opportunities for all team

members, while the Front Line Leadership, Mid-Level Leadership and Organizational Leadership streams offer development opportunities for those already in leadership roles. These include foundational leadership topics and opportunities to support individual development plans.

Inspire was launched to existing FCL leaders in 2019 and will be available to all team members in 2020. Inspire will also be released to local co-ops in 2020, to help build and strengthen a foundation of leadership across the CRS.



The Human Resources Business Unit is responsible for FCL's people programs and practices, including talent acquisition and workforce planning, learning and development, labour relations and total rewards, with similar services and support provided to local co-ops.



30

Collective agreements actively engaged in negotiating in 2019

1,260+

Employees participated in diversity and inclusion activities – such as strategy, pride and indigenous peoples information sessions – in 2019

602

Participants in Inspire learning opportunities held in 2019

INNOVATION

We made a lot of progress this year in laying the building blocks for our digital transformation journey. This is a continual process to establish and maintain standards, expand our technology footprint, improve data analysis and reporting, support employees across the CRS, enhance the consumer experience and ensure our systems are secure, sustainable and scalable.

One of the most significant pieces in our journey is the implementation of a new enterprise resource-planning (ERP) platform. This new platform replaced a legacy system and is used to collect, store and manage our financial information across the CRS. In 2019, we launched our new financial system on this platform after years of its being among the top priorities at FCL.

We also launched the Computer Maintenance Management System at the CRC this year. This system helps facilitate both regular and turnaround activities, such as work orders, scheduling, equipment maintenance and inventory management.

Future phases on both these systems will integrate solutions that will expand capacity and meet the needs of our business. We'll continue to seek opportunities and use business cases to leverage the ERP platform across our organization.

The ERP platform isn't the only thing that will help us to manage data and resources efficiently. We're also working to standardize technology at FCL and at local co-ops across Western Canada.

At FCL, this means streamlining communications technology in meeting rooms and at employee work stations. Using consistent server technology will make it easier to manage how our systems process workloads.

In 2019, we began the rollout of consistent wireless infrastructure at local co-ops in an effort to address the multiple configurations of technology. While Wi-Fi is foundational for business applications, the majority of local co-op locations didn't have this functionality available. Our goal is to have the same hardware installed in all local co-op locations in 2020 and 2021.

As the hardware is installed, we'll launch a new ordering system for local co-ops. It essentially brings a workstation to employees' hands. They'll be able to use mobile technology and a touchscreen to submit orders securely by connecting to the store's Wi-Fi network. The Wi-Fi network and devices will also have the capability of managing future applications.

The benefits of standardizing technology in this way include the ability to increase the speed of deploying new solutions and providing support. It reduces resource requirements and saves costs over time, increasing efficiencies at all levels – in our business unit, across FCL and at local co-ops. In this way, we're committed to continual process improvement and building upon these stepping stones to serve the needs of the CRS and co-op customers in 2020.

The Innovation Business Unit evaluates, implements and supports technology-related initiatives and solutions that support FCL's vision and incorporates and integrates a unified approach across the CRS.

New view on data

For many years, CRS data on a variety of systems and formats made large-scale analysis difficult and time consuming. In 2019, the rollout of a project known as Analytics 360 promised to revolutionize the way our data is stored and understood, which will help FCL improve the competitive advantage of co-ops across Western Canada.

At its core, Analytics 360 promises a one-stop shop for CRS data analysis. The project incorporates data from logistics operations, point-of-sale systems, financial platforms and more, which can be "sliced and diced" to meet any analytical need. When fully operational, Analytics 360 will help us make informed business decisions faster and ultimately optimize operations throughout the CRS.

In 2019, we sourced and secured a platform for our data storage and procured advanced analytics software for the project. In 2020, our team will continue to migrate data from all relevant systems. The platform will gradually roll out to FCL business partners and local co-ops.

We're excited to continue the execution of this project and look forward to the improvement of analytics across the CRS.

1.7M

Orders processed by distribution centres in 2019

127M+

Electronic transactions from fleet, debit, credit and gift cards processed in 2019

450K

Customer transactions processed every day



OPERATIONAL SUPPORT

71%

Decrease in preventable incidents in petroleum fleet since 2013



The Operational Support Business Unit is made up of five functional areas, including Health and Safety, Logistics, Facilities Design and Development, Growth and Business Development, and Technology and Process Innovation.

The five functional areas of the Operational Support Business Unit have focused on reducing service costs to local co-ops, which will be aided by new procurement tools in 2020. We continue to make improvements in the services we provide, often with the assistance of new tools and technology.

It's not always easy to envision how a Co-op facility will look. A new 3-D modelling program will provide images of buildings, which will allow local co-ops to walk virtually through the plans and make design improvements – reducing costs associated with changes – before the shovel even hits the ground.

We also changed how we manage building projects, implementing an industry best-practice framework to improve the quality and efficiency of our design and project management services. Our team also provides real estate services, which included 120 projects involving property transactions by FCL and 40 local co-ops.

We helped local co-ops acquire seven businesses – which had a combined \$90 million in sales – in food, crop input, pharmacy, liquor, and home and building sectors. We used FCL's Commercialization Fund to collaborate with a Saskatoon-based technology incubator, Co.Labs, to develop a solution that monitors power supply and usage in retail stores, to promote student entrepreneurship in collaboration with the University of Saskatchewan, and to invest in a solution that recycles water at car washes.

In 2019, we developed a three-year plan to improve the energy efficiency of our facilities, reducing greenhouse gas emissions and saving costs. In collaboration with the Innovation Business Unit, our team completed designs for

software that will improve how we transport shipments to local co-ops. This is the second phase of the Transportation Management System – an inbound system launched in 2017 – which will be rolled out in 2020.

FCL's trucking fleet includes 259 merchandise trailers, 235 petroleum tankers and 96 propane delivery units pulled by company drivers and lease operators. The merchandise fleet travelled 22.5 million kilometres and delivered more than 542,000 tons of merchandise in 2019. The petroleum fleet travelled 56.3 million kilometres and delivered 3.8 billion litres of fuel, while the propane fleet travelled 8.5 million kilometres and delivered 169.1 million litres. We also manufactured 25 fuel-delivery units for local co-ops.

In 2019, the Logistics Teams in Operational Support and Energy extended the use of technology – such as in-cab video event recorders – to propane vehicles. Through technology like this, fleet reviews and our work with drivers, we've been able to reduce preventable incidents in our petroleum fleet by 71 per cent since 2013.

We also started to introduce technology to record operational incidents and near misses, with the implementation covering 66 per cent of the organization so far. This software will allow us to use statistical analysis to observe trends so we can direct and prioritize preventative action. While there have been improvements to our time-loss injury rate and total injury rate, we'll continue to develop a strategic plan for 2020 and beyond that to identify our primary needs and how to address these as we work toward a goal to prevent all workplace safety incidents.

151

Projects out of 360 in the Facilities Design and Development Department that became operational in 2019

87.3M

Kilometres traveled by merchandise, petroleum and propane fleets in 2019

Entrance into ethanol

FCL's acquisition of Terra Grain Fuels (TGF) in June 2019 is significant and makes strategic sense. We operate in both the agriculture and energy sectors, and the acquisition of the ethanol-production facility near Belle Plaine, Sask., supports the long-term vision and growth of our business.

This decision is another example of our commitment to bolstering the Western Canadian economy. The 185,000-square-foot plant contributes more than \$100 million annually in economic impacts to southern Saskatchewan by purchasing more than 400,000 metric tons of grain and other starch-rich crops.

Those crops are used to produce up to 150 million litres of ethanol every year, which

are incorporated into our transportation fuels to help reduce carbon intensity – how much carbon dioxide is produced when fuel is burned – and subsequent emissions. Because the TGF plant can produce ethanol from virtually any starchy grain without needing to switch equipment, we'll have a secure supply of ethanol and be able to control the carbon intensity of our fuels to meet regulations.

We have retained the 45 employees that have built up the plant and business over the last decade. Reporting to the Vice-President of Operational Support, TGF will be integrated into our operations and can take advantage of supporting teams – such as finance, human resources, sustainability, marketing and government relations – in the future.

In the zone

The retail landscape has changed significantly in recent years, and local co-ops have been making changes to adapt to this new environment. The number of co-ops FCL serves has decreased by almost 40 per cent in the past 10 years as a result of amalgamations and consolidations.

Despite the decline in associations, our business across the CRS continues to grow. These amalgamated co-ops are larger and more diversified than ever before but are operating in an increasingly competitive market.

This has led to the Retail Operations Business Unit's review of how we support our local co-operative members in 2019. We needed to identify what their future needs were and evolve our own structure and services to help them keep pace with competitors, consumer needs and wants, and market conditions.

As a result of this review, we implemented a shift from five regions to four zones – east, central, west and urban, the latter providing support to large co-ops in major urban centres. This will help us create alignment and consistency as we continue to serve our local co-ops in an effort to provide value and remain relevant to them.

While the five zone offices will remain, we have been reviewing reporting structures and areas of responsibility, which we expect to finalize in 2020. Altogether, these changes will help us be responsive and adaptable to the needs of local co-ops for the long term.

66%

Percentage of employees at FCL and participating local co-ops covered by the Talent Insight Solutions Program





47

Greenfield sites opened by local co-ops, through construction or acquisition in 2019

RETAIL OPERATIONS

Local co-ops continue to grow their businesses and become more sophisticated. Amalgamations and acquisitions have become the norm as we collectively look to create efficiencies and improve how we serve individual members and customers. There were 10 amalgamations and dissolutions in 2019, involving 18 co-operatives.

Our efforts in urban markets continue to progress and grow, particularly in Edmonton and Winnipeg, with store openings and redevelopments. We will continue to review our urban strategy in 2020, ensuring it evolves to fit the needs of co-ops and their members. Overall, though, we still face extreme competition and are working to overcome operational challenges.

Because of this competitive environment, operating losses at local co-ops have been increasing, impacting their bottom lines. FCL needs to support their profitability and overall sustainability. As a result, we engaged local co-ops in a new commitment and loyalty program late in 2019.

Through this program, local co-ops committing to purchase 90 per cent of products through FCL will receive a quarterly cash payment. FCL requires local co-ops' support in order for us to invest for the long term, and local co-ops require more timely sharing of profits from FCL. This underlines the collective approach that benefits the entire CRS. We've received positive feedback and support for this program and look forward to seeing our relationships with local co-ops develop further.

We also continue our focus on our people. In collaboration with the Human Resources Business Unit, we have created consistent materials and processes for hiring and onboarding new employees across the CRS through our talent management program.

We've begun development of a new retail leadership program, which will further strengthen local co-ops' succession management practices and align with leadership training recently introduced at FCL. Once completed, this will provide employees throughout the Federation with the ability to advance their careers through the many diverse opportunities available. The total cash compensation framework for retail management and professional roles – including base pay salary ranges and short-term incentive program – was rolled out in 2019.

Our Talent Insight Solutions (TIS) Program is a series of applications that works together to process payroll and manage employee data, including time and attendance. The program was initially launched at FCL and began to be rolled out to local co-ops in 2017. FCL and 42 local co-ops, representing 13,300 employees, are now using the TIS Program.

Continued advancements in the TIS Program include an advanced workforce scheduling module, allowing local co-ops to improve employee scheduling efficiencies based on data. A pilot of this feature began at one co-op in 2019, with another scheduled in early 2020 before making it available to all local co-ops – which is expected to occur in late 2020.

The Retail Operations Business Unit works directly with local co-ops and provides marketing, merchandising, financial, human resources and operational services.



STRATEGY

Throughout 2019, we've been successful in becoming trusted strategic partners with both internal and external stakeholders. These relationships have helped us – both our business unit and FCL overall – become more proactive, becoming involved earlier in key discussions.

One way we're doing this internally is raising awareness and adoption of our project and change management tools and processes. We're improving the planning and scoping of projects as well as identifying the impacts of change to people and processes. This means we're spending more time ensuring expected outcomes are understood and documented, project milestones are realistic, resource requirements are well defined and stakeholders are engaged to increase alignment, accountability and change adoption. Enhanced governance also provided more direction and clarity on decision-making.

These project and change-management tools are available to all employees and are intended to be scalable and flexible to accommodate all levels of projects across FCL. Beginning in 2018, we have provided broad training to 400 participants on the framework, with 83 participants receiving more in-depth training sessions. These sessions continued in 2019 with another 43 participants.

In 2019, we also refined the processes through which an internal working group provides preliminary input on the selection and timing of project rollouts to local co-ops. These initial assessments are followed by more in-depth individual discussions with the co-ops on the feasibility of proposed rollouts, helping to ensure transitions go more smoothly and improving overall success in project implementation at local co-ops.

Altogether, these efforts have resulted in better planning, improved collaboration across departments and more successful execution. We're seeing progress in projects where we've previously struggled. The result is that we successfully achieved 93 per cent of established milestones across all the projects in our strategic portfolio in 2019, up from 80 per cent in 2018.


We're being proactive in our approach to climate change and the environment as well. We've developed an enterprise-wide Sustainability Strategy that sets out to establish Co-op as the sustainable choice by embedding sustainability across the business.

We continue to invest in the management of contaminated petroleum and agricultural sites across the CRS. Our work is prioritized to address health and safety risks and

facilitate growth and redevelopment for local co-ops. Through our Natural Sciences and Engineering Research Council of Canada (NSERC) Industrial Research Chair at the University of Saskatchewan, we're collaborating with industry and academic partners to develop lower-cost solutions that are effective for our climate and communities.

In 2019, we devoted considerable effort to responses to government regulations, particularly the Federal Clean Fuels Standard (CFS), British Columbia's Low Carbon Fuel Standard amendment and the Government of Saskatchewan's output-based performance standards for large industrial emitters and Manitoba's Renewable Fuel Standard.

Because these regulatory changes will have long-term effects on the CRS, we engaged with governments directly to express our views as well as through active participation on industry associations and a variety of government and industry working groups.



The Strategy Business Unit is responsible for Sustainability, Government Relations, Indigenous Engagement, Legal Affairs, Corporate Secretary, Organizational Performance, Corporate Project and Portfolio Management, and Organizational Change Management at FCL and CRC.

Our sustainability journey

Our sustainability journey is about stewardship of our Co-op to ensure that we are creating value for our members and communities, now and for future generations. Climate change, evolving consumer expectations and technology advancements all stand to have significant impacts on our business. We must remain relevant to our co-op members and meet the expectations of stakeholders, which include members, customers, governments and employees.

The new enterprise-wide Sustainability Strategy developed in 2019 is a roadmap that will help direct our efforts over the next 10 years as we transition to a low-carbon economy. This strategy development began in 2018 and incorporated consultations and workshops with leaders, business units, local co-ops and other stakeholders. Work on high-priority initiatives, such as plastic waste reduction, energy efficiency and emissions reduction, is underway.

At FCL, we'll be working with all business units in 2020 to identify key performance metrics and goals to drive our sustainability performance, and we'll continue to embed sustainability initiatives into the annual business planning process. We continue to engage with local co-ops on the direction of the strategy and their role within it.

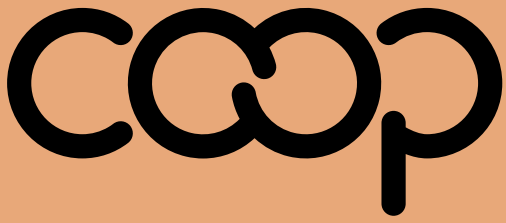
We'll need cross-functional collaboration to be successful, not only within FCL but also with our local co-op members as the entire value chain has to be considered. In doing so, we intend to build our brand and have members and customers choose Co-op to do their business, because we're the sustainable choice benefiting them and their communities.

93%

Percentage of established project milestones achieved in 2019

65%

Percentage of waste diverted from landfill in 2018



INTERNATIONAL CO-OP ALLIANCE

Statement on the Co-operative Identity

Co-operatives

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.

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.

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.

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.

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.

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.

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.

Concern for Community

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

Manchester, United Kingdom,
Sept. 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.



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