




ANNUAL REPORT 2015

FEDERATED
CO-OPERATIVES
LIMITED



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FEDERATED CO-OPERATIVES LIMITED

Federated Co-operatives Limited (FCL), based in Saskatoon, is the 43rd largest company in Canada and the largest non-financial co-operative in Canada. FCL is a unique multi-billion dollar wholesaling, manufacturing, marketing and administrative co-operative owned by over 210 autonomous retail co-operatives across Western Canada. Together, FCL and those local retail co-operatives form the Co-operative Retailing System (CRS). The CRS serves our members and communities with products and services that help build, feed and fuel individuals and communities from Vancouver Island to northwestern Ontario. Our workforce totals 24,500 retail employees in more than 500 communities. We are a different kind of business — we are locally invested, community-minded and offer lifetime membership benefits, including patronage refunds, quality products, quality service and fair prices.

TABLE OF CONTENTS

PRESIDENT'S MESSAGE	4
CEO'S MESSAGE	5
BUSINESS PROFILE	8
ABOUT US	9
CRC 80TH ANNIVERSARY	10 - 13
BOARD OF DIRECTORS' REPORT	16 - 18
FINANCIAL HIGHLIGHTS	22 - 23
STATEMENT ON THE CO-OPERATIVE IDENTITY	42
CODE OF ETHICAL STANDARDS	43

REPORTS AND FEATURES

AG & CONSUMER PRODUCTS 26 - 27

CO-OP REFINERY COMPLEX 28 - 29

ENERGY 30 - 31

HUMAN RESOURCES 32 - 33

INNOVATION 34 - 35

OPERATIONAL SUPPORT 36 - 37

RETAIL OPERATIONS 38 - 39

STRATEGY 40 - 41



PRESIDENT'S

MESSAGE

From the outside, FCL is a business like any other. Just like other businesses, FCL was faced with a downturn in economic market conditions in fiscal 2015. But FCL is not just any other business—it's a

co-operative. It's the co-operative model and our ability to come together as a Federation that remains our strength and advantage over other businesses when confronted with these challenges.

Co-operation requires active participation. This applies to governance and strategy development as it does to operations. In 2015, we implemented phase one of the Director Development Program, reviewed the resolutions process and completed the Governance/Democratic Review that was initiated in 2014. I want to thank all

members for their participation in these important initiatives. Continual governance development and improvement ensures our democratic governance structure meets the needs of the membership today and into the future.

Responsibility — one of FCL's three corporate values — is another large component of co-operation. FCL's Board of Directors is responsible to the membership: to guide the vision of the organization, oversee its resources and facilitate sustainable growth. Our *Social Responsibility Report 2014* highlights our commitment to environmental sustainability, community investment, employee engagement and co-operative leadership.

Leadership includes providing financial support and board representation to post-secondary institutions advancing co-operative theory and practice. FCL funded the creation of the Co-operative Retailing System Chair in Co-operative Governance at the University of Saskatchewan in 2015. The two-year Co-operative Innovation Project also concluded this past year. The Co-operative Innovation Project research studied the feasibility of the co-op model in underserved rural and aboriginal communities.

The research results generated provide the foundation for the next stage promoting local solutions and creating a co-operative development network that spans provincial boundaries and business sectors. To do this, additional investments

are necessary to enhance social and business capacity, co-op-development coordination and build resources to support new co-ops. On behalf of the CRS, FCL recently made a five-year, \$5 million commitment to bring these goals to fruition. This is a significant, albeit necessary, undertaking, an undertaking that personifies our co-operative roots. FCL and the CRS must continue to lead in order to advance the co-op model and build communities in Western Canada.

FCL participates in the larger co-operative sector through financial support and board member representation at provincial co-operative associations and Co-operatives and Mutuals Canada. FCL is also a strong supporter of the work of the Canadian Co-operative Association which is focused on establishing and growing co-operatives internationally and the Co-operative Development Foundation, a charitable organization that raises money to undertake co-operative development projects in Canada and around the world. These involvements are core to our support for youth and the advancement of the co-operative business model in bettering the economic and social status of society.

In its *Blueprint for a Co-operative Decade*, the International Co-operative Alliance identifies five themes for a co-operative future, including elevating participation, building sustainability and securing the co-operative identity. Our long-term vision and growth strategy complement this blueprint and put the seven principles of co-operation into practice. Considering our strong roots—the co-op model, member support and the unity of our Federation—I look forward to a productive and prosperous future, no matter the challenges we face, knowing that we are making a difference in our local communities.

Dusty MacDonald
President/Chair of the Board



CEO'S MESSAGE

Over the past five years, FCL has identified and pursued strategic priorities that position the organization to remain relevant and able to adapt to the challenges of a rapidly changing world. These priorities are underpinned



by our focus on our core financial strength and by our determination to foster a culture of unity within FCL and across our co-operative Federation. Since 2010, we have been guided by the values identified by our employees, by our commitment to a robust organizational planning cycle and by always paying heed to our overarching, long-term goal of creating value for our members.

In 2015, FCL advanced the priorities set out in the *Corporate Plan*. However, FCL was not immune to the challenges of changing market conditions and volatile commodity prices.

FCL experienced real growth in sales and growth in earnings for most business units. An exception was the Co-op Refinery Complex (CRC), where earnings were negatively affected by a number of factors: large inventory losses due to falling crude oil prices, reduced diesel margins, reduced heavy oil differentials, losses due to foreign exchange rates and depreciation of the cost of the Section V expansion and revamps. These items had a negative impact on our earnings and were a result of market forces largely out of our control. Where we did succeed this year was in the area of CRC operations, particularly in the areas of safety, reliability and utilization. We will continue to make investments in these areas, and in enhancements to ensure the long-term sustainability of the CRC, even in these challenging economic times.

It is especially in challenging economic times that we are reminded of the importance of FCL, the CRS and the co-operative model, and consequently our desire to remain relevant to our communities, our members and our customers. Our commitment to sustain our Co-op's operations are at the heart of our long-term strategic plan and immediate priorities.

We continue to make significant progress on our three foundational projects: brand, technology and talent management. FCL reached an important milestone in 2015 as we began providing tools that have been developed in these foundational areas to our retail members. Our members are looking for these tools, programs and information to advance operational

efficiencies to ensure that they are providing outstanding services to their individual members and to their respective communities.

FCL and the CRS have built a solid base from which to grow. We continue our efforts to pursue growth and business development. In 2015, FCL worked closely with retail co-ops in the creation of a new Fertilizer Department. This department will provide retailers with a better way to pool purchasing power and source fertilizers, which in turn will drive profitability for both FCL and the CRS. FCL has also revised its retail investment and lending program. Through these programs, FCL is supporting retail co-ops' growth opportunities by supporting our member-owners to enhance and expand their local operations. By continuing to diversify the CRS, we will strengthen and increase our Co-op presence in Western Canada.

FCL's primary purpose continues to be the creation of value for our members over the long term. We need to ensure this is done in a sustainable and responsible manner. If you haven't already done so, I encourage you to read FCL's *Social Responsibility Report 2014* – found on wecare.coop by selecting "Report" in the menu. This report showcases the latest progress we're making by advancing environmental sustainability, community investment, employee engagement and co-operative leadership initiatives. The launch of Co-op Community Spaces is an example of one successful initiative that engaged employees, members, communities and customers. The program contributed \$1 million to 16 community improvement projects across Western Canada in 2015; the program has been enhanced and will be available to community organizations again in 2016.

This year we celebrated the 80th anniversary of the CRC and were once again inspired by the vision displayed by those early co-operative leaders and members. The FCL team is committed to emulating their dedication, courage and foresight in seeing what can be accomplished when we work together. Our history as a united Federation has allowed us to grow and to be relevant for past generations. We will continue to live our values and be guided by our vision so we can thrive in the face of challenges, be relevant, and position FCL and the CRS for future generations.

Scott Banda
Chief Executive Officer

OUR STORY



**EVERY YEAR,
WE SHARE
OUR STORY
THROUGH
NUMBERS
BECAUSE...**



BUSINESS PROFILE

WHOLESALING

FCL sources and distributes products across all primary consumer-goods lines: food, home and building supplies, crop supplies, livestock feed and petroleum. FCL's subsidiary, The Grocery People (TGP), delivers fresh produce to co-op communities. The CRS benefits from combined purchasing power, which allows local co-ops to remain competitive with larger, integrated companies in all business areas.

MANUFACTURING

The Co-op Refinery Complex (CRC) in Regina, Sask., has the capacity to process 130,000 barrels of crude oil per day, enough to fuel the needs of the CRS. FCL is also a member of Interprovincial Cooperative Limited (IPCO), which produces crop-protection products, primarily glyphosates. FCL also contracts the manufacturing of a variety of Co-op private-label products: CO-OP® GOLD, CENTSIBLES®, MARKET TOWN® AND CARE+®.

ADMINISTRATIVE SUPPORT

FCL provides a range of services to enhance retail members' capacity and reduce members' cost of doing business. For example, FCL provides IT infrastructure support, accounting, 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.



From left to right: Faramarz Farahani (Executive Vice-President, Innovation), Brad Bauml (Executive Vice-President, Ag & Consumer Business), Gil Le Dressay (Vice-President, Refinery Operations), Heather Ryan (Vice-President, Human Resources), Randy Boyer (Executive Vice-President, Finance), Scott Banda (Chief Executive Officer), Cal Fichter (Vice-President, Energy), Gerard Muyres (Vice-President, Retail Operations), Tom Kishchuk (Vice-President, Operational Support) and Vic Huard (Executive Vice-President, Strategy)

ABOUT US

VISION

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

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 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/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.



An expansion of CRC to 12,000 barrels a day, which doubled production, was officially opened and celebrated at Co-op Day on Aug. 18, 1954.

CRC 80TH ANNIVERSARY

REPORT

The Co-op Refinery Complex celebrated its past and future in 2015, as it marked its 80th anniversary.

When it was founded in 1935, in the midst of the Great Depression, the CRC was a bold concept. From eight enterprising farmers who believed they could produce and distribute their own gas instead of relying on major oil companies, the CRC has become a critical part of Western Canada with a workforce of more than 1,000 employees.

Today, the CRC uses cutting-edge technology and has a capacity of 130,000 barrels per day of refined petroleum products — or 6.8 billion litres annually. Those high-quality products are distributed to more than 780 retail gas bar and commercial cardlock locations from Vancouver Island to northwestern Ontario.

The story of the CRC continues to be more than the story of an oil refinery. It's one of leadership and success. More importantly, it's a story of people and the power they can harness through co-operation.







By the end of 1935, the CRC employed 20 workers, who worked seasonally as there was not a market for year-round production. Today, the CRC has more than 1,000 full-time employees working year-round to produce fuel for Western Canada.



**AT CO-OP, EVERY
NUMBER COMES
FROM A MEMBER...**



BOARD OF DIRECTORS'

REPORT

Corporate Governance

FCL's Board of Directors has the legal responsibility to supervise the management and affairs of the Co-operative. They must act honestly and in good faith and in the best interests of the Federation as a whole. Directors are elected by member co-operatives across Western Canada. The member co-operatives are represented by delegates from 15 districts.

The Board works with the Senior Leadership Team to establish the vision and mission of the organization. Together, they set five-year evolving goals supported by annual strategic priorities. Each business unit develops its plan and budget to support these priorities, with the overall budget reviewed and approved by the Board. The Board uses a balanced scorecard and progress report with key performance indicators to measure corporate performance.

The Board held nine meetings during the year. In addition, the Board's standing committees – Governance, Human Resources, Social Responsibility and Audit – met at various times throughout the year. Board members also attended planning and training sessions, region fall conferences, June district meetings and meetings of co-operatives within their district, as well as meetings with other co-operatives and related organizations across Canada.

Outside of formal board meetings, the Board meets annually with each business unit. This leading governance practice provides the Board with valuable insights into operations and exposure to key personnel. These reviews also provide the opportunity to ask detailed questions and provide valuable operational context when determining strategic direction.

New this year, the Board provided FCL Board updates, a summary of board meetings that is published on the Director Portal – a website accessible by all FCL and retail co-op directors – shortly after each board meeting.

Social Responsibility

The Board continued to support social responsibility initiatives, including, but not limited to, the Community Spaces Program launched in March 2015 to help fund local projects related to recreation, environmental conservation and urban agriculture; the Co-operative Innovation Project to promote co-op development in rural and aboriginal communities; and the first ever materiality assessment of FCL's business practices.

Governance/Democratic Review

As a result of the governance/democratic review, the Board made the following changes to district boundaries effective March 1, 2016: Westview Co-op, Drumheller Co-op and Standard Co-op will move from District 6 to District 5; Fruitvale Co-op and Slocan Valley Co-op will move from District 4 to District 6; and Portage La Prairie Co-op will move from District 13 to District 14.

Board Development

FCL's Board of Directors is made up of directors with a broad base of co-op and business expertise. To ensure they have the skills and knowledge for FCL's complicated and diverse business lines, new directors receive a comprehensive orientation that is supplemented with ongoing education for all directors. Last fall, the Board participated in an annual development day that included a number of presentations on a wide range of topics including an overview of refinery economics, an update on crude oil operations, a review of enterprise risk management and a discussion on long-term growth.

Throughout the year, individual directors attended outside development opportunities to enhance directly their role on a Board committee or to allow them to achieve a professional director designation. Each director has funds allocated that can be used for these additional development opportunities. In addition, the Board as a whole, each committee and individual directors complete annual assessments in order to provide the Board with performance feedback and identify areas for development.

Retail Board Development Initiative

The first phase of the new Director Development Program (DDP), The Essentials of Co-operative Governance, was launched in 2015. The six online modules are available on the new Director portal. The DDP aims to ensure that Boards of Directors across the CRS have the training and tools they need to become strategic in carrying out their important roles and responsibilities as elected leaders of their co-ops. One in-person workshop, "Strategy and Boards," was also developed and made available prior to the 2015 fall conferences. Development of the next phase of the DDP, Building Strategic Leadership, is well underway and scheduled for implementation in the fall of 2016.



From left to right: Valerie Pearson, Brad Schultz, Tara Burke, Steffen Olsen, Marilyn McKee (Region Chair), Doug Potentier (Vice-Chair/Region Chair), Elaine Smith, Dusty MacDonald (President/Chair of the Board), Judy Clavier (Region Chair), Rodger Vizbar, Jocelyn VanKoughnet (Region Chair), Ryan Anderson, Sharon Alford, John Rudyk and Beryl Bauer (Region Chair).

District	Director	Board Meetings ¹	FCL, Retail & Other Meetings (includes travel)	Total Days	Term Expires
1	Judy Clavier, Dawson Creek, BC	16.5	49.0	65.5	2016
2	Glenn van Dijken, Dapp, AB	6.5	20.5	27.0	
	Steffen Olsen, Rimbey, AB ³	5.0	5.0	10.0	2017
3	Don Fluney, Dewberry, AB	4.0	34.0	38.0	
	Tara Burke, Wainwright, AB ²	12.5	21.5	34.0	2018
4	Doug Potentier, Victoria, BC	16.5	75.5	92.0	2017
5	Laura Sullivan, Calgary, AB	4.0	9.0	13.0	
	Elaine Smith, Calgary, AB ²	12.5	19.5	32.0	2018
6	Rolf Traichel, Medicine Hat, AB	2.0	18.0	20.0	
	Rodger Vizbar, Medicine Hat, AB ²	12.5	25.5	38.0	2016
7	Marilyn McKee, Mossbank, SK	16.5	44.5	61.0	2016
8	Dusty MacDonald, Saskatoon, SK	16.5	244.5	261.0	2018
9	Brad Schultz, Melville, SK	16.5	35.0	51.5	2017
10	Don Russell, Rosetown, SK	4.0	22.0	26.0	
	Valerie Pearson, Saskatoon, SK ²	10.5	19.5	30.0	2018
11	Beryl Bauer, Lake Lenore, SK	16.5	42.0	58.5	2016
12	Ryan Anderson, Melfort, SK	16.5	44.5	61.0	2017
13	Sharon Alford, Swan River, MB	16.5	58.5	75.0	2016
14	Jocelyn VanKoughnet, Carman, MB	16.5	34.0	50.5	2018
15	John Rudyk, Fisher Branch, MB	16.5	60.75	77.25	2017

¹ Includes business unit reviews, training and planning meetings

² Elected at the annual meeting in March 2015

³ Elected to fill a vacancy and appointed Director by the Board in September 2015

FCL Membership Changes

At October 31, 2015, FCL was made up of 211 member retail co-operatives, two affiliate members and eight associate members. Eleven changes occurred during the year:

- Boyle and Thorhild Co-ops amalgamated to form North Corridor Co-op
- Hometown Co-op at Broadview and Sinaluta Co-op amalgamated to form Hometown Co-op
- Hazenmore and Woodrow Co-ops amalgamated to form Grassroots Co-op
- Diamond Co-op at Ituna and Prairie Co-op at Melville amalgamated to form Prairie Co-op
- Central Plains Co-op at Rosetown and Feudal Co-op at Perdue amalgamated to form Central Plains Co-op
- Hoosier and Kindersley Co-ops amalgamated to form Kindersley Co-op
- North Central Co-op at Stony Plain and Legal Co-op amalgamated to form North Central Co-op
- Miami Co-op withdrew its membership
- Colonsay, Elfros and Birch Hills Co-ops were removed from membership because of dissolutions

Committees

- Governance Committee: D. MacDonald (chair), D. Potentier, J. Clavier, M. McKee, B. Bauer, J. VanKoughnet
- Audit Committee: R. Anderson (chair), J. Clavier, S. Olsen, V. Pearson
- Human Resources Committee: B. Schultz (chair), D. Potentier, E. Smith, M. McKee, J. VanKoughnet
- Social Responsibility Committee: S. Alford (chair), T. Burke, R. Vizbar, B. Bauer, J. Rudyk

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



OUR STORY












**AND EVERY
MEMBER HAS
A CO-OP...**

FINANCIAL HIGHLIGHTS

FEATURE

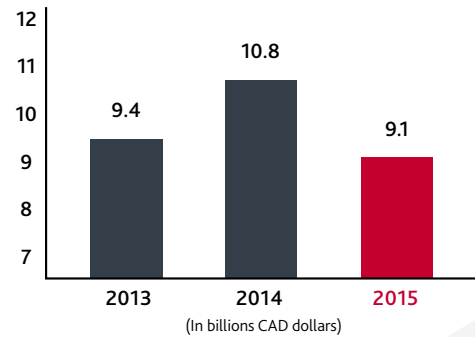
MEMBERSHIP RETURNS

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

	Commodity	2013	2014	2015
	Crop Supplies	6.234%	5.972%	5.531%
	Feed	1.273%	1.043%	2.356%
	Grocery / Meat	4.650%	4.116%	4.345%
	Home and Building Supplies	5.585%	5.464%	5.925%
	Petroleum – Fuels	9.480¢/L	6.444¢/L	4.671¢/L
	Petroleum – Propane	12.885¢/L	9.650¢/L	11.751¢/L
	Petroleum – Oil & Grease	22.029%	25.121%	21.319%

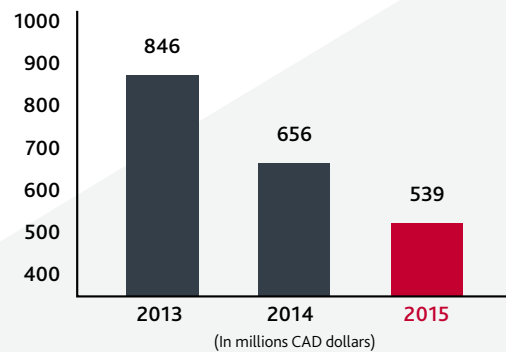
Over the last 10 years, FCL has made patronage allocations to its member-shareholders of \$4.5 billion and share redemptions of \$3.8 billion in cash.

\$9.1B
SALES

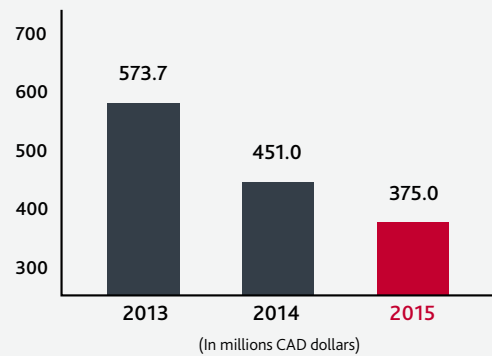


\$539M
NET INCOME

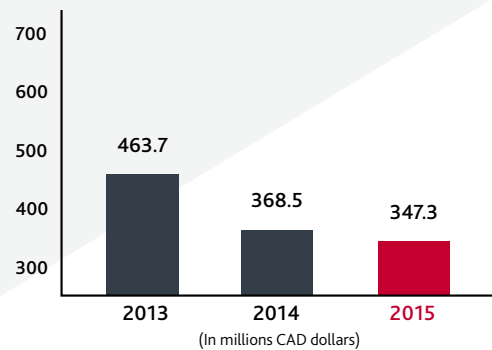
(before other comprehensive income)



\$375M
PATRONAGE ALLOCATION



\$347M
SHARE REDEMPTION



A photograph of a man and a woman in profile, facing each other. The man on the left is wearing a black cap and a high-visibility vest with yellow and white reflective stripes over a red shirt. The woman on the right is wearing a light-colored jacket and has a pearl earring. They appear to be in an outdoor setting, possibly a construction or industrial site. A large red diagonal shape is overlaid on the bottom half of the image, containing the main text.

**EVERY
CO-OP RELIES
ON NUMBERS
BECAUSE...**



19

Litres

**AT CO-OP,
EVERY NUMBER
HAS A NAME.**



AG AND CONSUMER PRODUCTS

BUSINESS UNIT REPORT

In 2015, the Ag and Consumer Business Unit made significant progress by focusing on the end customer. This began with a fundamental shift at FCL in who it defines as its customer. The business unit placed the end customer at the heart of the Food, Home and Building Supplies, Crop Supplies and Feed Departments' business plans. Adopting this consumer-based lens has had significant impact in strategic decision-making within the departments.

This approach has resulted in the Food Department placing a strong emphasis on product development for FCL's private-label portfolio of CO-OP® GOLD, MARKET TOWN® and CENTSIBLES®. There were 315 new private-label products developed and introduced in 2015, with private-label sales increasing over 16 per cent from the previous year. New product innovation was key to this success with items such as CO-OP® GOLD aioli sauces and CO-OP® GOLD Whisky Caramel Sauce proving to be highly successful. In late 2015, the Food team also launched the new CO-OP® GOLD PURE sub-brand with products that address health, wellness and environment.

The Home and Building Supplies Department underwent significant changes in 2015 with the

adoption of a new category-management structure and philosophy. This has allowed the department to position itself to better understand and serve the needs of the end consumer. This has also brought a new focus on innovative ideas and products. Innovation has been the highlight of the Spring and Fall Buymarts and has been well received by retailers.

This shift towards the consumer and producer has also had a significant impact on the Crop Supplies Department. In 2015, the department employed new resources and created the Knowledge and Innovation Team. The team's primary focus is to develop effective training programs and resources to further enhance the agronomic knowledge across the CRS and to investigate new areas of agricultural technology, including precision agriculture. The team has made great strides in these areas and will be launching two pilot projects in 2016 using remote imagery for crop health monitoring and field trial comparisons.

The Feed Department also began to see the results of a significant shift to higher quality products for the producer and a renewed selling relationship with retail co-ops. Feed Department total sales in 2015 were up 28 per cent over last

year, while actual production at the six plants increased 19 per cent over 2014.

The FCL Fertilizer Department was created to support the new Central Procurement Fertilizer Model that began in 2015. In 2015, Phase 1 of the model was implemented, which brought on-stream the central sourcing of potash on behalf of retail co-ops. Phase 2 involves the sourcing of the remainder of the fertilizer portfolio, which will begin in the summer of 2016. The Fertilizer Team has also been working on the design and construction detail for two fertilizer regional distribution hubs to be built to support the new CRS fertilizer model.



Feed production increased 19 per cent to 137,580 tonnes in 2015



Average number of local products (scored 7.0 and above by Localize) in Co-op Food Stores

LEARNING IN THE FIELD

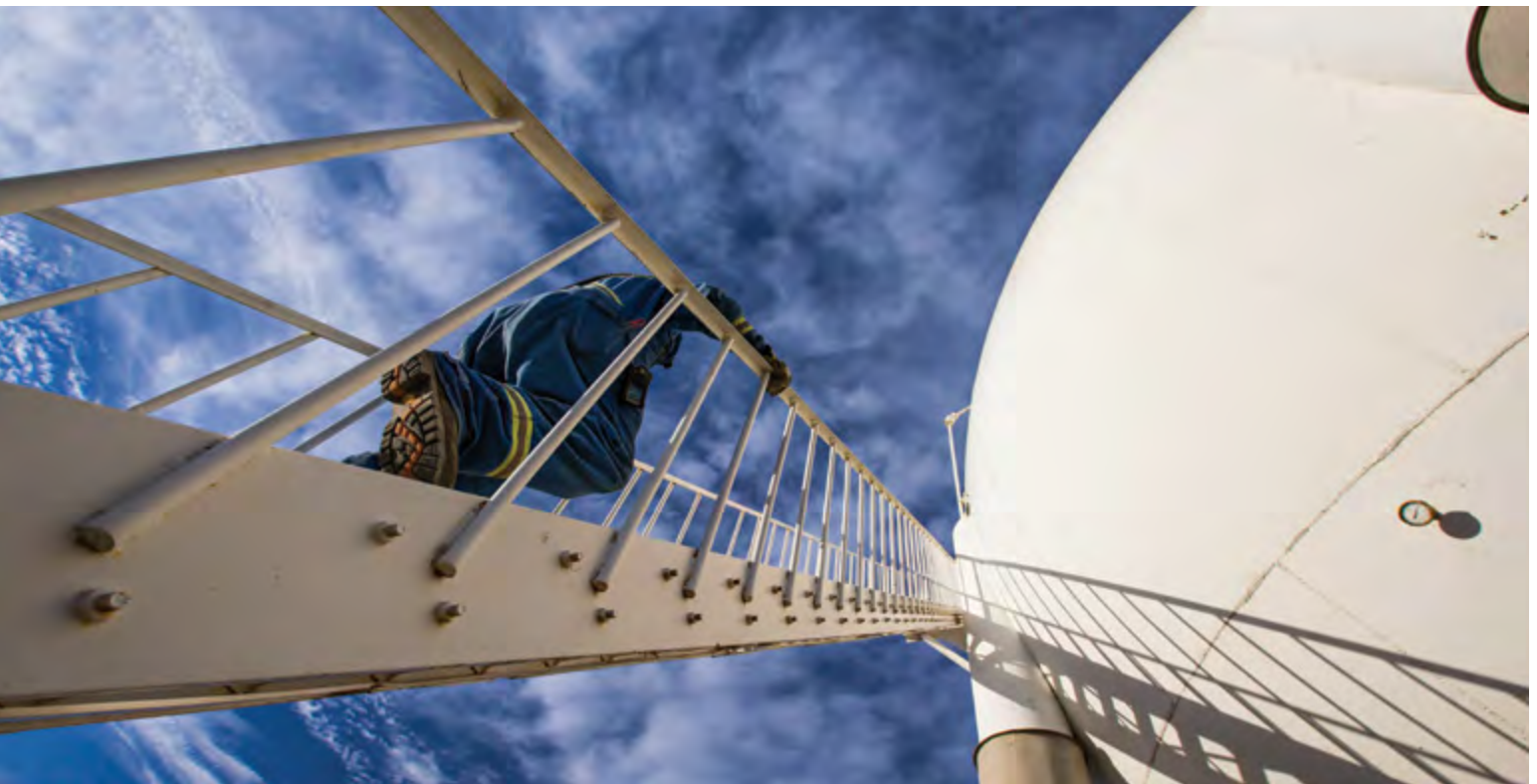
SCHOLARSHIPS PROVIDE FULL AG EXPERIENCE

FCL and the Co-operative Retailing System have deep connections with prairie agriculture. Those roots continue to expand through the Excellence in Ag Program, a comprehensive scholarship package that helps students build a career.

Since launching in 2013, the FCL-administered program has awarded \$121,000 to 13 students studying agriculture or agribusiness in Western Canada. As part of the initiative, students can receive up to \$20,000 in scholarships, as well as hands-on experience through paid summer

internships and potential full-time employment at retail co-ops — along with a signing bonus — upon graduation.

Two students have already graduated from the program and are now working as agronomists in Co-op Agro Centres. With another class of graduates on its way, and more applications to be collected in 2016, Excellence in Ag is helping to ensure the success of FCL and the CRS in the agriculture industry now and into the future.



CO-OP REFINERY COMPLEX

BUSINESS UNIT REPORT

The Co-op Refinery Complex (CRC) has a vision to be a recognized leader in safety, reliability and sustainability within the petroleum refining industry.

OPERATIONS

The CRC spent much of 2015 focused on the safety and reliability of its operations. The CRC has put in place programs such as Operational Excellence, Project Revitalize and Maintenance Excellence that focus directly on developing a culture that supports the refinery's vision. The CRC processed 39.7 million barrels of crude oil in 2015, 21 per cent more than in 2014. However, overall refinery utilization was down because of the late start-up of a unit used to manufacture gasoline from liquefied petroleum gas as well as reduced market demand for diesel, which curtailed production.

REFINERY ECONOMICS

The CRC had a difficult financial year in 2015. Significant inventory losses resulted from the timing of selling higher-cost inventories in a declining retail market. The U.S. exchange rate played a significant role in the CRC's reduced earnings, as crude is purchased in U.S. dollars. In the CRC's region, there have been increasing gasoline crack spreads – the difference between

the crude oil price and gasoline or diesel selling price – but decreasing diesel crack spreads. This is significant because, compared to many competitors, CRC is configured to produce more diesel because of the unique demands the Co-operative Retailing System has for diesel. Historically low diesel crack spreads during the 2015 harvest period, when demand for diesel is highest, reduced the overall profitability of the CRC more so than other refineries in this market.

Another market factor that impacted the CRC was a reduction in the heavy crude differential – the difference between the purchase price of sweet light crude and heavy crude. This differential is typically larger than what it was in 2015 and allows the CRC to capture more value from its heavy oil upgrader unit. Other market forces out of the CRC's control added to lower earnings in 2015. Byproducts like butane and asphalt were sold at historically low price differentials compared to the cost of raw crude.

The CRC is looking to address the issues it can control, such as the escalating costs of maintenance and improving process and personnel efficiencies throughout its operations. In addition, major

capital projects in recent years are now increasing costs substantially in the form of depreciation.

SAFETY

The safety of employees is always the CRC's first priority. A safe refinery is synonymous with a reliable refinery. The additional emphasis on safety began paying dividends in 2015. In two turnarounds – one in Section III and IV and one in Section V – only one recordable injury occurred despite the turnarounds requiring countless extra person-hours. Project Revitalize has also been successful in helping CRC reduce its process safety incidents, which in turn keeps CRC employees safe.



1,020
FULL-TIME
REFINERY EMPLOYEES

17M LITRES/DAY



Distributed by the petroleum fleet



INVESTED IN SAFETY

PROJECTS ENHANCE PERFORMANCE

The safety of employees is always the first priority at the Co-op Refinery Complex (CRC). With a declining total recordable injury frequency rate (TRIF) and a reduction in the number of process safety incidents in 2015, new investments in safety are delivering results at the CRC.

CRC responded to past process safety incidents with initiatives to improve the safety and reliability of the refinery, including Project Revitalize. That project, in concert with many others, was successful in reducing process safety incidents by 74 per cent in 2015 from the previous year.

During two turnarounds in 2015, the CRC experienced only one recordable injury. Turnarounds — periods when parts of the refinery are shut down for maintenance — are massive undertakings that require a large number of additional workers and represent a time of increased safety risks. This accomplishment reaffirms the dedication of the organization and its employees to safety.

CRC management is committed to working with employees to improve safety performance while providing exemplary service and value to the Co-operative Retailing System.



ENERGY

BUSINESS UNIT REPORT

The Energy Business Unit provides leadership and support to the Co-operative Retailing System (CRS) by supplying energy products and services to retail co-ops, with a focus on profitable sales growth and safe and efficient operations. The business unit also produces crude oil for consumption by the Co-op Refinery Complex and for sale to other refiners.

Petroleum Products

The Petroleum Department achieved a record sales volume of 6.2 billion litres of gasoline and diesel in 2015, an increase of 4.1 per cent from 2014, although revenue decreased because of deflation in petroleum prices.

FCL began supplying diesel exhaust fluid from select cardlock facilities in 2015. More facilities will be upgraded to provide this product in 2016 and beyond. A new program will also improve customer experiences using gas bar dispensers by installing larger, customized displays. The Fuel Up to Win marketing program continued to show success in engaging customers in Co-op Gas Bars/ Convenience Stores, Food Stores and, for the first time in 2015, Home Centres. The promotion will run again in 2016 with an improved prize package.

To position the organization better for future growth, FCL continued to develop its distribution network with the opening of 10 new bulk plants and beginning construction on 12 more. Opened in 2015, the new Carseland Terminal adds a significant distribution hub in southern Alberta that is supplied by rail from the Co-op Refinery Complex (CRC) in Regina. Shipments of products by rail increased by 50 per cent in 2015, which was facilitated by the opening of a new rail yard built exclusively for the CRC.

Propane sales volume decreased in 2015 from 134.9 million litres in 2014 to 125.8 million litres in 2015, the result of warmer weather and less heating-fuel demand, but earnings increased because of more favourable market conditions. New branch offices were opened in Yorkton, Sask., Estevan, Sask., and Grassland, Alta., to enhance service and allow for future growth.

Numerous initiatives to improve FCL's programs and services through technological development have been identified and laid out in a transformational multi-year plan called the Energy IT Roadmap. Work on the foundational aspects began in earnest in 2015, which will

enable numerous process improvements in all Energy business lines.

Crude Oil

It was a challenging year for crude oil producers because of the collapse of prices. FCL responded by reducing capital expenditures and focusing on efficiency and reduced operating costs. FCL was still able to achieve an overall production increase of 11 per cent to 4,378 barrels per day.

25%

PROANE AUTODIESEL DUAL FUEL

Propane small truck fleet converted to dual fuel capability



SERVICE FOR EVERY SEASON

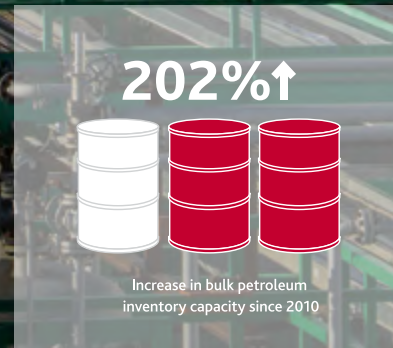
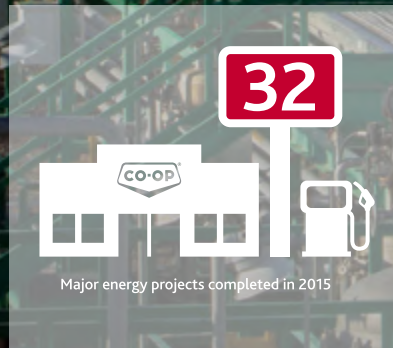
CAPACITY EXPANDS FOR PEAK DEMAND

After years of preparation and construction, FCL proudly commissioned its Carseland Terminal in the spring of 2015, introducing a new era of improved efficiency and service to the Co-operative Retailing System.

The state-of-the-art fuel storage facility — 60 kilometres east of Calgary — allows FCL to meet the needs of customers in Alberta and British Columbia while relying less on fuel trucks from Saskatchewan. In their place, the facility is serviced by a fleet of more than 300 railcars delivering gasoline and diesel from the Co-op Refinery Complex (CRC) in Regina.

With a capacity to hold more than 140 million litres of fuel, the Carseland Terminal enables FCL to supply retail co-ops in peak seasons better.

"The period of heaviest diesel use in Western Canada is during spring seeding and the fall harvest," said Darren Hudema, Supply and Distribution Manager at the CRC. "The new storage facility allows us to stockpile diesel during periods of lower demand so that we have ample supplies when the farmers need it in the spring and fall."





HUMAN RESOURCES

BUSINESS UNIT REPORT

The Human Resources (HR) Business Unit supports the Co-operative Retailing System (CRS) by providing effective talent-management programs and practices in the areas of total rewards, talent acquisition and workforce planning, organizational learning and HR advisory services.

This was a year of evaluation and evolution. To remain relevant to both internal FCL clients as well as the CRS as a whole, HR needs to ensure its talent-management programs and practices are aligned to business needs and objectives. To do this, the business unit evaluated its HR structure and created areas of expertise to ensure it was set up to develop effective people programs and practices and successfully sustain them going forward.

HR has to remain relevant externally as well. An effective way to do that is through partnerships and relationships. One way to connect with the community and create a pipeline for the future is to reach out and engage future leaders. Since 2007, FCL partnered with the University of Saskatchewan Edwards School of Business in a dynamic Business Co-operative Education Program that integrates classroom instruction with real-life work situations. The program allows

business students the opportunity to gain valuable work experience while completing their degrees.

FCL also launched a LinkedIn page, not only to share current career opportunities, but also to tell its story and illustrate Co-op's positioning line "You're at Home Here."

Communication and information sharing are equally important internally, and to be able to tell that story, the business unit needs to have access to data and information. Throughout 2015, HR was heavily immersed in transition planning for the shift to the new HR technology platforms; this will continue for FCL and the CRS into 2016 and beyond. The program is commonly referred to as the Talent Insight Solutions Program, which refers to the fact that FCL needs both the talent and the insight to create the right solutions, and that insight comes from transparent and accessible information.

HR also focused on ensuring that the Co-op Learning Centre could transition to a new and solid learning-management system platform with content aligned to user needs. Many new offerings were developed, especially in the area

of change management, to assist the many areas of transformational change occurring throughout the system.

With a philosophy of understanding business needs first, and then aligning human resource practices and programs accordingly, the HR team will continue to focus on integration and evolution to ensure people, programs and practices are relevant and effective.



BUILDING CAREERS

APPLYING CLASSROOM KNOWLEDGE

Federated Co-operatives Limited is proud to foster the ideas and ambitions of tomorrow's leaders.

In 2015, FCL welcomed 11 co-operative education students, who received paid work placements to complement their post-secondary studies. Another 13 students will work with FCL in 2016, gaining real-life work experience and financial support to enhance their education.

FCL furthered its commitment to students in 2015 with a \$500,000 pledge over five years to the Edwards School of Business Co-operative Education Program. Since the program's launch in 2007, FCL has provided 46 students with work placements and hired 19 alumni as permanent employees.

By making long-term commitments to students and education, FCL continues to ensure the future growth of its business and the larger community.





INNOVATION

BUSINESS UNIT REPORT

The Innovation Business Unit consists of the Information Technology and Growth and Business Development teams. The mandate of the Information Technology team is to implement innovative and integrated technology solutions across the Federation. As for the Growth and Business Development team, the focus is on supporting retail co-ops and strategic business units in planning, developing and executing sustainable growth.

CRC IT

Reliable, scalable, secure and flexible IT solutions are vital to CRS business. To this effect, the main focus in 2015 was on integrating CRC IT systems and team members with the intent to closely align with FCL's strategic focus and to improve cross-system integration.

In 2015, CRC IT was restructured to report directly to the Executive Vice-President, Innovation to improve and ensure strategic alignment between FCL IT and CRC IT. New CRC IT director and manager roles were introduced to lead the delivery of strategic initiatives at CRC and to enhance and expedite integration of technology solutions to CRS retails and their members.

E-Commerce Catalogue Launch

FCL launched a new, modern e-Commerce Catalogue in 2015 to replace the aging home and building supplies catalogue solution, which had infrequent updates. The new e-Commerce Catalogue automatically updates daily product and pricing information for Co-op Home Centres across the CRS. FCL also provided independent dealers with access to the new e-Commerce Catalogue system, which resulted in thousands of active sessions daily. Most importantly, successful implementation of this system sets the foundation for rolling out e-commerce to other retail business lines, as well as consumer level e-commerce marketing.

Energy IT Roadmap

The Energy Systems Department supports FCL's energy-related departments including Petroleum, Propane, Lubricants, CRC and Petroleum Facilities. The major area of focus in 2015 was the elaboration of the Energy IT Roadmap. This multi-year, multi-phase initiative will replace the existing computerized energy systems and business processes to enable greater business agility, competitiveness, profitability, efficiency, customer service, safety and regulatory compliance. The

systems and solutions delivered through this initiative will also provide FCL and the CRS with better information for long-term energy investment decisions.

Growth and Business Development

The mandate of the Growth and Business Development Department is to support retail co-ops and strategic business units in planning, developing and executing sustained growth for the CRS.

The department takes a deliberate and disciplined approach in planning growth, which involves continual feedback from board members and retails. Based on the feedback received throughout the year, FCL initiated its growth strategy along three horizons – short, medium and long-term – and defined them as "defending and growing our current businesses," "high growth businesses" and "break-through innovations."

The department will continue to focus FCL's investments in key areas that will allow it to remain relevant to members and consumers.



Over 300,000 sessions since the launch of the internal e-Commerce catalogue



Products through the new Supply Chain System since launch

SERVICE SIMPLIFIED

ONE CALL FOR IT SOLUTIONS

To meet the demands of FCL's rapidly transforming business, the Innovation Business Unit introduced its new IT Service Desk Solution.

The main focus of the IT Service Desk is to improve customer satisfaction and service quality by broadly serving FCL and the CRS 24 hours a day, 365 days a year. Ultimately, FCL and retail co-ops can receive comprehensive service related to technology solutions by contacting the service desk, rather than various individuals or departments.

Since launching the program, the IT Service Team has already helped more than 600 users with onboarding, offboarding and profile changes. The department's monthly service engagement volume continues to grow, reflecting the expanded catalogue of services and growing customer engagement.

With industry best-practice reporting and tracking capability, IT Services is now able to improve CRS customer satisfaction through top-quality service and responsiveness.



OPERATIONAL SUPPORT

BUSINESS UNIT REPORT

The Operational Support Business Unit is comprised of four functional areas: Health and Safety, Logistics, Retail Facilities and Petroleum Facilities.

Health and Safety

The Health and Safety team provides policy, management system and advisory services to FCL corporate facilities and advisory services to the CRS. The focus of the team is to enable the reduction of workplace injuries through hazard identification and risk assessment, and risk elimination and control.

Logistics

The Logistics team is responsible for the safe and efficient movement of groceries, home and building supplies and petroleum products from suppliers to FCL's five distribution centres located in Saskatoon, Calgary, Edmonton and Winnipeg, and then on to 2,500 retail locations in more than 500 communities stretching from Vancouver Island to northwestern Ontario, including the Far North.

This movement is accomplished using a highway trucking fleet of 245 merchandise trailers and 219 petroleum tankers pulled by company drivers and lease operators. The merchandise fleet travelled 19.1 million kilometres and delivered 587,824 tons of

merchandise in 2015. The petroleum fleet travelled 56.8 million kilometres and delivered 3.6 billion litres of fuel in 2015.

Retail Facilities

The Retail Facilities team provides the CRS with planning, real estate, design, technical and construction services for new construction and renovation of grocery, convenience, liquor, agro and home and building supplies store facilities. The team's focus is to optimize the shopping experience while minimizing the long-term operating costs for retail facilities by building energy efficiency into new and renovation projects.

In 2015, FCL continued work on developing standard designs with the team engaged in 274 active projects, of which 111 became operational during the year. Compared to 2014, this was a 38 per cent increase in the number of projects that became operational during the year.

Petroleum Facilities

The Petroleum Facilities team provides the CRS with planning, design and construction services for new construction and renovation of gas bars, cardlocks, car washes and bulk petroleum facilities.

Other activities include manufacturing of retail fuel delivery units and servicing of highway bulk transport units.

In 2015, FCL continued work on the development of reliable, low-maintenance designs with the team engaged in 224 active projects, of which 111 became operational during the year. Compared to 2014, this was a 17 per cent increase in the number of projects that became operational during the year. A total of 71 retail fuel-delivery units were also delivered in 2015.

EMPLOYEE-LED GIVING

DONATIONS SUPPORT LUNCH PROGRAMS

Federated Co-operatives Limited is proud to feed western Canadian families through both the network of retail co-op food stores and grassroots initiatives led by employees.

FCL employees are longtime volunteers with the Saskatoon and District Labour Council's Summer Snack Program, which serves nutritious lunches to inner-city children during the summer months when school programs are unavailable.

In 2015, that relationship continued to grow through weekly in-kind donations from the Saskatoon Distribution Centre, including produce, yogurt and cheese — nutritious products approaching the end of their shelf life that weren't distributed to

retails. "Our employees brought this need to our attention and our employees are behind this," said Jody Stone, Regional Warehouse Manager.

FCL began making deliveries to the Summer Snack Program in July. When school resumed session in the fall, the donations kept coming — this time to the W.P. Bate Community School Nutrition Program, where they were shared with more than a dozen public schools in food-insecure neighbourhoods. With weekly deliveries approaching 1,000 pounds, the donations have brought thousands of dollars in monthly savings to these school programs.

3.6B 

Litres of fuel transported 56.8 million kilometres by petroleum fleet

19.1 million km 

Distance travelled by merchandise fleet hauling 587,824 tons of product



RETAIL OPERATIONS

BUSINESS UNIT REPORT

The Retail Operations Business Unit works directly with retail co-operatives to enhance financial results and enable them to deliver on the Co-op brand. The business unit provides marketing, merchandising, financial, human resources and operational services and support to retail co-operatives from region offices in Edmonton, Calgary, Regina, Saskatoon and Winnipeg.

Retail profitability, market growth, talent development and long-term viability continue to be the key priorities of the business unit. These priorities are intended to assist retailers to strive towards FCL's vision to set the world standard in consumer co-operative excellence.

In addition to the five region offices, the business unit is comprised of the following departments in Home Office: Retail Accounting, Loss Prevention, and Retail Information Systems. Together, more than 220 employees work collaboratively with retail co-ops to ensure that the relationship between wholesale and retail remains strong. This collaborative relationship is one of the key benefits of the Federation.

Retail co-ops are continually striving to improve their ability to live up to the service expectations that individual members have of their co-op. At the same time, co-ops understand the need to remain profitable and continue to grow. In 2015, the Retail Operations Business Unit helped 14 retail co-ops complete the due diligence needed to amalgamate and form seven new, larger, stronger retail co-ops. These new co-ops are better positioned to serve their members, while at the same time ensuring long-term profitability.

As retailers become larger and the business environment becomes more complex, there is an increased need for retail boards of directors and general managers to have a clear, long-term vision of how to position their co-ops to meet members' future needs. In an effort to assist retailers in developing a vision and a strategic plan for success, a new Co-op Corporate Performance Model has been developed in conjunction with retail boards of directors and general managers to ensure the program meets the needs of retail co-ops. Fifty-five retail co-ops have begun adopting the new program by developing a corporate performance management program specific to the needs of their retail co-op. As

these co-ops complete the implementation phase and start the adoption of the second phase in 2016, additional retail co-ops will begin the process to develop their corporate performance plans.



1,300



Produced over 1,300 financial statements in 2015

≡ 1.65M



Distributed 1.65M cheques and equity statements in 2015

ACCOUNTING FOR THE FUTURE

GUIDANCE ENABLES RETAIL SUCCESS

After more than 50 years of service, FCL's Retail Accounting Services continues to evolve.

For retail co-ops across the CRS, the team provides effective solutions to challenges new and old, whether it's critical equity and patronage support or the development of accounting procedures for new programs like Fuel up to Win.

Since the introduction of Accounting Standards for Private Enterprises (ASPE), Retail Accounting Services has provided the guidance retail co-ops require to ensure complex transactions and financial statements adhere to the new standards.

FCL and Retail Accounting Services remain focused on providing exemplary customer service through open communication. By providing accurate and timely financial information, retail co-ops can be confident they are making sound business decisions.



STRATEGY

BUSINESS UNIT REPORT

The Strategy Business Unit focused on enhancing customer service levels to both FCL clients and retail co-operatives throughout 2015. A process improvement review resulted in significant improvements, but demands for services continued to increase dramatically. In spite of these increased service demands, significant progress was made in a number of key areas within the business unit in support of FCL-specific as well as CRS-wide objectives.

The evidence-based research that the Research and Development Unit (RDU) provides to FCL and retail co-operatives is a key driver of FCL's strategic decision-making. The RDU team worked collaboratively with FCL business units, CRC, TGP, various employee committees and 35 separate retail co-ops (affecting 62 locations) to provide clear, concise and actionable insights through more than 160 separate research initiatives. A wide range of topics – including high-level brand and trust measures, commodity-specific scorecards to gauge Co-op's market position against competitors, and individual member/consumer input into new product and program developments – were explored. The first full year of the Let's Talk Co-op panel engaged more than 2,500 western Canadians on 25 separate initiatives.

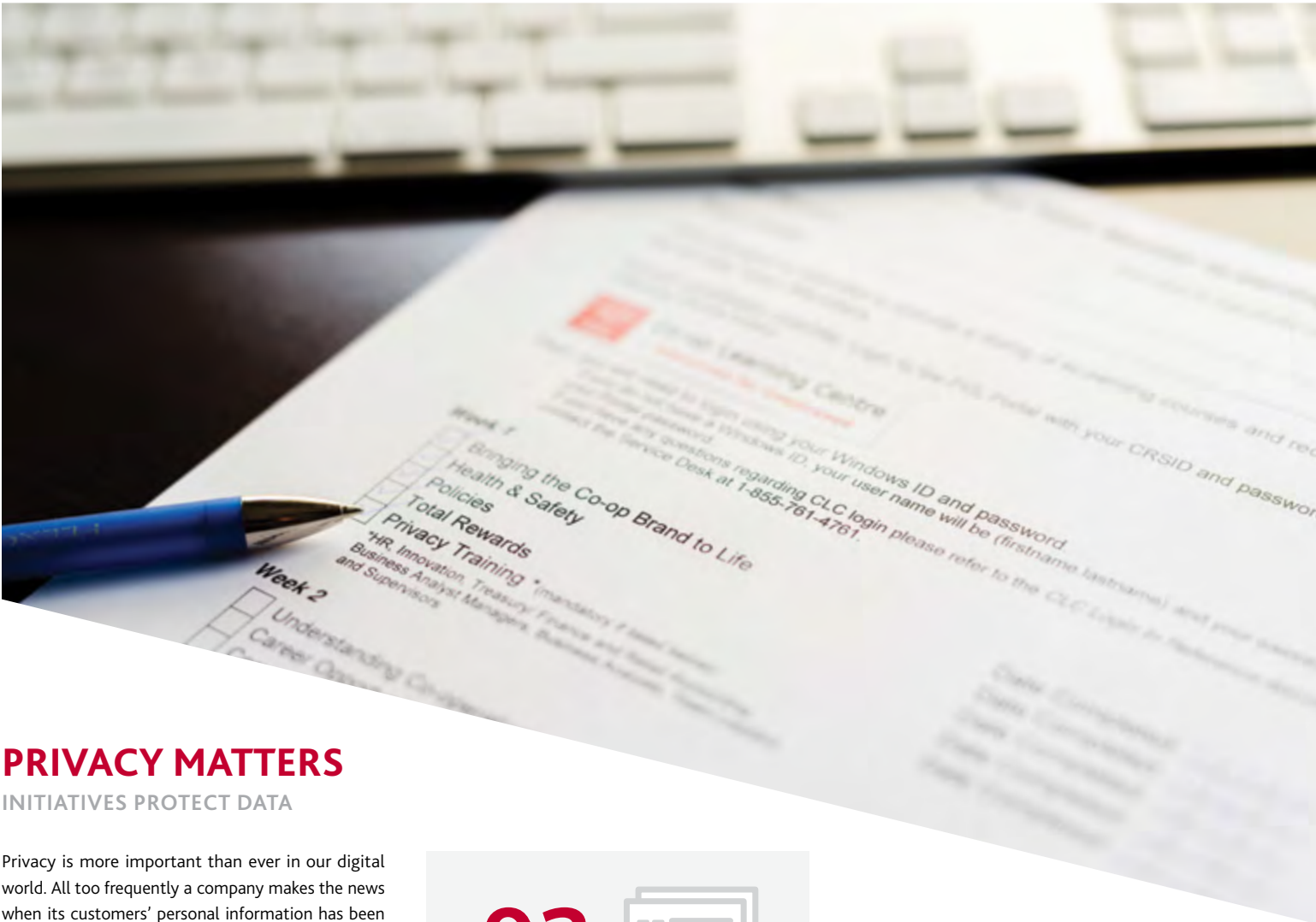
The Marketing and Communications Department continued to develop services that are "Centralized for Efficiency – Localized for Effectiveness." The launch of the Brand Library in April 2015 provided retail co-ops with digital access to over 65,000 internal files and 7,500 files shared by other retail co-ops; this online tool has averaged over 5,000 visits per month since it was launched. The launch of the CRS's most ambitious brand advertising campaign in history was very well received, as was the re-launch of the already successful Coopfood.ca. And while tactical tools like these are important, they are being deployed within a framework of four key strategic areas for Marketing and Communications: Brand, Digital Presence, Urban Strategy and Ag Strategy.

The Sustainability Department also maintained a focus on strategic initiatives this past year. Most notably, the Sustainable In-situ Remediation Co-operative Alliance (SIRCA) focused on developing new technologies that will aid in the sustainable management of properties contaminated with petroleum- and fertilizer-related compounds. It is the largest academic-industry collaboration related to contaminated-site management in Canada. FCL has taken the lead in funding this initiative and establishing an industrial

research chair in this field at the University of Saskatchewan with a five-year, \$1 million commitment – matched by the Natural Sciences and Engineering Research Council (NSERC) of Canada. Beginning in the latter half of 2015, the Sustainability Department completed FCL's first materiality assessment, laying the groundwork for a fully developed sustainability strategy in 2016.



Donated to charitable and non-profit organizations across Western Canada



PRIVACY MATTERS

INITIATIVES PROTECT DATA

Privacy is more important than ever in our digital world. All too frequently a company makes the news when its customers' personal information has been compromised.

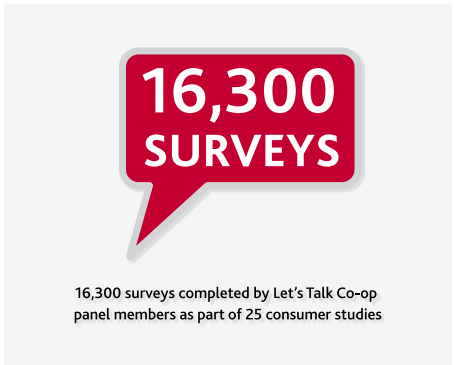
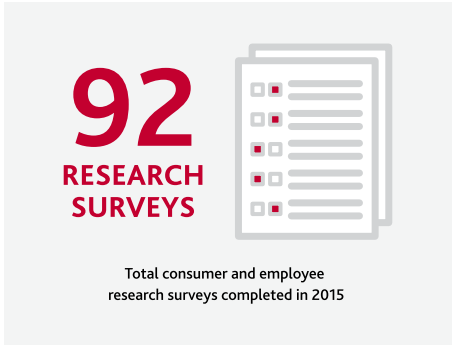
Rather than waiting for the worst, FCL is taking a proactive approach to protect the personal information of its employees as well as its retail co-op members and their customers.

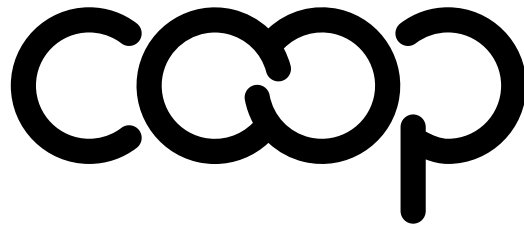
In 2015, FCL launched many initiatives to manage the risks that come with collecting and processing personal information.

A new Privacy Management Program Code was introduced to over 1,000 FCL employees at more than 40 seminars and webinars. FCL also conducted an extensive review of paper and online forms to ensure they properly disclose how and why personal information is being collected.

To assist retail co-ops, FCL delivered a series of privacy bulletins for retail managers as well as an e-learning program on privacy compliance.

By educating employees and reviewing its own policies and practices, FCL will continue to protect its brand reputation and bottom line.





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.

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, September 23, 1995

CODE OF ETHICAL STANDARDS FOR CO-OPERATIVES

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

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

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

Ethical Standards

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

Application of the Code

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

Our test for compliance to this Code of Ethical Standards shall be the effect of a communication

or action on the ordinary or trusting mind. We recognize that it is not sufficient that a discerning, knowledgeable, or analytical person may derive a correct interpretation if others may be misled.

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



**EVERY YEAR
WE SHARE OUR
STORY THROUGH
NUMBERS BECAUSE...**

**AT CO-OP, EVERY
NUMBER COMES
FROM A MEMBER.**

**AND EVERY MEMBER
HAS A CO-OP.**

**EVERY CO-OP RELIES
ON NUMBERS BECAUSE
AT CO-OP, EVERY
NUMBER HAS A NAME.**



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