



# Annual Report

Federated Co-operatives Limited

2014



# Federated Co-operatives Limited

Federated Co-operatives Limited (FCL), based in Saskatoon, is the 45th 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 220 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.

*\* The 2014 Consolidated Financial Statements document has been produced as a separate document and is found in the centre of the Annual Report.*

# Table of Contents



## CEO's Message



## President's Message



## About FCL

6	CEO's Message
7	President's Message
8	Business Profile
9	About Us
10	Board of Directors' Report
14	Feature: Sustainable Growth
15	Feature: Acquisitions
16	Financial Highlights
34	Notes
35	Statement on the Co-operative Identity
36	Code of Ethical Standards

## FEATURES AT A GLANCE



**19** Days of board meetings, includes business unit reviews, training and planning.

Board of Directors' Report

P10

## Sustainable Growth

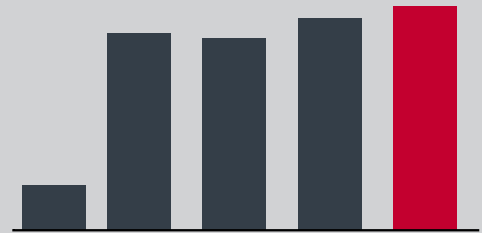


**14**



P14

## Financial Highlights



P16

## Consolidated Financial Statements

- Independent Auditors' Report
- Comprehensive Income
- Financial Position
- Member Equity
- Cash Flows

INSERT



# Business Unit Reports



P19

## Bringing local to life

Products at Co-op Food Stores have a local flavour. In 2014, FCL helped promote food that was grown, raised and produced at home.



P20

## Co-op Refinery Complex

Business Unit Report

## Let's Talk Co-op

We're listening. A new online community is providing insight into the needs of Co-op shoppers.



P33

### BUSINESS UNIT REPORTS

- 18 Ag & Consumer
- 20 Co-op Refinery Complex
- 22 Energy
- 24 Human Resources
- 26 Innovation
- 28 Operational Support
- 30 Retail Operations
- 32 Strategy

### BUSINESS UNIT FEATURES

- 19 Bringing local to life
- 21 Refining the local economy
- 23 Driving fuel distribution
- 25 Branding on board
- 27 Open for business
- 29 A new kind of cool
- 31 Co-operative coverage
- 33 Let's Talk Co-op

# FEATURES AT A GLANCE

## Energy

Business Unit Report



P25



FCL is telling the story of its business and its people. Providing a consistent image is helping attract top talent.

## Innovation

Business Unit Report

P22

P26

## Co-operative coverage

The Asset Protection team is developing and implementing leading strategies to help protect retail members.



P31

## Operational Support

Business Unit Report



P28





# CEO'S MESSAGE

At its foundation, FCL is a co-operative. Co-operatives are centred on relationships: with the community, with employees and, most importantly, with members. Our purpose is to create value for our members. We do this through operations that focus on long-term sustainable value. We make forward-looking plans, setting targets annually to position ourselves and achieve our goals. And it's working. Overall, this year has been a success, with record sales of \$10.8 billion. We will be returning \$451 million to our member-owners, a healthy patronage payment that retailers can use to reinvest into their own communities. Our success, however, goes well beyond the story told by the financial statements.

FCL has advanced as an organization as a result of progress on its strategic priorities. It is crucial for co-operatives to have a local presence. This year, we have been able to improve the Co-op brand with initiatives that focus on our local roots and our local impact. These initiatives include Localize ("Grown at Home"), our partnership with Canada Beef ("Raised at Home") and the expansion of our collaboration with Western Canadian CFL franchises (the Game Day Approved Program in support of children's hospital foundations).

In order to deliver programs like these and serve our retail member-owners as efficiently as possible, we have invested significant human and capital resources to improve our information technology infrastructure. To be clear, much work remains to be done in this area, but we have made tremendous strides in providing FCL and our retailers with IT solutions that will make us even more competitive, now and long into the future.

2014 also saw significant work being done in the areas of corporate performance and talent management. We operate in an integrat-

ed, human resource marketplace, and the more we do to fairly enable people to do their jobs, the more successful we will be in attracting the kind of people we need to ensure our long-term growth and success.

These three areas – brand, technology and people – provide a solid base from which FCL can grow. Acquiring retail operations from Viterra in late 2013 and Sobeys in 2014 has helped improve the Co-op presence in a number of local markets. It also supports our retail members in diversifying their product offerings, which contributes to their own sustainable value.

Despite our success in 2014, there have been challenges. Refinery operations have suffered setbacks following the Dec. 24 incident in 2013. We are challenged by the markets and conditions in which we operate. Risks continue to be complex, and competitors offer different challenges in each of the five key business lines in which we operate. This diversity poses a risk, but also holds advantages – success in one area may offset challenges in another.

Looking forward, market conditions such as oil prices and crude supply will undoubtedly affect our business in 2015. Yet there is reason to be optimistic. The plan we have in place, its goals and strategic priorities, will guide us in the operational factors we can control. We will continue to develop our existing relationships and explore new opportunities to work with community and industry partners. In doing so, we will be able to advance and deliver on our value proposition. Most importantly, we will continue to re-invest in our member-owners and our people in order to create real value for communities across Western Canada.

Scott Banda  
Chief Executive Officer





# President's MESSAGE

The role of FCL's Board of Directors is to steward the resources of the organization and report on the state of the Co-operative Retailing System (CRS). As the newly elected President/Chair of the FCL Board of Directors, I have gained a better appreciation for the complexity and breadth of our co-operative and the efforts to work together as a Federation to further the goals of all. Your Board, and indeed the whole organization, takes its responsibility to members very seriously. We work diligently to advance our co-operative and its competitive position, facilitating the sustainable growth of FCL and its members.

FCL experienced another record year for gross revenue, the direct result of a growth strategy across the CRS. Our growth strategy has a direct tie to our nature as a co-operative and our adherence to co-operative principles. It encompasses not only sustainable growth in the products and services that members require, but also growth in our brand, a statement of who we are and what we stand for: locally invested, community-minded and lifetime membership benefits.

Earnings are allocated back to members based on the level of business they conduct. The Board aims to maximize patronage allocations to members for the sustainable growth of the CRS at the community level while maintaining sufficient capital to facilitate the short and long-term requirements of FCL. We can be very proud of our accomplishments as a Federation and the benefits that can be attributed to being a co-operative.

We are committed to the continued improvement of our governance model in order to meet the needs of members and advance the development of FCL and the CRS. In the past year, we've made significant strides to enhance our governance practices and ensure we are incorporating leading governance standards.

A comprehensive review of policies and terms of reference over the past year confirms we are indeed operating with leading practices in mind. A review of the CRS's governance and democratic process also began in 2014. This review is the direct result of a commitment by FCL's Board of Directors to conduct a review every five years.

The Board led the creation of the Director Development Program, a program that builds the capacity of retail board members in fulfilling their responsibilities. The rollout of the program to retail members will begin in 2015. An internal website for retail board members was launched to provide a central point of information and interaction, which will enhance communication. The program, along with the reviews, will remain ongoing to keep FCL and the CRS on the forefront of best governance and ensure our relevance well into the future.

Through Board representation, FCL continues to take a leadership role within the larger co-operative sector. Board members are active on provincial co-operative associations and represent FCL and its interests nationally by participating on the board of Co-operatives and Mutuals Canada, the national co-operative apex organization and on other organizations that we support.

Members' support in the past and into the future is one of the cornerstones of our continued success, along with our alignment in values, vision and purpose. In the year to come, we will continue to build on our strengths and those of our members to advance our vision of setting the world standard in consumer co-operative excellence.

Dusty MacDonald  
President/Chair of the Board



# 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 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 (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), Vic Huard (Executive Vice-President, Strategy), Paul Labbe (Vice-President, Refinery Systems & Strategy), Randy Boyer (Executive Vice-President, Finance), Brad Bauml (Executive Vice-President, Ag & Consumer Business), Cal Fichter (Vice-President, Energy), Scott Banda (Chief Executive Officer), Gerard Muyres (Vice-President, Retail Operations), Eric Lawrenz (Vice-President, Operational Support), Gil Le Dressay (Vice-President, Refinery Operations) and Gary Mearns (Vice-President, Human Resources).

# 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.



# 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. Board members represent the membership, which consists of retail co-operative associations across Western Canada. The retail members are represented through five regions and 15 districts. FCL Directors act honestly and in good faith, maintaining relationships with members but considering the best interests of the Federation as a whole.

In addition to attending nine board meetings during the year, board members serve on one or more of the standing committees: Governance, Human Resources, Social Responsibility and Audit. They also attend planning and training sessions, region fall conferences, June district meetings and meetings of other co-operatives and related organizations across Canada.

The Board works with the Senior Leadership Team to establish the vision and mission of the organization. Together, the two groups set five-year evolving goals and yearly 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 with key performance indicators to measure corporate performance.

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

At the 2014 Annual Meeting, former FCL President/Chair of the Board Glen Tully retired. The role of corporate secretary also transitioned from Vice-President of Corporate Affairs Vic Huard to FCL's General Counsel Sheldon Stener. Immediately following the Annual Meeting, the Board held a reorganization meeting and elected Dusty MacDonald as President/Chair of the Board.

## Board Development

In 2014, the Board continued to focus on director development at both FCL and retail levels. 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. A new FCL Director Development Policy was adopted in 2014 that formalizes the evaluation process for individual directors, committees and the entire board to assess performance at every level and identify educational and developmental opportunities.

## Retail Board Development Initiative

The Board launched the content production phase of the Director Development Program (DDP) in 2014 to provide enhanced development opportunities for retail members' boards of directors. This major initiative will provide a new training program for retail boards and board members that will use leading governance practices, shifting the focus from operations to strategy. The roll-out of the new program – which utilizes a combination of in-person and online training – will begin in 2015, and is scheduled for full implementation in 2016.





From left to right: Don Fluney, Ryan Anderson, Sharon Alford, Rolf Traichel (Vice-Chair of the Board), Laura Sullivan (Region Chair), Doug Potentier, Judy Clavier (Region Chair), Glenn van Dijken, Marilyn McKee (Region Chair), Beryl Bauer, Jocelyn VanKoughnet (Region Chair), John Rudyk, Don Russell (Region Chair), Brad Schultz and Dusty MacDonald (President/Chair of the Board)

## Board Member Attendance

District	Director	Board Meetings <sup>1</sup>	FCL, Retail & Other Meetings (includes travel)	Total Days	Term Expires
1	Judy Clavier	19.0	54.0	73.0	2016
2	Glenn van Dijken	19.0	39.5	58.5	2017
3	Don Fluney	19.0	57.0	76.0	2015
4	Doug Potentier	19.0	62.5	81.5	2017
5	Laura Sullivan	19.0	23.0	42.0	2015
6	Rolf Traichel	18.0	48.5	66.5	2016
7	Marilyn McKee	19.0	46.5	65.5	2016
8	Dusty MacDonald	19.0	190.5	209.5	2015
9	Herb Carlson	6.0	15.5	21.5	
	Brad Schultz <sup>2</sup>	13.0	24.0	37.0	2017
10	Don Russell	19.0	31.0	50.0	2015
11	Beryl Bauer	19.0	35.0	54.0	2016
12	Larry Karakochuk	6.0	22.5	28.5	
	Ryan Anderson <sup>2</sup>	13.0	25.5	38.5	2017
13	Sharon Alford	19.0	54.5	73.5	2016
14	Jocelyn VanKoughnet	19.0	34.0	53.0	2015
15	Glen Tully	6.0	84.0	90.0	
	John Rudyk <sup>2</sup>	13.0	24.25	37.25	2017

<sup>1</sup>Includes business unit reviews, training and planning meetings.

<sup>2</sup>Elected at the 85th annual meeting in March 2014.

## Committees:

- Governance Committee: D. MacDonald (chair), R. Traichel, J. Clavier, L. Sullivan, M. McKee, D. Russell, J. VanKoughnet
- Audit Committee: G. van Dijken (chair), J. Clavier, D. Russell, R. Anderson
- Human Resources Committee: D. Potentier (chair), L. Sullivan, R. Traichel, M. McKee
- Social Responsibility Committee: J. VanKoughnet (chair), D. Fluney, B. Bauer, S. Alford

## FCL Membership Changes

At October 31, 2014, the members of FCL were made up of 222 member retail co-operatives, two affiliate members and eight associate members. Twelve changes occurred during the year:

- Margo Co-op was removed from membership;
- Riverbend Co-op at Outlook and Coteau Co-op amalgamated to form Riverbend Co-op;
- Radisson and Battlefords Co-ops amalgamated to form Battlefords Co-op;
- Dysart and Southey Co-ops amalgamated to form Loon Creek Co-op;
- Hometown Co-op at Broadview and Kipling Co-op amalgamated to form Hometown Co-op;
- New Horizon Co-op at Grande Prairie and Falher Co-op amalgamated to form New Horizon Co-op;
- Palliser Plains Co-op at Tugaske and Craik Co-op amalgamated to form Palliser Plains Co-op;
- Southland Co-op at Assiniboia and Coronach Co-op amalgamated to form Southland Co-op;
- Parkland Co-op at Porcupine Plain and Hudson Bay Co-op amalgamated to form Parkland Co-op;
- Edward Co-op at Pierson and Valleyview Co-op amalgamated to form Valleyview Co-op;
- Beaubier Co-op and Weyburn Co-op amalgamated to form Prairie Sky Co-op; and
- Leslie Co-op was removed from membership because of dissolution.

FCL's operations have grown – so much that a second building was required at Home Office.





CO-OP

CO-OP

Nesca Java

128

CBC Radio-Canada

# Sustainable Growth

50%



Saskatoon warehouse expansion increased footprint 50% to 465,500 square feet



211



new, expanded or upgraded facilities across the CRS in 2013 and 2014

11.4%  
increase in FCL's workforce over five years to build operational capacity

**In recent years, FCL has been establishing the foundations upon which it can build its operational business lines.**

It has focused on developing its brand, moving on technological initiatives and enhancing its talent management process. These foundations will help FCL achieve strategic, sustainable growth over the long-term, with the intent to remain relevant and continue to provide value for its members.

FCL continues to invest in its own facilities – such as the expansion of the Saskatoon warehouse and Section V at the Co-op Refinery Complex – as well as seek opportunities to grow its business in all commodities. There has been financial growth – commodities such as petroleum,

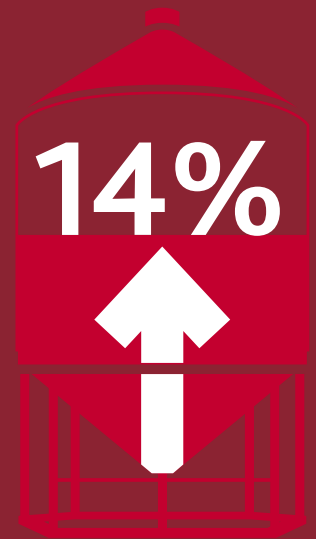
propane and crop supplies had record sales years – but also growth in operational programs and accomplishments. This growth has helped FCL secure its position as the largest company in Saskatchewan and improve its ranking in Financial Post's 500 largest companies in Canada, where it moved to 45th place in 2014.

FCL is seeking growth opportunities, but is also responding to growth across the CRS. FCL's operations have grown to continue providing support to its members – so much so that a second building was required at Home Office to provide additional office space. The CRS has completed 137 new, expansion or upgrade projects – including food stores, home and agro centres and convenience stores – as part of its operations in the last two years. There were also 74 new or rebuilt cardlocks, gas bars and bulk plants completed in the last two years.





**1.22 million**  
 + **260,000** additional food flyers  
 distributed every week



increase in ag centres with  
 crop protection products

## Acquisitions



14 food stores acquired in 2014

*Welcome*

& training for over 1,400 Food  
 Store and 50 Ag Centre CRS employees

**70K+**  
 page views

**14** = **537,715**  
 sq ft of new food  
 store space

of  
[www.myco-op.ca](http://www.myco-op.ca)  
 website.

FCL and the CRS continue to create jobs in their communities. FCL's workforce has grown 11.4 per cent in the past five years. Job growth occurs across FCL, its commodities and its subsidiaries. FCL now employs one of the largest Saskatchewan-headquartered teams involved in the exploration, development and production of crude oil and natural-gas.

### Food Store Acquisition

In 2014, FCL purchased 14 food stores and four gas bars from Sobeys Inc., with ownership and operations being subsequently transferred to eight retail co-operatives and The Grocery People. With this transaction, Co-op re-entered the food market in Edmonton and Winnipeg. This massive project demonstrated the capabilities of the Federation. FCL and local retail co-ops came together – from background research and market analyses to board

approval through to welcoming over 1,400 new grocery professionals to the team. By working collaboratively, Co-op rebranded food stores within 36 hours, on average, with minimal disruption to shoppers.









### Ag Centre Acquisition

Announced in August 2013, the acquisition of 17 fertilizer, seed and agriculture chemical supply centres from Viterra Inc. was finalized in November 2013. Ownership and operations of 15 of the sites were transferred to nine retail co-operatives. The acquired locations exceeded FCL's expectations in terms of financial results in 2014. This achievement was the direct result of welcoming over 50 high-performing Ag Team members.

# Financial Highlights

## 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:

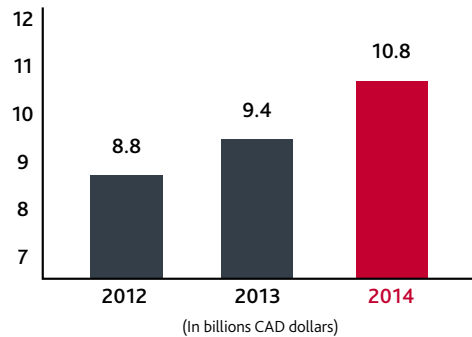
	<b>Commodity</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	Crop Supplies	6.251%	6.234%	<b>5.972%</b>
	Feed	1.994%	1.273%	<b>1.043%</b>
	Grocery	4.655%	4.953%	<b>4.398%</b>
	Meat	3.441%	3.393%	<b>2.984%</b>
	Home and Building Supplies	5.610%	5.585%	<b>5.464%</b>
	Petroleum – Fuels	9.267¢/L	9.480¢/L	<b>6.444¢/L</b>
	Petroleum – Propane	14.074¢/L	12.885¢/L	<b>9.650¢/L</b>
	Petroleum – Oil & Grease	16.097%	22.029%	<b>25.121%</b>

Over the last 10 years, FCL has made patronage allocations to its member-shareholders of \$4.4 billion and share redemptions of \$3.7 billion in cash.

# 2014 Results

# \$10.8B

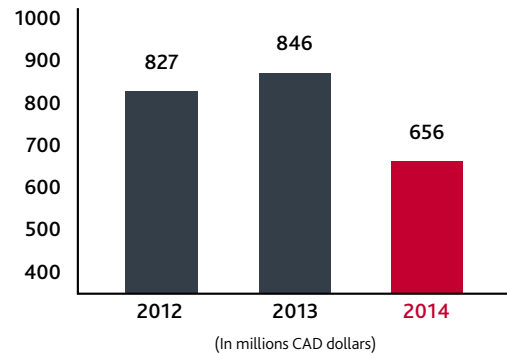
SALES



# \$656M

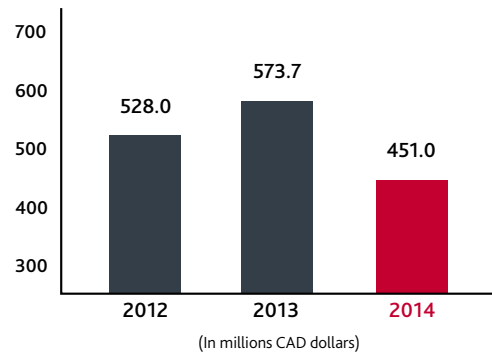
NET INCOME

(before other comprehensive income)



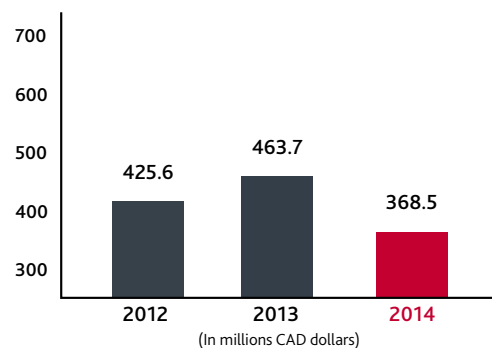
# \$451M

PATRONAGE  
ALLOCATION



# \$369M

SHARE REDEMPTION



# Ag & Consumer

**BUSINESS  
UNIT  
REPORT**



**2,095**



local products scored through Localize at 214 Co-op Food Stores

The Ag and Consumer Business Unit supports the CRS by providing procurement and marketing along with operational and training support in the areas of Food, Home and Building Supplies (HABS), Crop Supplies and Feed. The Business Unit manufactures feed products at six feed mills throughout Western Canada. FCL also serves independent store operators through TGP food operations.

## Growth

Growth was a key pillar for the business unit in 2013-14. Sales for the Ag and Consumer Business Unit rose to over \$2.9 billion in 2014, an increase of 10.9 per cent over 2013. These sales results were achieved partially from new external growth in Crop Supplies from the Viterra transaction (2013) and in Food from the Sobeys acquisition.

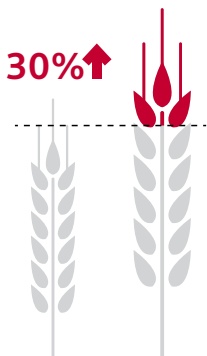
There was also significant growth from within the existing CRS network in Food, HABS and Crop Supplies. The New Contractor Program and additional store modernization projects were critical in driving growth of 6.6 per cent in the HABS Department. Crop Supplies' growth was driven by enhanced marketing programs aimed at growers, FCL and a number of local retailers entering the bulk seed market. Food growth was driven by continued emphasis on local fresh foods and healthy eating, along with making successful inroads into the international and ethnic foods markets.

material, and with improved store-level merchandising of these products.

The Retail Livestock Centre program was a new concept launched by the Feed Department in 2014. The concept focuses on having retailers commit to becoming centres of excellence to serve livestock breeders. Twenty-four co-op retailers are now participating in the program. A key component of the program is retail support of local 4-H clubs.

The launch of Coopfood.ca and the partnership with Top Chef Canada winner Dale MacKay has heightened Co-op's connection with consumers by providing them with cooking, snacking and meal-preparation ideas. The Food and HABS teams also built upon the desire to support local initiatives through the expansion of the Game Day Approved Program to include the Winnipeg Blue Bombers, Calgary Stampeders and Edmonton Eskimos. The connection of the Game Day Approved Program to the CRS-wide support of local children's hospital foundations has resonated well with customers.

The Ag and Consumer Business Unit will continue to focus on growth, innovation and local in order to develop a more personalized relationship with Co-op owners in Western Canada.



**2013 2014**

increase in Crop Supplies sales over 2013

## Innovation

Innovation was also identified as a critical component for future growth and brand development. The HABS team focused on identifying and promoting new, innovative products to consumers through digital email blasts, increased focus and exposure in printed flyer



# Bringing local to life

Co-op is truly local and takes that to heart in its actions. Co-ops are supporting food that is grown, raised and produced at home. The Raised at Home campaign, featuring three Prairie ranchers, was even recognized with a national award in marketing communications. The *Sell to Us* guide released in 2014 helps producers and businesses sell to Co-op, while FCL's partnership with the Prairie Fresh Food Corporation resulted in the sale of over one million pounds of local produce in Co-op stores in Saskatchewan. Co-op shoppers will also have an easier time discovering local products at over 200 food stores in Western Canada through in-store labels and an innovative scoring system powered by Localize. Co-op is truly local, and people are noticing.



# Co-op Refinery Complex

## BUSINESS UNIT REPORT

The Co-op Refinery Complex (CRC) provides quality products and services while operating within its core principles: safety, high reliability through equipment integrity and environmental soundness.

### Operations

There were 32.8 million barrels of crude processed in 2014, a 10 per cent decrease from 2013. The decrease is due to a December 2013 explosion in a unit used to manufacture gasoline from propane and butane, as well as an extended spring turnaround. Production increased in June when the section reopened without the unit, leading the refinery to operate at 90 per cent capacity as of year-end. Work to rebuild the damaged unit is expected to be complete in May 2015. Lower production and higher demand for product in the spring and fall resulted in purchases of gasoline and diesel to meet supply requirements.

The refinery continues to improve its risk management system and enhance performance by building a culture of operational excellence. This approach invests in the skills and capacities of its people by focusing on safety, communications systems and talent management.

As part of the risk management system, CRC continues to implement a comprehensive process safety management system that improves safety, reliability and sustainability and includes essential elements to prevent a major release of materials.

Improving equipment integrity and reliability remains a major focus, with a new turnaround management group focusing and working on this activity year round. A maintenance excellence initiative is underway to improve equipment reliability through better planning and assessing and adding preventative work.

Optimization plans for product blending and meeting environmental regulatory requirements in the future are in the planning phase. Work on infrastructure and optimization planning will continue throughout the next several years to ensure the five sections of the facility are fully used.

Construction on the wastewater improvement project is nearing completion, with commissioning activities underway and full operation targeted for summer 2015. The project will help reduce environmental impact by returning treated water to the system and reducing odours and air emissions.

### Supply and Distribution

With construction complete, the Carseland Terminal in Alberta began commissioning activities in 2014. The terminal is expected to become fully operational in winter 2015 and will be capable of distributing up to one billion litres of fuel per year to retail locations in southern Alberta and the British Columbia interior.

In partnership with CN Rail and Cando Rail Services, construction of a 250-railcar storage yard north of the refinery began in September and will be complete by the spring of 2015. The yard will improve railcar logistics to ensure continual movement of gasoline, diesel and various byproducts from the refinery.



FEATURE

# Refining the local economy



The Co-op Refinery Complex has been a part of the Regina landscape since 1935. Its operating capacity and physical footprint have grown over the years, as have the number of highly skilled jobs it has created. In 2014, the refinery's permanent workforce grew nearly 10 per cent to 981 employees, with many corporate and non-operational staff moving to a new business office.

In addition, there were 154 contractors working on-site throughout the year. This underlines the importance of the refinery to the greater Regina community. The \$2.7 billion Section V expansion and revamp project, opened in 2013, generated \$5 billion in economic activity in Saskatchewan. The refinery also contributes to local causes, including the local United Way campaign, Coats4Kids initiative and Regina Fire Fighters Burn Fund.



barrels of crude processed in 2014



981  
FULL-TIME  
REFINERY EMPLOYEES



# Energy

## BUSINESS UNIT REPORT

### Petroleum

The Petroleum Department supports the CRS with marketing programs and analysis, member and customer service, technical and operations support, and project management related to petroleum sales through its network of gas bars and cardlocks. The department also manages lube oil sales to the CRS and markets petroleum products directly to large commercial accounts.

CRS petroleum sales volume increased by 5.7 per cent year over year. This growth was supported with the construction, rebuild or acquisition of 15 gas bars and 15 cardlocks. Eight new bulk plants were opened in 2014, and an additional 12 are under construction. FCL's bulk plant program aids inventory management, provides superior distribution efficiency and ensures the highest level of service to our customers.

FCL achieved Top Tier certification in 2014 for its Co-op and Tempo-branded gasoline. Top Tier detergent gasoline is a premier-performance standard endorsed by leading worldwide automotive manufacturers, and this certification has been granted to very few manufacturers in North America.

In 2014, the Petroleum Department focused on the expansion of the CRS's diesel exhaust fluid (DEF) program, including development of a DEF offer for high-volume cardlocks, which will be rolled out in 2015.

### Propane

FCL's Propane Department consists of seven regional branch offices and eight sub-branch offices as of Oct. 31, 2014, with support from Home Office safety, marketing, operations and administration personnel. The Edmonton branch, constructed in 2013, completed its first year of operation in 2014, and existing branch offices at Yorkton and Estevan were replaced with new facilities.

Propane sales increased by 19 per cent to 135 million litres in 2014, the result of organic growth aided by strong heating demand because of a colder than normal winter and strong grain drying demand because of a wet fall. The propane delivery fleet was increased by six units to a total of 60, and a fleet supervisor position was added to better manage the fleet and ensure we can maintain a high level of customer service.

The focus in 2015 will be the development of additional facilities to support continued growth in this sector. The Swift Current branch will be relocated and expanded, and FCL expects to open a new sub-branch in northern Alberta.

### Crude Oil

FCL is active in exploration, development and production of crude oil and natural gas assets in Western Canada, which complements its refining and petroleum marketing divisions. FCL's Crude Oil Division has grown into one of the largest Saskatchewan-headquartered producers of crude oil and natural gas.

FCL drilled 34 new wells in 2014, with a success rate of 97 per cent. Production in 2014 averaged 3,934 barrels per day, an increase of 16 per cent from the previous year.

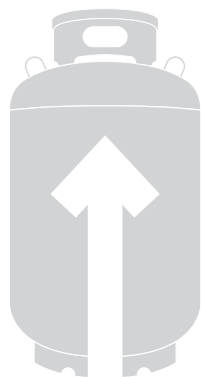
Most of FCL's production is in southern Saskatchewan and consists of high-quality, conventional light and medium-density crude oil streams, some of which is processed at FCL's refinery in Regina and some of which is sold to other refiners.

FCL will continue to develop existing and new properties in southern Saskatchewan in 2015, with a focus on streams that have a strategic fit with the Co-op Refinery Complex.

# Driving fuel distribution

Since 2009, FCL has been working to increase bulk fuel storage capacity across the Co-operative Retailing System. The new corporate bulk plant program involves replacing existing bulk plants with fewer, centralized bulk plants. When complete, storage will increase from 97 million litres to over 200 million litres at approximately 75 locations, down from 141, in Western Canada. In 2014, FCL completed

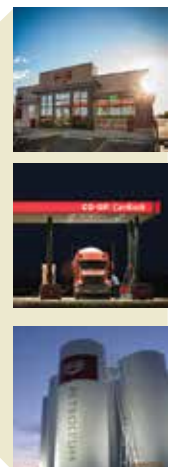
construction of eight new bulk plants and has initiated construction on 12 additional plants, resulting in the program being about 50 per cent complete. Increased storage has already played a major role in managing record sales volumes in fall 2014. New facilities are more efficient, environmentally responsible, safe and secure, and they will help ensure the timely and cost-effective distribution of bulk fuel to Co-op members.



**19%**

increase in propane sales over last year, setting a new record for litres sold

**38**  
new or rebuilt cardlocks, gas bars and bulk plants in 2014.







# Human Resources

## BUSINESS UNIT REPORT

The primary focus of FCL's human resources functions in 2014 was on evolution. The organization took further steps to evolve its talent management programs to provide more comprehensive and competitive offerings to both current and future employees.

The Talent Acquisition group completed a re-branding of various recruitment materials to provide a modern and compelling message to attract employees to the CRS. It also expanded the use of various social media to attract a larger pool of possible candidates for vacancies within FCL. An increased presence at various post-secondary educational institutions has continued to build the image and attractiveness of the organization to students throughout Western Canada. A new relocation program was introduced to ensure that FCL can move talent both into and within its operations.

The Total Rewards function was instrumental in introducing the total rewards concept to ensure FCL has a competitive approach to providing compensation to employees. This highlights the advantages of employment in Co-op by focusing on the four major components of total rewards: cash compensation, benefits, work and life provisions, and professional development.

Learning and Development continued to evolve its offerings to employees through re-branding to ensure that employees understand what it means to live the "You're at home here" motto in their daily work. The eLearning group continued to add new training courses to retail employees. In-house expertise within the eLearning team is now making it possible to develop many courses inside FCL, rather than having to rely on external vendors for course development. Development of retail management employees continued to receive emphasis, as over 400 retail employees successfully completed training programs. This

continues to ensure an ongoing supply of candidates for retail co-op management careers.

Over 1,400 employees joined the CRS as a result of the acquisition of 14 food stores and four gas bars from Sobeys Inc. Advisory teams in both Home Office and the regions were actively involved in the various human resources processes required for their successful integration. This was a significant team effort from both FCL and the various retails involved.

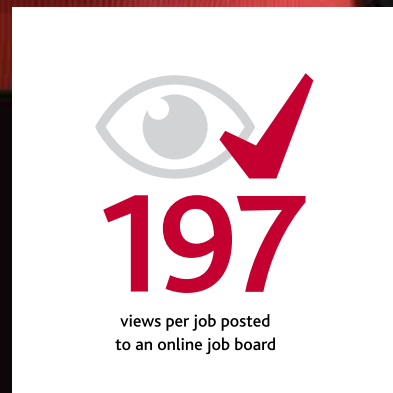
Further evolution of safety programs saw additional FCL locations achieving the Certificate of Recognition (COR) certification in 2014. Safety awareness and training will continue to be a focus for the organization.

The Labour Relations function provided negotiating assistance to approximately 26 retail co-ops. New collective agreements were successfully negotiated at 10 retails, with a number of locations still in various stages of bargaining.



# Branding on board

In 2014, FCL re-branded all recruiting materials with a clean, professional image aligned with the Co-op brand. Despite differences in audiences, industries and career opportunities, Co-op is now presenting a consistent image in materials such as brochures and displays. Human Resources ensures the Co-op brand is in language and practice as much as it is in image. It welcomes prospective employees to join our team and work to build strong relationships with post-secondary institutions, providing practical training to co-op students who may choose to become future employees. By branding an online job board, Human Resources increased the number of views of Co-op positions by 450 per cent, with an average of 197 views per job. This is important as Co-op works to attract top talent for its growing team.





# Innovation

## BUSINESS UNIT REPORT

On June 1, 2014, the Innovation Business Unit was formed by merging the Information Technology and Growth and Business Development teams (G&BD). The mandate of the unit is to evaluate, implement and support growth and technology-related initiatives across the Federation to further align and support FCL's transformational vision.

### PMO 2.0

The Project Management Office (PMO) was established in 2011 when the IT project portfolio had nine projects, including one that was over \$1 million. In 2014, the portfolio expanded to include 15 large, multi-year, multi-million dollar projects. To manage the increased complexity of these enterprise-class projects, IT revised its existing process and developed a practical, flexible and scalable framework: PMO 2.0. This was achieved through the collaboration of certified project managers, business analysts and other dedicated IT team members.

An innovative and easy-to-use SharePoint portal houses the framework, as well as a new central repository that provides stakeholders easy access to all project documentation. This portal uses wikis for coaching and collaboration. It is fully extendable and can be easily updated as PMO 2.0 is refined further to meet future needs.

### Portfolio Merchandise Management System (PMM)

This three-phase, multi-year transformation, also known as the Retail Merchandising System (RMS) project, began in late 2012. The first phase was successfully delivered in early 2014. Phase one focused on replacing existing systems for procuring product into warehouses and placing it directly into stores from vendors. The second phase is currently being designed to replace the remaining core RMS

functions, as well as provide related functionality for order and transportation management. This change will lead the way for the third phase of the project, which is to deliver inventory visibility – knowing what is in a store at any given time. This new visibility will greatly improve planning capabilities throughout the supply chain of the CRS.

### Infrastructure & Operations

A reliable, scalable, secure and flexible IT infrastructure is a vital part of any successful business. In order to support FCL's transformational mandate, IT successfully implemented the Active Directory and Outlook Exchange projects in 2014, retiring the legacy Lotus Note email system at FCL. The implementation at TGP and CRC will be completed in 2015.

Behind the scenes, the Infrastructure team virtualized over 96 per cent of all servers in FCL. Virtualization allows us to share our hardware resources with many operating systems, while maintaining data segregation.

To enhance end users' computing security, the Operations team implemented enhanced antivirus, next-generation firewall, malware detection solution and encryption software. Without impacting users' computing performance, the Operations team implemented daily and weekly memory and rootkit scans, and enabled policy to protect FCL against the CryptoLocker virus.

# Open for business

Valentine's Day was a historic day for FCL in 2014. FCL announced the acquisition of 14 food stores and four gas bars from Sobeys Inc. The purchase was a two-step transaction: first acquiring the sites and then transferring ownership and operations to 12 local co-ops, with two locations transferred to The Grocery People (TGP). The Growth and Business Development team rallied departments from across the organization to help in the transition.

The CRS welcomed a fantastic group of grocery, convenience store and pharmacy professionals to the Co-op family. Since then, Growth and Business Development has been leading a number of strategic initiatives, including the development of a heat-mapping program to identify growth opportunities geographically for the CRS. G&BD also created a qualification process to assist senior leadership in prioritizing growth-related projects.



**6.2M**



emails were sent and received in 2014. That is 17,000 emails or 5TB of email data each day!

**6M+**



spam and virus emails were blocked





# Operational Support

## BUSINESS UNIT REPORT

The Operational Support Business Unit encompasses three departments: Petroleum Facilities, Retail Facilities and Logistics.

### Petroleum Facilities Department

The Petroleum Facilities Department is involved in the design and construction of petroleum facilities as well as supplying and servicing delivery trucks.

The department is tasked with monitoring innovative fuel-marketing technology and ensuring new equipment is suitable for western Canadian conditions. After thorough evaluation, FCL selected a system to dispense diesel exhaust fluid (DEF) at large cardlock facilities and installed the system at four retail locations began prior to year-end.

The department worked on 288 automotive construction projects (gas bars, cardlocks, convenience stores and car washes) and 65 bulk plant construction projects during the year. Through a coordinated national truck purchasing program, retail co-ops purchased 60 new petroleum delivery units (19 tandem axles, 26 tridem axles, four semi-trailers, and 11 pup trailers). Fifteen lumber trucks, equipped with rear-mounted forklifts or truck-mounted cranes, were supplied to co-ops through the preferred truck supplier program.

### Retail Facilities Department

The Retail Facilities Department provides co-ops with planning and development support for new construction and renovation of non-petroleum facilities, as well as guidance on real estate matters. Retail Facilities continues to focus on improving the efficiency of delivering retail projects. Six new standard home centre plans were developed and added to the department's existing portfolio of food store standard plans. In addition to decreasing the time it takes to design and construct a facility, standardized plans ensure a consistent customer experience, manage costs and provide a platform for continual improvement.

The department coordinates a program with a third-party vendor to review, negotiate and appeal property tax assessments on behalf of co-ops. The goal of the program is to ensure fair and accurate property values are recorded onto tax rolls for all co-ops that choose to participate. Since the program's inception in 2012, over \$1.5 million in property tax savings have been achieved. Savings attributed to the program are expected to increase as additional retails request the service.

### Logistics

The Logistics Department is responsible for the safe and efficient flow of goods from suppliers to FCL's five distribution centres and then to retail co-op stores.

The highway-trucking fleet consists of 238 merchandise trailers and 215 petroleum tankers pulled by 39 company drivers and 300 lease operators. The merchandise fleet travelled 17.5 million kilometres and delivered 549,306 tons of merchandise in 2014. The petroleum fleet travelled 49.8 million kilometres and delivered 3.3 billion litres of fuel in 2014.

The warehouse operations and industrial engineering team expanded the implementation of engineered Labour Management Standards (LMS) to food-distribution centres in Saskatoon, Winnipeg and Edmonton. Very positive results in warehouse productivity have been achieved. The final step will be to introduce LMS to the Home and Building Supplies warehouse in Calgary during 2015.

To accommodate continued CRS sales growth, 46,180 square feet of food-warehouse space was leased in Winnipeg, and a third-party logistics vendor was contracted to provide warehousing services for crop protection products in four warehouses located in Edmonton, Saskatoon, Regina and Winnipeg.

# A new kind of cool

FCL continues to invest in energy-saving technology at its warehouses as part of efforts to reduce costs and support environmental initiatives. Ammonia refrigeration installed at the Saskatoon warehouse does not deplete ozone or contribute to greenhouse gas (GHG) emissions, requiring less electricity and maintenance. As a result of this change,

FCL will reduce annual GHG emissions from the warehouse by 760 tonnes of carbon dioxide equivalent, or about 10 per cent of the facility's annual emissions. FCL had previously introduced large, 12-foot-blade fans to improve employee comfort and reduce energy use. High-performance fluorescent bulbs and motion sensors ensure lighting is only used as needed.

**3.3B** 

litres of fuel transported 49.8 million kilometres by petroleum fleet

**17.5 million km** 

distance travelled by merchandise fleet  
hauling 549,306 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 Co-op brand expectations. The business unit provides marketing, merchandising, financial, human resources and operational services to retail co-operatives from region offices in Edmonton, Calgary, Regina, Saskatoon and Winnipeg.

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

In addition to five region offices, the business unit is comprised of the following departments in Home Office: Retail Accounting, Asset Protection and Retail Information Systems. Together, more than 230 employees work closely with retail co-ops to ensure these co-ops remain successful. The close working relationship between retail co-ops and the business unit ensures the relationship between wholesale and retail remains strong and is one of the key benefits of the Federation.

During the past year, the Retail Accounting and Retail Information Systems departments changed their charge-out models from a profit centre to cost-recovery model. Retail Accounting provides accounting services to 116 retails, and Retail Information Systems supports all retails in the development and operation of centrally developed information systems. This change in the charge-out model will result in retail co-ops' fees for service being reduced by over \$11 million per year.

In the past year, FCL assisted retails in the acquisition of 14 sites from Sobeys Inc. This resulted in retails entering five new communities where Co-op had had no food presence, as well as tapping into geographical voids in other communities where Co-op did operate. The purchase of 14 food stores along with four gas bars further strengthens the Co-op brand presence across Western Canada.

As retail co-ops continue to grow, it is ever more important that they have well-trained employees and leaders willing and able to execute Co-op customers' brand expectations concerning customer service. Having top-quality, well-trained people to manage retail co-ops has always been one of the key components of success. If we view 2012-2013 as foundational years, retail co-ops – guided by region teams – have developed even stronger, more robust action plans to identify talent and provide leadership for more personalized training plans for identified employees. The continued effort of regions and retail co-ops working together has led to the development of retail resourcing plans that place the CRS in a better position to meet future demand for talent. These increased efforts will help ensure there will be capable people ready to lead co-ops into the future.



# Co-operative coverage

Formerly known as Loss Prevention, FCL's Asset Protection team has been working to develop and implement industry-leading strategies at operations across the Co-operative Retailing System in Western Canada. The Asset Protection team provides direction on key areas of responsibility, including design and support of building security systems, training and awareness programs, internal and external crime investigations, fraud prevention, emergency and incident response guidelines, and internal controls and compliance to protect people, property and brand. A priority for the department is the training and development of retail asset-protection leaders who will assist retail co-ops in preparing and supporting their internal asset-protection programs and standardize CRS asset-protection practices.

**700** 

over 700 security projects were completed at Co-op facilities in the last four years



**18,000+**

times retails contacted the Asset Protection team in 2014





# Strategy

## BUSINESS UNIT REPORT

The Strategy Business Unit is responsible for marketing and communications (including brand strategy), sustainability (including social responsibility strategy), research and development, government relations, legal affairs and organizational effectiveness.

The Strategy Business Unit was created in June, effectively repositioning and enhancing responsibilities formerly undertaken by Corporate Affairs. It is responsible for ensuring that key strategic initiatives, including change management and customer relationship management, are on track. The unit focuses on processes to support decision making and the successful execution of FCL's strategic direction.

A part of that strategic positioning is FCL's relationship with stakeholders such as government and industry groups. Government Relations is proactive, working with these groups on issues like greenhouse gas emissions. Like other departments in Strategy, Government Relations uses research to guide business decisions and inform stakeholders about the Co-op story.

The Co-op story is about a relationship with members, who are also owners. Programs such as Grown at Home and Raised at Home demonstrate Co-op's support of local investment, community-mindedness and lifetime membership benefits. The Marketing and Communications Department is increasingly using digital strategies to tell these stories through dynamic video and website content. These initiatives ensure local retail co-ops can retain their local profiles by customizing email communications and online apps to reflect customers' specific locations and interests.

The historic relationship between FCL and its retail member-owners is an integral aspect of the Co-op story. FCL serves retail co-operatives, which in turn serve their individual co-op members. The Research and Development Unit completes a variety of research projects, including local market analyses and system-wide commodity scorecards, that enable FCL to better serve its retail members. Much research is also focused on individual co-op members. Let's Talk Co-op, an online survey panel of

Co-op customers and members, was launched this year to engage Co-op members and customers. Altogether, research allows FCL and retail co-op managers to make decisions that meet expectations and improve the products and services that matter to members.

One key expectation is that FCL and retail co-ops are responsible stewards in their communities. The Sustainability Department supports using resources responsibly, thus improving environmental performance across FCL's operations. The department continues to build upon its network of research and consulting partners to advance contaminated-site remediation technologies, while at the same time seeking ways to make this remediation more cost-effective for the entire system. Sustainability also works collaboratively with other departments to create positive environmental impacts in communities.

A critical aspect of the brand strategy is to continue to build the social-responsibility profile of FCL and Co-op. An enhanced Social Responsibility Report was published in September, highlighting a range of initiatives intended to support the Co-op brand. In addition to environmental and co-op development initiatives, FCL supports causes that matter to communities across the CRS. By working together to support organizations such as the Canadian Red Cross, Canadian Breast Cancer Foundation and five children's hospital foundations, the CRS is playing a significant role in bettering the lives of western Canadians.

In summary, the Strategy Business Unit is focused on supporting projects that enhance retail co-operatives' competitiveness, facilitate investment and growth opportunities, distinguish Co-op as a heritage brand and position FCL as an employer of choice.

FEATURE

31



consumer-focused surveys with a total of more than 13,000 completed by western Canadian consumers

7.28M



emails distributed to consumers in 2014

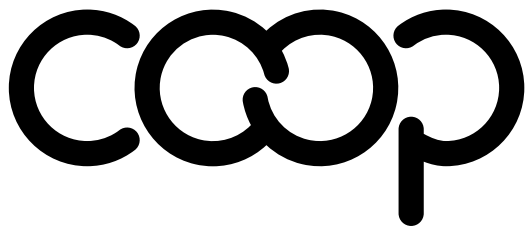


donated to charitable and non-profit organizations across Western Canada

# Let's Talk Co-op

Understanding consumer needs, behaviours and expectations in an increasingly competitive environment is critical to improving the overall customer experience, enhancing customer satisfaction and building customer loyalty. In 2014, FCL's Research and Development Unit introduced a new online community called Let's Talk Co-op to gain insight into the needs and wants of Co-op shoppers. At fiscal year-end, 1,439 western Canadian consumers were able to share ideas and opinions on products, services and other new and exciting Co-op initiatives through participation in survey research. The panel is made up of both rural and urban residents, with the majority being Co-op members.





# International Co-operative Alliance

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## Statement on the Co-operative Identity

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### 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.

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### Principles

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

#### 1. Voluntary and Open Membership

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

#### 2. Democratic Member Control

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

#### 3. Member Economic Participation

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

#### 4. Autonomy and Independence

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

#### 5. Education, Training and Information

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

#### 6. Co-operation Among Co-operatives

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

#### 7. Concern for Community

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

Manchester, United Kingdom, September 23, 1995



# Code of Ethical Standards for Co-operatives

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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:

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## Ethical Standards

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

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## Application of the Code

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

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

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

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