



**Co-operative Enterprises
Build a Better World**

FEDERATED
CO-OPERATIVES
LIMITED
2011 ANNUAL
REPORT



PROFILE OF:

FEDERATED CO-OPERATIVES LIMITED 2011 ANNUAL REPORT

Report to the 83rd Annual Meeting of
Federated Co-operatives Limited
February 27 - 28, 2012
TCU Place, Saskatoon, Saskatchewan

Federated Co-operatives Limited (FCL) provides central wholesaling, manufacturing and administrative services to its owners... 246 locally-owned retail co-operatives which operate in more than 500 communities across Western Canada. FCL's member retail co-operatives are owned by more than 1,500,000 active co-op members. Together, FCL and its member retail co-operatives are known as the Co-operative Retailing System (CRS). FCL operates in accordance with its Vision and Mission, Aspirational Statements, the Statement on the Co-operative Identity, the Code of Ethical Standards for Co-operatives, and FCL's Values which are all included within this annual report.

**Home Office:**

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

Regional Offices:

Edmonton - Calgary - Regina - Saskatoon - Winnipeg

Distribution Centres:

Edmonton - Calgary - Saskatoon - Winnipeg

Feed Production Plants:

Edmonton - Calgary - Moosomin - Melfort -
Saskatoon - Brandon

Forest Products Plants:

Canoe, British Columbia

Co-op Refinery Complex:

Regina, Saskatchewan

Wholly-Owned Subsidiaries:

Consumers' Co-operative Refineries Limited, Regina
The Grocery People Ltd., Edmonton

Associated with:

Interprovincial Cooperative Limited

Trade-marks:

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BOARD OF DIRECTORS' Report

2011 was a very busy year for FCL as a number of new processes were developed to set the stage for future growth.

The foundation for many of these changes was set at the annual Board – Senior Leadership Team planning session in January 2011. This meeting was historic as it resulted in FCL's first-ever Vision Statement, attendant Aspirational Statements and a renewed Mission Statement.

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

This bold Vision, designed to guide the organization for the next ten years, is supported by nine Aspirational Statements which provide checkpoints that detail what is meant by "world standard"; these checkpoints will be used to gauge whether the Vision is being achieved:

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

The Mission Statement provides guidance in the development of strategic approaches to all aspects of FCL's business. The renewed Mission states: "To provide responsible, innovative leadership and support to the Co-operative Retailing System, for the benefit of members, employees and Canadian communities."

The Board and Senior Leadership Team then created a balanced scorecard that categorized the corporate goals into five key areas:

- Proud and productive people.
- Market performance, growth and innovation.
- Efficient, effective and safe operations.
- Prudent financial management.
- Social responsibility.

Based on these discussions a new organizational planning process was developed, a process which will frame FCL's new business plans into the future. The business plans will incorporate enterprise risk management considerations and will inform the development of department and corporate goals, then budgets, and finally the performance assessment of the organization and employees.

FCL's values of Integrity, Excellence and Responsibility are also integral to all considerations that inform the new organizational planning process.

Patronage Refunds / \$540.6 million was allocated to members as patronage refunds on their 2011 purchases from FCL. The 2011 patronage refund rates, with comparisons to 2010, were:

Commodity	2011	2010
Crop Supplies	6.418%	6.489%
Feed	0.000%	0.652%
Grocery	4.706%	4.696%
Meat	3.596%	3.185%
General Merchandise	5.082%	5.105%
Petroleum – Fuels	10.158¢/L	6.406¢/L
– Propane	10.808¢/L	9.734¢/L
– Oil & Grease	20.796%	18.621%

In 2011, the Board authorized the redemption in cash of members' shares totalling \$437.3 million.

BOARD OF DIRECTORS' Report



1 - Judy Clavier
Region Chair



2 - Glenn van Dijken



3 - Don Fluney



4 - Doug Potentier
Region Chair



5 - Randy Kott



6 - Rolf Traichel



7 - Marilyn McKee
Region Chair



8 - Dusty MacDonald



9 - Herb Carlson



10 - Don Russell
Region Chair



11 - Beryl Bauer
Vice-Chair of the Board



12 - Larry Karakochuk



13 - Ken Jenner



14 - Barry Gosnell
Region Chair



15 - Glen Tully
President of the Board

HONORARY Presidents



Vern Leland



Ed Klassen



Dennis Banda

Board of Directors / The Board met nine times in 2011. In addition to their regular and in-camera meetings, Board members increased their knowledge of FCL and its operations by participating in 13 division reviews. These reviews provide an opportunity for discussion between the Board and management employees within FCL. The Directors within each of the five regions also met with their Region Manager, various region management employees and the Executive Management Committee representative four times last year. The Board's four standing committees (identified on page 4) met throughout the year.

Board members also visited retail co-operatives and participated in membership meetings (such as fall conferences, June district meetings and the annual meeting).

The Board continued to upgrade specific competencies through special training opportunities held during the year. Sessions were held on Balanced Scorecard, Governance – Challenges & Opportunities, Enterprise Risk Management Oversight and Social Responsibility – Governance Responsibilities.

At the 2011 annual meeting, Board members and delegates bid farewell to Johanna Bates, who had served on the Board since June 2009. At the same meeting, Glenn van Dijken, Randy Kott and Larry Karakochuk were elected Directors.



District	Director	Meeting Days	Term Expires
1	Judy Clavier, Sunset Prairie, BC	17	2013
2	Glenn van Dijken, Dapp, AB	11*	2014
3	Don Fluney, Dewberry, AB	17	2012
4	Doug Potentier, Victoria, BC	17	2014
5	Randy Kott, Calgary, AB	11*	2012
6	Rolf Traichel, Medicine Hat, AB	17	2013
7	Marilyn McKee, Mossbank, SK	17	2013
8	Dusty MacDonald, Carlyle, SK	17	2012
9	Herb Carlson, Buchanan, SK	17	2014
10	Don Russell, Rosetown, SK	17	2012
11	Beryl Bauer, Lake Lenore, SK	17	2013
12	Larry Karakochuk, Wynyard, SK	11*	2014
13	Ken Jenner, Minnedosa, MB	17	2013
14	Barry Gosnell, Carman, MB	17	2012
15	Glen Tully, Saskatoon, SK	17	2014

* Elected at the 82nd annual meeting.

Board Committees

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

G. Tully (chair), B. Bauer, J. Clavier, D. Potentier, M. McKee, D. Russell, B. Gosnell

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

D. MacDonald (chair), G. van Dijken, R. Kott, D. Russell, K. Jenner

Human Resources Committee – Broad responsibilities that reinforce "Excellence Through People". Primarily focused on three areas: human resources strategies; competitive compensation programs that attract, retain and motivate management to enhance and sustain member value; and, leadership in analyzing the learning and development needs of the Board and elected officials in the CRS.

D. Potentier (chair), M. McKee, H. Carlson, B. Bauer
G. Mearns, Vice-President Human Resources

Member Relations Committee – Reviews events and activities that involve the FCL membership. Considers issues related to the profile of the CRS in the broader community. Reviews requests for grants and donations on behalf of the Board.

R. Traichel (chair), J. Clavier, D. Fluney, L. Karakochuk, B. Gosnell

V. Huard, Vice-President Corporate Affairs

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

Board Representative to Central Learning & Development Committee

M. McKee

Board Representatives on Region Learning & Development Committees

Edmonton	G. van Dijken
Calgary	R. Kott
Regina	D. MacDonald
Saskatoon	L. Karakochuk
Winnipeg	B. Gosnell

Member and Public Relations

Democratic Process / Member communication and participation are extremely important for good governance.

The FCL Board of Directors strives to ensure that the democratic process, member relations and communications programs maintain an effective link with member retail co-operatives and their members. FCL is looking at ways to make communication more effective by being aware of, and utilizing, a wide range of technologies. One initiative, the retail intranet system or CRS Employee Portal, was launched for retail employees during 2011; the next stage of its development is a portal for retail elected officials. Once fully implemented, it will be a very effective tool for communication, information sharing and collaborative projects. The goal is to continually enhance the communication services available within the Co-operative Retailing System and to make tools available to improve business processes.

Forums such as the annual meeting, June district meetings and fall conferences are ideal for reviewing activities, discussing opportunities and solutions, and putting ideas forward. Throughout the year, Board members utilized these meetings as opportunities to engage the democratic body in a number of different discussions on topics such as a review of the resolutions process and agenda items for fall conferences.

The Board also identified General Manager succession planning as a key strategic issue for the CRS. As such, discussion groups on the topic were designed for the 2011 fall conferences, and the results of the discussions were compiled for discussion at the pre-annual meeting training in 2012.

Resolutions are a part of the democratic decision making process and a means of communication between retail co-operatives and FCL. Resolutions intended for debate at annual meetings are first considered by fall conferences. Approved resolutions are then reviewed by the Resolutions Committee during its January meeting and sent to retail co-ops and their delegates in late January. This ensures that retail co-operative boards of directors have the opportunity to discuss the resolutions and give guidance to their delegates prior to the consideration of motions at the annual meeting. A report on approved resolutions is provided at fall conferences and a final report is prepared for the next year's annual meeting.

In addition to these formal opportunities, our System utilizes a number of other communication vehicles. *The President's Newsletter* is issued to directors of member retail co-operatives and contains information on FCL operations and Board activities, as well as highlights from various retail co-operative operations and activities. The annual report offers a comprehensive review of the results of the past year, while FCL's website is also a source for information.

Co-operative Education / FCL has always been involved in the development of youth leaders. Examples of this involvement are the youth camp programs which FCL sponsors through provincial co-operative associations every summer and donations made to provincial 4-H associations in the four western provinces. FCL also contributes time and sponsorship funds to the annual Canadian Western Agribition, which helps to educate school children about the role of agriculture and co-operative business in the economy.

At the post-secondary level, FCL assists in the advancement of co-operative theory and practice through financial contributions to the Centre for the Study of Co-operatives at the University of Saskatchewan and the Centre for Co-operative and Community-Based Economy at the University of Victoria. Through Board representation, FCL also supports the activities of the Co-operative Chair in Agricultural Marketing and Business at the University of Alberta and the Agribusiness Chair in Co-operatives and Group Marketing at the University of Manitoba.

In addition, FCL also provides a comprehensive program of retail director learning and development. These “in-house” programs help develop leaders not only for retail co-op boards but also for the community, where many co-operators take on leadership positions in various community-based organizations.

FCL also hosts, in alternate years and where numbers warrant, a New Directors’ Orientation Program where newly elected directors gather to learn more about their role and responsibilities, region services, FCL and the history of the CRS. This orientation program was hosted by the Saskatoon Region in 2011.

FCL Membership Changes

At October 31, 2011, the members of FCL were made up of 246 member retail co-operatives, 2 affiliate members and 10 associate members. Sixteen changes occurred during the year:

- Lang and Riceton Co-ops amalgamated to form Cross-Country Co-op;
- Prairie North and Spalding Co-ops amalgamated to form Prairie North Co-op;
- Pioneer and Southwest Co-ops amalgamated to form Pioneer Co-op;
- Boissevain and Deloraine Co-ops amalgamated to form Boundary Co-op;
- Delta and Wilkie Co-ops amalgamated to form Delta Co-op;
- Central Plains and Landis Co-ops amalgamated to form Central Plains Co-op;

- Central 1 Credit Union, Kootenay Columbia Co-operative Society, Lilydale Inc., Prairie Bible Institute, Saskatchewan Abilities Council, SaskCentral, Viterra Inc., Westco – a division of Viterra Inc. and Willow Park Housing Co-op Ltd. were removed from membership; and
- Vancouver Island Central Services Co-operative Association (VICSCA) was reclassified from “Member Retail Co-operative” to “Associate Member”.

The Co-operative Sector

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

FCL participates in the larger co-operative sector through its membership in the Ottawa-based Canadian Co-operative Association (CCA) and through CCA’s membership in the International Co-operative Alliance (ICA). CCA represents the interests of co-operatives at home and abroad on matters of economic and social policy, and international development. Vice-Chair of the Board Beryl Bauer represents FCL on CCA’s board of directors. Board members also represent FCL on provincial co-operative associations in the four western provinces. The provincial bodies co-ordinate youth programs, educational activities and provincial government relations.

The United Nations proclaimed 2012 as the “International Year of Co-operatives”. CCA and its members worked with the federal government on plans to celebrate this proclamation.

Merit/Distinguished Co-operator Awards /

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

Alberta:

Bert Paulssen, Bentley
 Gary Turner, Dunmore
 Forty Mile Gas Co-op Ltd., Dunmore

Manitoba:

Marcel Daeninck, Winnipeg
 Wayne McLeod, Brandon
 Assiniboine Credit Union, Winnipeg

Saskatchewan:

Roger Herman, Saskatoon
 Bob Kirkland, Star City
 Patrick Lapointe, Saskatoon
 Lisa McEachern, Murray Lake

FCL'S VISION, ASPIRATIONAL STATEMENTS AND MISSION

Vision

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

Aspirational Statements

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

Mission

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



Scott Banda
Chief Executive Officer



Randy Boyer
Vice-President
Treasurer



Vic Huard
Vice-President
Corporate Affairs

INDEPENDENT AUDITORS' Report

To the Members of Federated Co-operatives Limited:

We have audited the accompanying consolidated financial statements of Federated Co-operatives Limited and its subsidiaries, which comprise the consolidated balance sheet as at October 31, 2011, and the consolidated statements of savings and retained savings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Federated Co-operatives Limited and its subsidiaries as at October 31, 2011 and the results of their operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Saskatoon, Saskatchewan
December 19, 2011

MNP LLP
Chartered Accountants

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited,
Year Ended October 31, 2011
Consolidated Statement of
Savings and Retained Savings

	2011	2010
Sales	\$ 8,266,661,000	\$ 7,109,559,000
Cost of products sold	7,098,146,000	6,343,655,000
	<u>1,168,515,000</u>	<u>765,904,000</u>
Expenses		
Operating and administration	254,805,000	242,367,000
Interest revenue	(1,648,000)	(6,395,000)
Income taxes - current (Note 5)	25,207,000	40,704,000
Income taxes - future (Note 5)	75,239,000	5,328,000
	<u>353,603,000</u>	<u>282,004,000</u>
	814,912,000	483,900,000
Other income	24,443,000	14,077,000
Net savings before patronage allocation	839,355,000	497,977,000
Patronage allocation	(537,428,000)	(351,631,000)
Net savings after patronage allocation	301,927,000	146,346,000
Retained savings, beginning of year	1,760,338,000	1,613,992,000
Retained savings, end of year	<u>\$ 2,062,265,000</u>	<u>\$ 1,760,338,000</u>

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, Year Ended October 31, 2011 Consolidated Statement of Cash Flows

	2011	2010
Operating activities		
Net savings before patronage allocation.....	\$ 839,355,000	\$ 497,977,000
Adjustments for:		
Depreciation and depletion.....	132,204,000	131,173,000
Gain on disposal of property, plant and equipment.....	(13,571,000)	(1,963,000)
Future income taxes	75,239,000	5,328,000
Changes in non-cash operating working capital:		
Accounts receivable.....	(68,734,000)	(96,207,000)
Inventories.....	(94,867,000)	(24,299,000)
Other current assets	(17,802,000)	(7,679,000)
Accounts payable	315,263,000	80,376,000
Cash provided by operating activities	1,167,087,000	584,706,000
Investing activities		
Investments and advances.....	5,402,000	1,012,000
Additions to property, plant and equipment	(993,011,000)	(758,407,000)
Proceeds from sale of property, plant and equipment	17,761,000	7,157,000
Cash used in investing activities	(969,848,000)	(750,238,000)
Financing activities		
Redemption of share capital.....	(434,726,000)	(283,203,000)
Cash used in financing activities.....	(434,726,000)	(283,203,000)
Net decrease in cash and cash equivalents	(237,487,000)	(448,735,000)
Cash and cash equivalents, beginning of year.....	605,740,000	1,054,475,000
Cash and cash equivalents, end of year	\$ 368,253,000	\$ 605,740,000

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited,
as at October 31, 2011
Consolidated Balance Sheet

	2011	2010
Current assets		
Cash and cash equivalents (Note 2)	\$ 368,253,000	\$ 605,740,000
Members' funds on deposit (Note 2)	214,289,000	208,981,000
Members accounts receivable	465,174,000	458,776,000
Non-members accounts receivable	228,022,000	165,686,000
Inventories (Note 2)	649,714,000	547,514,000
Prepaid expenses	2,265,000	2,260,000
Income taxes receivable	25,281,000	7,484,000
Future income taxes (Note 5)	96,080,000	49,508,000
Current portion of investments and advances (Note 6)	31,342,000	24,756,000
	2,080,420,000	2,070,705,000
Investments and advances (Note 6)	57,161,000	69,149,000
Future income taxes (Note 5)	22,172,000	19,113,000
Property, plant and equipment , at cost, less accumulated depreciation (Note 2)	2,761,617,000	1,912,333,000
	\$ 4,921,370,000	\$ 4,071,300,000
Current liabilities		
Accounts payable	\$ 946,122,000	\$ 777,850,000
Share capital redemption	412,552,000	265,561,000
Members' funds	214,289,000	208,981,000
Future income taxes (Note 5)	116,016,000	51,514,000
	1,688,979,000	1,303,906,000
Future income taxes (Note 5)	200,440,000	140,072,000
Members' equity		
Share capital (Note 7) Membership shares of \$100 par value each	969,686,000	866,984,000
Retained savings	2,062,265,000	1,760,338,000
	3,031,951,000	2,627,322,000
	\$ 4,921,370,000	\$ 4,071,300,000

On Behalf of the Board



Director



Director

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

1. Description of Business

The Co-operative is incorporated under the *Canada Cooperatives Act*. The Co-operative provides central wholesaling, manufacturing and administrative services to 246 locally owned retail co-operatives across Western Canada.

2. Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Co-operative, its subsidiaries and its joint ventures to the extent of the Co-operative's interest in their respective assets, liabilities, revenues and expenses. All significant inter-company transactions and balances have been eliminated.

(b) Cash and cash equivalents and members' funds on deposit

Cash and cash equivalents and members' funds on deposit are comprised of cash, bank balances, less outstanding cheques, and short-term investments. Short-term investments of \$499,333,000 (2010 - \$746,941,000) are classified as held-to-maturity and are recorded at cost.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out and weighted average method. Inventories consist of the following:

	2011	2010
Manufactured products.....	\$ 408,871,000	\$ 312,552,000
Goods purchased for resale.....	192,628,000	186,751,000
Parts and supplies.....	48,215,000	48,211,000
	<u>\$ 649,714,000</u>	<u>\$ 547,514,000</u>

(d) Income taxes

The Co-operative follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depreciation is recorded on a straight line basis over the estimated useful life of the asset or on a diminishing balance basis using various rates.

The major categories of the Co-operative's property, plant and equipment are:

Category	Cost	Accumulated Depreciation	Net Book Value	
			2011	2010
Wholesaling	\$ 546,358,000	\$ 380,993,000	\$ 165,365,000	\$ 142,819,000
Manufacturing.....	1,948,473,000	1,372,354,000	576,119,000	672,963,000
Assets under construction.....	2,020,133,000	-	2,020,133,000	1,096,551,000
	<u>\$ 4,514,964,000</u>	<u>\$ 1,753,347,000</u>	<u>\$ 2,761,617,000</u>	<u>\$ 1,912,333,000</u>

(f) Impairment of long-lived assets

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. No such impairment loss was recorded in 2011.

(g) Employee benefit plans

The costs of the Co-operative's defined benefit plan are determined periodically by independent actuaries. The costs charged to earnings for the year include the costs for benefits provided for services rendered during the year, using the projected benefit method pro-rated on services and amortization of the cost of benefits for past service and actuarial gains or losses. Amortization is calculated over the expected average remaining service life of the employee group covered by the plan, namely 15 years.

Defined contribution plan costs are charged to savings for services rendered by employees during the year.

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

(h) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates.

(i) Revenue recognition

The Co-operative recognizes revenue when evidence of an arrangement exists, delivery has occurred, and the price to the buyer is determined.

(j) Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The amounts of such items are based upon the Co-operative's best information and judgment. Actual amounts could differ from these estimates.

(k) Asset retirement obligations

The Co-operative is required to comply with governing environmental legislation pertaining to the remediation of contaminated property and the decommissioning of assets. The fair value of asset retirement obligations cannot be reasonably estimated as the timing, extent and method of any such remediation or decommissioning is not known.

(l) Comprehensive income

Comprehensive income consists of net savings and other comprehensive income. The Co-operative does not have other comprehensive income. Since comprehensive income is the same as net savings after patronage allocation, a statement of comprehensive income is not provided.

3. International Financial Reporting Standards

The Accounting Standards Board (AcSB) adopted International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable enterprises to adopt for fiscal years beginning on or after January 1, 2011. The Co-operative will be adopting IFRS for the fiscal year ending October 31, 2012. Currently, the Co-operative is not able to reasonably estimate the full impact the adoption of these standards will have on the annual consolidated financial statements.

4. Financial Instruments and Risk Management

(a) Capital management

The Co-operative applies prudent fiscal management policies and practices designed to generate adequate levels of savings and members' equity. The Co-operative builds retained savings so there are adequate levels of assets on hand to meet its short and long-term requirements.

(b) Currency risk

The Co-operative incurs a relatively small portion of its sales and purchases in U.S. dollars. As a result, the Co-operative is exposed to foreign currency fluctuations. The Co-operative's exposure to fluctuations in the value of the U.S. dollar is partially mitigated by the fact that it has both U.S. dollar denominated accounts receivable and U.S. dollar denominated accounts payable. Although the Co-operative will purchase or sell U.S. dollars from time to time based on its ongoing requirements, it does not actively hedge this risk.

The Co-operative has incurred significant U.S. dollar expenditures as part of its ongoing refinery expansion project. In order to manage the risk associated with fluctuations in the value of the U.S. dollar on these expenditures, the Co-operative has occasionally entered into contracts to forward purchase a portion of its known U.S. dollar requirements when opportunities arose to do so at rates that were considered favourable.

(c) Credit risk

The majority of the Co-operative's sales are in Western Canada and a significant portion of its customers are impacted by the agricultural industry. The Co-operative manages the credit risk through an active credit management program.

(d) Interest rate risk

The Co-operative does not have a significant exposure to interest rate risk.

(e) Fair value

The fair values of cash, members' funds on deposit, accounts receivable, finance agreements, accounts payable, and share capital redemption approximate their carrying values.

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

	2011	2010
5. Corporate Income Taxes		
<i>The Co-operative's effective tax rate is determined as follows:</i>		
Net savings before corporate taxes	\$ 402,373,000	\$ 192,378,000
Combined federal and provincial income tax rate	26.70%	28.16%
Computed tax expense based on the combined rate	107,434,000	54,174,000
Increase resulting from:		
Other non-deductible items	331,000	684,000
Decrease resulting from:		
Future income tax benefit resulting from changes in tax rates....	(7,319,000)	(8,839,000)
Provision for income taxes	100,446,000	46,019,000
Provincial capital taxes	-	13,000
Provision for corporate taxes	\$ 100,446,000	\$ 46,032,000
Effective tax rate on savings before corporate taxes	24.96%	23.93%
<i>Classified in the consolidated financial statements as:</i>		
Income taxes - current	\$ 25,207,000	\$ 40,704,000
Income taxes - future	75,239,000	5,328,000
Provision for corporate taxes	\$ 100,446,000	\$ 46,032,000
<i>Income taxes allocated to future years are comprised of the following:</i>		
Non-capital loss and deductible patronage allocation carryforwards	\$ 88,488,000	\$ 41,867,000
Tax value of resource pools in excess of net book value	7,884,000	3,859,000
Miscellaneous accruals and reserves	7,592,000	7,642,000
Net book value in excess of undepreciated capital cost	(192,506,000)	(131,183,000)
Patronage allocations deferred for income tax purposes	(109,662,000)	(45,150,000)
Total future tax liability	\$ (198,204,000)	\$ (122,965,000)
<i>Classified in the consolidated financial statements as:</i>		
Current future income tax assets	\$ 96,080,000	\$ 49,508,000
Long-term future income tax assets	22,172,000	19,113,000
Current future income tax liabilities	(116,016,000)	(51,514,000)
Long-term future income tax liabilities	(200,440,000)	(140,072,000)
Total future tax liability	\$ (198,204,000)	\$ (122,965,000)

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

6. Investments and Advances

Investments and advances are recorded at the lower of cost and net realizable value.

	2011	2010
Investments		
The Co-operators Group Limited	\$ 2,894,000	\$ 3,964,000
Interprovincial Cooperative Limited	592,000	883,000
Other	1,113,000	1,034,000
Advances		
Interprovincial Cooperative Limited - member loan at a floating interest rate.....	592,000	883,000
Finance agreements	83,312,000	87,141,000
Less: Current portion of Finance agreements.....	(31,342,000)	(24,756,000)
	\$ 57,161,000	\$ 69,149,000

7. Members' Share Capital

The Co-operative is authorized to issue an unlimited number of member shares of \$100 par value each.

Under certain circumstances and with the approval of the Board of Directors, member shares may be redeemed at par value.

	2011	2010
Balance, beginning of year	\$ 866,984,000	\$ 798,556,000
Current year's savings allocated by allotment of shares.....	537,428,000	351,631,000
	1,404,412,000	1,150,187,000
Shares redeemed	434,726,000	283,203,000
Balance, end of year	\$ 969,686,000	\$ 866,984,000

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

8. Segmented Information

The Co-operative has six reportable business segments.

	Sales	Depreciation	Interest Revenue	Income Tax Expense	Net Savings Before Patronage Allocation
Crop Supplies	\$ 289,265,000	\$ 577,000	\$ 10,000	\$ 1,644,000	\$ 21,678,000
	\$ 304,172,000	\$ 513,000	\$ 143,000	\$ 1,223,000	\$ 26,727,000
Feed	54,497,000	762,000	1,000	96,000	(348,000)
	51,264,000	814,000	6,000	138,000	373,000
Food	1,756,648,000	7,736,000	1,057,000	11,887,000	77,387,000
	1,747,573,000	8,631,000	1,260,000	12,399,000	77,193,000
Forest Products	46,614,000	6,298,000	-	2,623,000	(4,665,000)
	44,499,000	4,158,000	-	1,021,000	(5,381,000)
General	301,521,000	1,958,000	17,000	2,144,000	17,374,000
Merchandise	313,054,000	968,000	105,000	1,351,000	21,913,000
Petroleum	5,818,116,000	114,873,000	563,000	82,052,000	727,929,000
	4,648,997,000	116,089,000	4,881,000	29,900,000	377,152,000
Total	\$ 8,266,661,000	\$ 132,204,000	\$ 1,648,000	\$ 100,446,000	\$ 839,355,000
	\$ 7,109,559,000	\$ 131,173,000	\$ 6,395,000	\$ 46,032,000	\$ 497,977,000

Upper Line - 2011

Lower Line - 2010

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

9. Pension Plan

(a) Defined contribution plan

The Co-operative and the majority of its employees make contributions to two multi-employer defined contribution plans. The employee contribution rates are in the range of 2.5% to 6%, while the Co-operative's rates are in the range of 2.5% to 13%. The Co-operative's total contribution expense for these plans in 2011 is \$6,218,000 (2010 - \$5,916,000).

(b) Defined benefit plan

The defined benefit plan covers the employees at the petroleum facility in Regina. The plan provides pensions based on the number of years of service and the average of the best three years earnings. The employees do not contribute to the plan.

The consolidated information presented in the table below is based on actuarial valuation results as of December 31, 2010, with extrapolations to October 31, 2011.

<i>Plan assets</i>	2011	2010
Fair value, beginning of year	\$ 160,008,000	\$ 134,224,000
Contributions	16,077,000	13,003,000
Benefits paid	(3,011,000)	(1,908,000)
Actual return on plan assets	2,903,000	14,689,000
Fair value, end of year	<u>\$ 175,977,000</u>	<u>\$ 160,008,000</u>
<i>Accrued benefit obligation</i>		
Balance, beginning of year	\$ 217,167,000	\$ 157,407,000
Current service cost	10,590,000	7,300,000
Interest cost	11,821,000	10,567,000
Benefits paid	(3,011,000)	(1,908,000)
Actuarial (gain)/loss	51,722,000	43,801,000
Balance, end of year	<u>\$ 288,289,000</u>	<u>\$ 217,167,000</u>
Funded status - plan deficit	\$ (112,312,000)	\$ (57,159,000)
Unamortized transitional obligation	5,413,000	6,090,000
Unamortized past service costs	14,284,000	15,677,000
Unamortized (gains) losses	83,015,000	27,092,000
Accrued benefit liability	<u>\$ (9,600,000)</u>	<u>\$ (8,300,000)</u>
<i>The defined benefit plan pension expense is as follows:</i>		
Current service cost	\$ 10,533,000	\$ 7,290,000
Interest on accrued benefit obligation	11,821,000	10,567,000
Interest on plan assets	(8,910,000)	(9,225,000)
Amortization of transitional obligation	677,000	677,000
Amortization of past service costs	1,393,000	1,393,000
Amortization of (gains) and losses	1,806,000	(803,000)
	<u>\$ 17,320,000</u>	<u>\$ 9,899,000</u>
<i>The significant actuarial assumptions are as follows:</i>		
Discount rate for the pension expense	5.35%	6.60%
Discount rate for year-end accrued benefit obligation ..	4.95%	5.35%
Expected long term rate of return on plan assets	5.35%	6.60%
Rate of compensation increase	3.50%	3.50%

Audited FINANCIAL STATEMENTS

Federated Co-operatives Limited, October 31, 2011

Notes to the Consolidated Financial Statements

10. Contingencies

Various claims and lawsuits are pending against the Co-operative. While it is not possible to determine the ultimate outcome of such actions at this time, it is management's opinion that the ultimate resolution of such matters will not have a material adverse effect on the Co-operative's financial condition or results of operation.

11. Commitments

Lease Commitments

The Co-operative leases certain facilities and equipment under operating leases, the latest of which expires in 2051. Future lease payments total \$3,224,000 and include the following amounts over the next five years and thereafter:

2012.....	\$ 863,000
2013.....	745,000
2014.....	571,000
2015.....	405,000
2016	342,000
Thereafter	298,000

Purchase Commitments

The Co-operative is also committed to capital expenditures of \$36,857,000 for the refinery expansion project in Regina. The expansion project is expected to be completed in 2012.

12. Subsequent Event

The Co-operative is negotiating a syndicated credit facility in the amount of \$500 million (with an option to increase to \$700 million) to provide the funding required to complete the ongoing refinery expansion project in 2012.

13. Comparative Figures

Certain prior period information has been reclassified to conform with the current period presentation.



Gerard Muyres
Vice-President
Retail Operations &
Market Development



Division Report

RETAIL OPERATIONS & MARKET DEVELOPMENT DIVISION

The Retail Operations & Market Development Division works directly with retail co-operatives to enhance financial results and maximize membership benefits. The division provides marketing, merchandising, financial, human resources and operational services to retail co-operatives from region offices in Edmonton, Calgary, Regina, Saskatoon and Winnipeg.

The division is challenged from year to year by adverse weather conditions, changes in markets, economic conditions and government policies. At the same time, competitors change their marketing plans and new competitors continue to enter the marketplace in an effort to take co-op market share.

Despite these challenges, retail co-ops worked to provide excellent products and services, improve the image of their facilities, and enhance merchandising standards. These efforts were intended to maximize financial stability and earnings for the 1.5 million people who enjoy the benefits of being an active co-op member.

RETAIL OPERATIONS / Final results for the 2011 financial year will be published in the Retail Statistics Manual issued in June 2012. This manual provides meaningful information for preparing business plans, budgets and for benchmarking retail co-op operations.

The equity and cash back portion of the Co-op Membership Benefits program continued to be promoted effectively by retail co-ops. Of the \$839 million in FCL net earnings, a record \$537 million patronage allocation was returned to member retail co-ops. Over the past five years, FCL has returned more than \$2.2 billion to its member retail co-ops.



Trevor Livingstone
Edmonton



Barry Manovich
Calgary



Doug Wiebe
Regina



Dean McKim
Saskatoon



Barry McPhail
Winnipeg



In addition to equity and cash back, the Co-op Membership Benefits program also features quality CO-OP® products, personalized services and community involvement. FCL provides a variety of materials to assist retail co-ops in promoting all four categories of membership benefits.

The division encourages retail co-ops to work together to create efficiencies and reduce costs wherever possible. Many retail co-ops now share fuel delivery, accounting and general management services. Others share bulk plants and cardlocks, bakery production and meat cutting services, building estimating, accounts receivable management and security services. These efficiencies reduce costs, resulting in more financial benefits for individual co-op members.

In the past year, 14 retails have made a solid business decision to amalgamate for the financial benefit of their members, ensuring that retail co-op services remain in their communities.

RETAIL FACILITIES DEPARTMENT / Retail facility development remained a high priority for the CRS. The Retail Facilities Department is involved with the planning and development of new construction, expansion and renovation projects for food stores, home centres, agro centres and convenience stores.



Carol Rollheiser
Camrose, AB



Ted Rodych
Medicine Hat, AB



Deane Collinson
Calgary, AB



Ken Bahuaud
Assiniboia, SK



Greg Schoonbaert
Nipawin, SK



Brian Hedley
Neepawa, MB

During the year, the department assisted retail co-ops with a total of 147 projects. New and upgraded convenience stores continued to be a key focus for retails with a total of 66 convenience store projects (including 35 new facilities) either completed or at some stage of development. A total of 44 food stores, 20 home and agro centres, and 29 other types of projects (e.g.: exterior upgrades, mall renovations, liquor stores) were also part of the department's activities with retails. The number of projects clearly reflects the commitment of retail co-ops to maintain and upgrade the image of the CRS, and continues to demonstrate that co-ops are committed to reinvesting in their communities.

Loss prevention and real estate/property management functions were added to the Retail Facilities Department in 2011. Retail co-ops are being kept apprised of the developments in both of these areas through presentations at conferences and weekly communication via email and bulletins.

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

Brad Bauml
Vice-President
Consumer Products

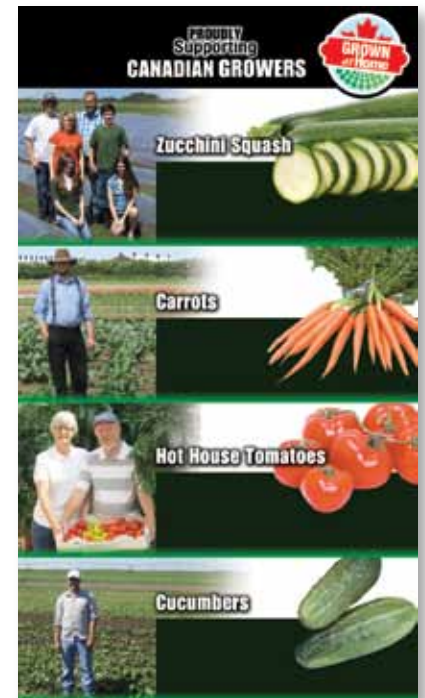


The Consumer Products Division is responsible for the procurement of goods, along with the delivery of services including central marketing programs, on behalf of retail co-ops in the areas of food, general merchandise and lumber products.

Division Report CONSUMER PRODUCTS DIVISION



The consumer goods industry continued to be very competitive in all segments as new and expanded competition entered the marketplace. These competitive factors, combined with the general economic challenges and the unusual weather in early fiscal 2011, made for a challenging year. This was particularly evident in the general merchandise and lumber sectors, although significant new optimism and improved results were evident in the latter part of the year.



Consumer preferences and shopping habits continued to change at a rapid pace. Local sourcing and social responsibility continued to be of increased importance to consumers. FCL introduced a "Grown at Home" program in 2011 that ensured retail co-ops had the marketing and advertising tools to support local produce growers. Both retail and consumer response to this new initiative has been very favourable.



FCL also expanded upon the sustainable seafood policy that was developed in 2010. FCL worked with its partner, SeaChoice, and fish suppliers to gather information on seafood offerings and score them against sustainability criteria. This comprehensive review led to the removal of eight species from retail sales counters, while adding new sustainable varieties and species.



As competition continues to increase, it is critical that effective programs are in place to promote a positive price perception and that retail co-ops continue to offer value to their consumers. The Food Department introduced the "Price Drop" program in 2011 to focus on providing extremely competitive pricing on key items during targeted selling periods. The program began with the spring/summer Price Drop for the barbecue season. This was followed up with a Back to School Price Drop program and a Baby Needs Price Drop program in the fall.



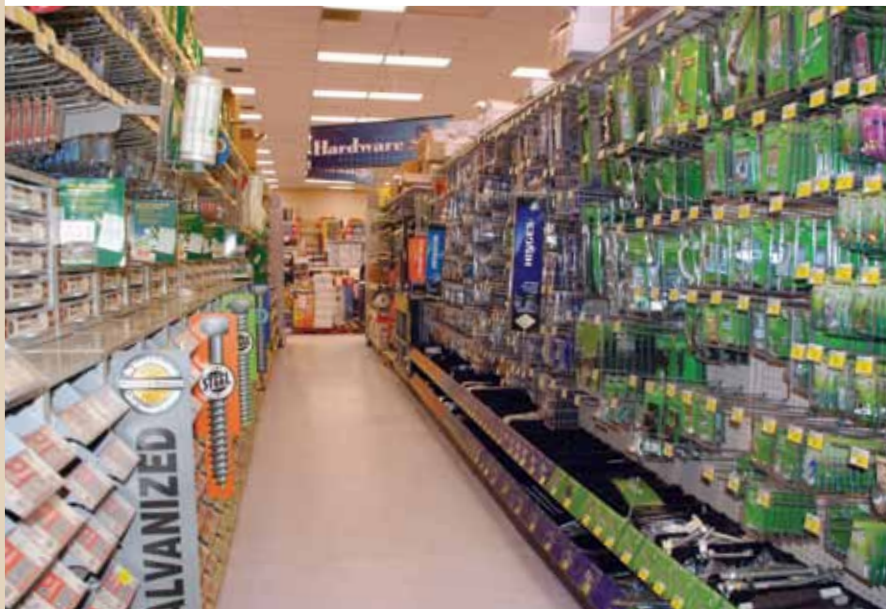


FCL continued to focus on reducing retailers' cost of goods. For example, FCL converted the complete deli cheese program to an FCL warehouse program, which reduced retail cost by approximately 15%. Improving retailers' cost of product continues to be a key focus for FCL.

The General Merchandise Department made significant changes to store merchandising concepts to respond to the constantly changing needs and shopping patterns of consumers. Changes are also being made to the overall interior décor of home centres. A completely new program was introduced in 2011 that significantly improves merchandising standards and customer appeal. The objective is to improve the consumer's shopping experience by displaying more "product end use" applications versus the traditional "product in a box" concept. The new merchandising fixtures and display components, along with a newly revamped "lifestyles" interior décor package, have significantly improved the merchandising and appearance of the retail home centres that have implemented the new décor. Projects have been completed in Barrhead, Rimbey, Sherwood at Regina and Pioneer at Cabri with a number more scheduled for 2012.



Continuing with the desire to improve the customer's experience in co-op home centres, the General Merchandise Department began the conversion of the "builder's hardware" sections at store level over to the new Hillman program in 2011. The new sections combine new methods of organizing and displaying the product, along with point-of-sale material, that highlights the various product categories, making for a much improved shopping experience.



Terry Bell
Vice-President
Logistics



Division Report

LOGISTICS DIVISION



The Logistics Division is comprised of warehousing and trucking operations. It is responsible for the flow of product from suppliers to FCL's distribution centres in Edmonton, Calgary, Saskatoon and Winnipeg, and ultimately to member retail co-operative facilities.

The division delivers products in an area extending from northern Ontario to Vancouver Island and from the United States border to the Yukon, Northwest Territories and Nunavut. The division administers some 2.0 million square feet of warehouse and office space, and a fleet of highway transportation equipment.



WAREHOUSING / During the year, work continued on the expansion of the general merchandise warehouse in Calgary. The size of the facility was increased by 75,000 square feet. The project will be completed in 2012, allowing FCL to better meet the needs of retail co-ops in the general merchandise business.

Plans to expand the Saskatoon food warehouse were completed and construction began in the fall of 2011. The project will be completed in early 2013 and will add another 165,000 square feet to the current warehouse (for a total warehouse area of 457,066 square feet).

The region office in Regina was moved to the new Retail Petroleum Equipment facility in the summer of 2011.

Improvements in productivity and service levels continued at food and general merchandise warehouses.

TRUCKING / The highway trucking fleet consists of 232 merchandising trailers and 147 petroleum tankers hauled by 34 company drivers and 219 lease operators. The general merchandise fleet travelled 16.5 million kms and hauled 532,824 tons of product. The petroleum fleet consists of 29 nine-axle tankers and 118 eight-axle tankers. The petroleum fleet travelled 41.6 million kms and hauled 2.9 billion litres of fuel.

Fleet image and appearance is always a top priority. As moving billboards for the Co-operative Retailing System, the graphics program consists of 8 graphics in the petroleum fleet and 13 graphics in the merchandising fleet.



Mel Adams
Vice-President
Agro Products



Division Report

AGRO PRODUCTS DIVISION

The Agro Products Division encompasses the Crop Supplies, Feed and Petroleum Departments. The division is responsible for providing quality products and innovative leadership to retail co-operatives in marketing these products to their members and customers.

Retail employee training, facility development, and the development of effective central advertising and marketing programs assist retails in providing products and services to the members and customers in the communities in which they operate.

CROP SUPPLIES DEPARTMENT / High levels of inventory carried forward due to extreme weather conditions in 2010, combined with significant deflation in crop protection products, were the major factors resulting in a decline in Crop Supplies sales in 2011.





Unfortunately, extreme weather conditions, mainly in south-east Saskatchewan and southwest Manitoba, had a negative impact once again on retail sales. This resulted in very high inventory levels of crop protection products. FCL increased the level of carryover protection provided in order to assist the cash flow of affected retailers. These high levels of inventory will have a negative impact on FCL's sales again in 2012.

FCL added four Ag Equipment Sales Co-ordinator positions to the region offices in late 2011 to provide better leadership to retailers. This will allow existing Sales Co-ordinators to focus solely on crop inputs, and will provide much better assistance to retailers on their in-store products as well as with their grain handling and storage equipment.



FEED DEPARTMENT / Improved market conditions led to an increase in sales of both feed and animal supplies products to beef producers. Herd sizes are beginning to stabilize, providing some optimism for 2012.

FCL continues to invest in projects that will improve production efficiencies at the six feed plants. Examples include the installation of a new bagger at the Calgary plant and upgrading the receiving system in Saskatoon.

The floods in Manitoba in the spring of 2011 resulted in the evacuation of the Brandon Feed Plant for three weeks in May. Retail co-ops rallied to the assistance of the plant and took as much bagged feed as they could stock, relieving the plant of the need to move inventory to higher ground. Existing customers were served by other co-op feed plants without interruption while Brandon employees continued to provide service as circumstances allowed.

A renewed focus on building the retail feed business began at the end of the summer. The program features enhanced packaged feed margin and increased training for retail employees. Early results have been positive and the program will be a central part of the marketing activities at all locations during 2012.



PETROLEUM / A substantial increase in volume was once again achieved through a continued focus on facility development and high standards of image and service. By focusing on these standards and service, retails did a fantastic job marketing fuel to their members.

The “Moving Ahead in Times of Change” petroleum marketing conference, held in March 2011 with over 600 people in attendance, was one highlight of the year. A number of retail employees participated in panel discussions and presented on various topics. The conference was informative, inspiring and entertaining, and received extremely positive comments from participants.

At October 31, 2011, 257 of the 310 cardlocks had been converted to the new Card Record on Host cardlock system. The conversion to this new system went well over the past year and is on schedule for complete conversion in early 2012.



The Regina propane facility and the Retail Petroleum Equipment shop were relocated to new facilities this past year. The new facilities provide better and safer working conditions for employees and will result in better service to retails.

Substantial progress has been made on the new corporate bulk plant initiative. There are currently eight new plants in operation with another 14 at various stages of construction. This initiative, combined with the completion of the Carseland terminal, will substantially improve the distribution of fuel to the CRS.



Darrell Embley
Vice-President
Forest Products



Division Report **FOREST PRODUCTS DIVISION**



The Forest Products Division in Canoe, British Columbia includes a plywood plant and sawmill, supported by log harvesting and forestry operations within the Okanagan Timber Supply Area surrounding Shuswap Lake.

The continuation of the U.S. economic downturn has put a stranglehold on the North American Wood Products Industry, which is primarily dependent on the United States housing market. The projected 2011 U.S. housing starts of 590,000 units is slightly higher than the 585,000 in 2010 but well below the 1.2 million needed to revive this industry.

LOGGING AND FORESTRY / Logging operations during 2011 harvested approximately 200,000 cubic meters of crown timber. This volume represents 57.5% of FCL's Annual Allowable Cut. The remaining volume was subsequently sold to another forest products company.





The Charter Process continued to thrive throughout the operation, both in Manufacturing and Wood Lands. Daily plywood production of 575,000 square feet was 30,000 square feet higher than 2010's production of 545,000 square feet per day. This increase in productivity contributed to the reduction in departmental costs of \$8/thousand from \$173/thousand to \$165/thousand. This higher productivity and lower conversion costs enabled the division to post positive results and allowed the plant to operate the entire year without disruption. Distribution of sales was 93% within Canada and 7% to Japan.

In January 2011, the Woods Department received confirmation from KPMG auditors that forestry and logging operations were in conformance with the requirements of ISO 14001 and the Sustainable Forest Initiative® (SFI®) 2010-2014 Standard.

During the spring of 2011, discussions with the Ministry of Forests commenced to resolve a long standing issue regarding the loss of harvesting rights as a result of the Protected Area Strategy and the *Forestry Revitalization Act*. Successful negotiations of a cash settlement were completed in late July.

PLYWOOD / The Plywood operation performed well, with many significant achievements throughout the year. Again, much of the credit for the continuous improvement process is attributed to the co-operative relationship between the unionized employees and management teams.

LUMBER / The Lumber Mill remained curtailed throughout the year.

SHIPMENTS FROM FOREST PRODUCTS OPERATIONS

	2011	2010
Plywood		
(per thousand square feet, 3/8" thickness)	134,383	131,961
Lumber		
(per thousand foot board measure)	0	0

Bud Van Iderstine
Senior Vice-President
Refining

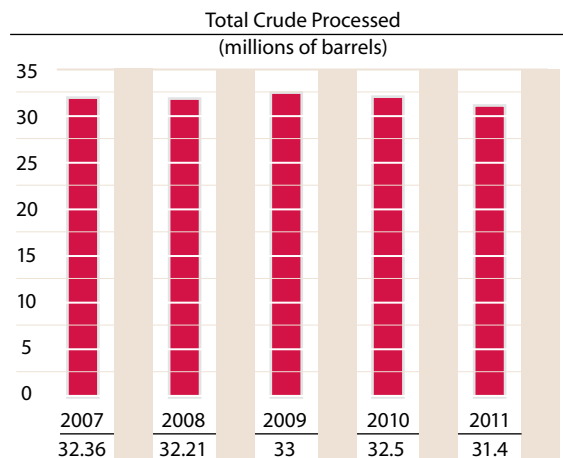


Division Report

CONSUMERS' CO-OPERATIVE REFINERIES LIMITED

A wholly-owned subsidiary and the Refinery Division of FCL, CCRL's mission over the 76 years it has been in operation is to serve the Co-operative Retailing System by providing petroleum product supply. The financial results for CCRL are consolidated with those of the Petroleum Department.

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

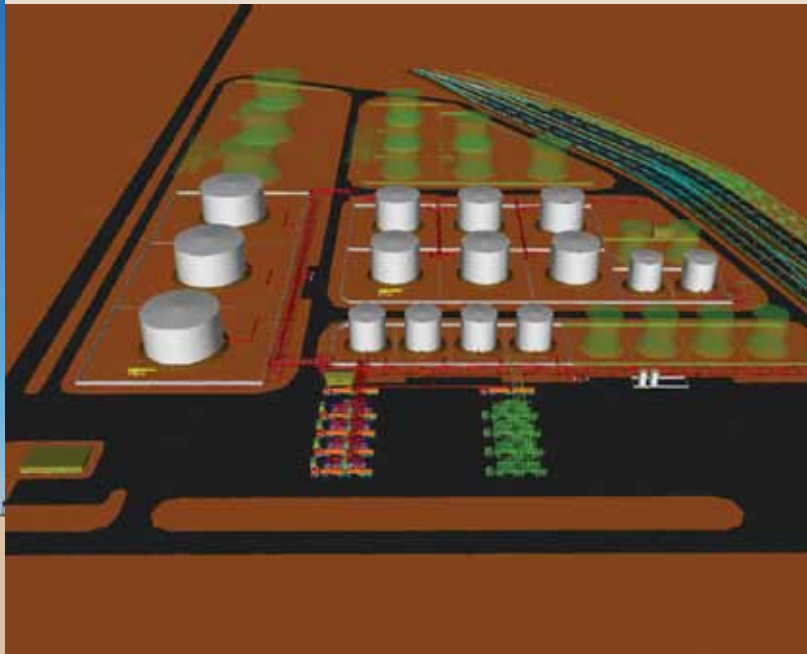


OPERATIONS / Crude processing was about 31.4 million barrels, down only slightly from 2010. Production of gasoline and diesel was maximized outside of the period required for an extended expansion-related maintenance turnaround. Product purchases were obtained in order to balance demand in the summer months.



The Co-op Refinery Complex executed the largest turnaround in its history in 2011. Over 3,500 people were involved in completing the turnaround, which spanned a total of 115 days. The Complex's second largest turnaround will occur in 2012 and is expected to span about 90 days and utilize up to 2,500 people.

EXPANSION / A major expansion is nearing completion that will allow the Co-op Refinery Complex to continue to meet the growing petroleum product requirements of the CRS. This expansion, the second in ten years, will initially increase the Complex's crude process capacity from the current level of 100,000 barrels per day to 130,000 barrels per day. Start-up is expected in the summer of 2012. The capacity is expected to eventually mature to 145,000 barrels per day.



Construction productivity, along with weather, will be the key factors that will determine the final project cost.

CARSELAND TERMINAL / A major petroleum terminal, is being constructed in Carseland, Alberta to receive gasoline and diesel product by rail from the Co-op Refinery Complex. The terminal will allow access to up to one billion litres of fuel for distribution by truck from the terminal to retail locations in southern Alberta and the interior of British Columbia. The current schedule will allow for inventorying the terminal by the spring of 2013. Distribution of product to retails will commence later that summer.

CO-OP REFINERY COMPLEX EXPLOSION AND FIRE /

On October 6, 2011 there was an explosion and fire at the Co-op Refinery Complex. Regrettably, the fire resulted in three people being hospitalized for various periods of time. The incident also caused significant damage to a diesel desulphurization process unit. Co-op Refinery Complex personnel co-operated fully to support a comprehensive, independent investigation led by the Regina Fire Department and various other provincial agencies.

Eric Lawrenz
Vice-President
Environmental &
Technical Services



Division Report ENVIRONMENTAL & TECHNICAL SERVICES DIVISION

The Environmental & Technical Services Division is responsible for FCL's environmental sustainability initiatives, oil and gas production, corporate and retail insurance programs, energy management programs, and monitoring alternative fuel issues.



ENVIRONMENTAL AFFAIRS / FCL's commitment to environmental responsibility extends beyond regulatory compliance. Creating a culture of environmental responsibility is essential to long term success. The Environmental Affairs Department is working to incorporate environmental sustainability into the activities of FCL and the entire Co-operative Retailing System.

A multi-departmental Environmental Sustainability Team was created within FCL to promote environmental sustainability. A key goal for the team is to increase the engagement of all employees in sustainable environmental activities such as reduction in resource utilization and waste output, emission reductions, waste diversion and recycling, as well as sustainable procurement practices.

In conjunction with the Human Resources Department, three new environmental eLearning modules intended to help employees prevent environmental incidents were developed for FCL and retail co-op employees. This new training will reinforce the face-to-face

environmental clinics and environmental management meetings held annually across the CRS. Through improved training, FCL's goal is to prevent future environmental impact and to be better prepared to deal with environmental issues that develop.

The Environmental Affairs Department reviewed all petroleum site redevelopments and property

acquisition projects from an environmental perspective to protect the future interests of retail co-ops. The department also continued to research new and innovative remediation technologies. In 2011, all of the research projects focused on environmentally sustainable technologies with reduced environmental footprints. In addition, the department provided input to provincial regulators on new regulations for managing contaminated sites, on codes of practice associated with the construction of petroleum storage facilities, and on programs associated with recycling consumer product packaging.

CRUDE OIL / The first full year of the business arrangement with Adonai Resources Corporation has yielded tangible results in the crude oil area. Through participation in Province of Saskatchewan crown land sales, FCL acquired drilling interests in over 7,000 acres of oil-prone lands in southeast and southwest Saskatchewan. Additionally, interests in another 960 acres of oil-prone lands in southeast Saskatchewan have been obtained through free-hold leasing activities.

A land swap was completed with PennWest Exploration Ltd. whereby FCL obtained three parcels of operated oil producing assets in southeast Saskatchewan in exchange for three parcels of non-operated oil producing assets (two in southeast Saskatchewan and one in central Alberta). This transaction moves FCL closer to its goal of operating more of its own crude oil assets.

FCL participated in drilling 54 horizontal and eight vertical oil wells in southeast Saskatchewan. The majority of these oil wells were drilled with operating partners; however, included in the totals are three wells which are owned one hundred percent by FCL.



Gary Mearns
Vice-President
Human Resources



Division Report

HUMAN RESOURCES DIVISION

Discussions were held during the year to develop a vision and mission for Human Resources to ensure alignment with FCL's overall corporate direction. As a result, the division's work will be guided by the following:

- Vision – Excellence Through People.
- Aspirational Statement – Providing world-class human resources management programs.
- Mission – To provide leadership in the development and delivery of human resources management programs to enhance the competitive advantage and economic success of the CRS.

Work was also undertaken to further restructure the division to provide enhanced co-ordination of the functional areas related to talent management, specifically: recruitment; learning & development; and, compensation & benefits. A significant amount of time and resources were invested in major projects related to a review of FCL's compensation structure as well as the performance management programs. These projects will be completed in 2012. The development and introduction of competencies into FCL's various HR practices has also begun.

HUMAN RESOURCES STRATEGIES /

The recruitment and development of high quality employees, with the emphasis on improving retail operations, continued to be a focus for the division's activities in 2011. A total of 185 trainees were identified for management development and commenced training programs during the year. Specific training programs included the following:

Group Manager Training Programs (Retail Manager, General Merchandise, Food, Agro)	68
One-to-One Training Programs (General Manager, Bakery, Meat, Deli, Produce, Home Centre, etc.)..	59
Accelerated ADVANCE Programs	22
Post-Secondary Department Manager Training Program.....	8
Student Development Program.....	28



The on-line calendar was implemented to make it easier for employees to register and to provide information on seminars attended. Three new seminars were developed including “Leading Employee Engagement”, “The Multi-Generational Workplace” and “The Respectful Workplace”. Changes were made to the Co-operative Learning Centre (CLC) as well.

The number of participants in training seminars declined, partly due to the significant increase in eLearning usage by retail co-op employees in 2011. The number of users of the eLearning offerings increased by 50.8% compared to the use in 2010. A number of new eLearning courses were developed including two courses on Environmental Management, as well as courses on Workplace Hazardous Materials (WHMIS), food handling safety and environmental operations.



The CRS's ability to attract and retain employees continued to be a focus. Attendance at a significant number of career fairs provided opportunities to emphasize career options within the CRS to students. Upgrading of the career display materials with emphasis on people was completed in 2011. All new employees within FCL are being provided with information on FCL's Employee Value Proposition as well as the corporate values as part of the orientation process.

An increased focus on safety was undertaken with the creation of a Health & Safety Co-ordinator position. Work began on raising the profile of safety at all FCL locations. Human Resources employees from all of FCL's operations were brought together in September for the first Health & Safety Forum to enhance awareness of safety initiatives and issues affecting employees.

HUMAN RESOURCES ADVISORY SERVICES / Work began in 2011 on the development of a service delivery model for Human Resources that will focus on both what services are provided and how they are delivered. This initiative will focus on the development of metrics for the Human Resources function as well improving consistency in the services delivered. Various technology solutions to assist in the administration of Human Resources were investigated as well. An Applicant Tracking System is expected to be implemented in 2012. This will greatly assist in the efficient handling of job applications.

LABOUR RELATIONS / Labour Relations assistance and training continued to be provided to managers and boards of directors at retail co-ops in the CRS. Conferences were held in all four provinces with a focus on health and wellness topics. Collective bargaining at retail co-ops in 2011 resulted in a number of contract settlements. Contract settlements were also negotiated at FCL's Canoe operation and the distribution facilities in Calgary.

Vic Huard
Vice-President
Corporate Affairs



Divisional Report CORPORATE AFFAIRS DIVISION

This is the first-ever Annual Report update on the activities of the Corporate Affairs Division, which is responsible for activities in a wide range of areas, including: legal affairs, marketing services, brand and social responsibility, communications, research and development, government relations, and Corporate Secretary support for FCL's Board of Directors.



Many of the activities noted above are new endeavours for FCL and the CRS. As a result, much of this year was spent building the essential foundation upon which future activities would be developed and executed.

A new Research & Development Unit (RDU) was created in October 2010. The RDU was staffed with existing FCL employees with a combined 40 years of experience with FCL. In its first few months of operation, the RDU worked with all FCL divisions to determine research priorities. At the same time, considerable work was done to determine the research requirements of retailers. After these initial consultations, the RDU has developed a wide range of new approaches to research support for FCL and the CRS. As these new approaches were introduced, demand for the RDU's services increased significantly. The more than one hundred requests for market potential studies were more than double the previous year's requests.



The identification of priorities and requests for support from retails also led to the development of a new Communications Unit. This two person unit oversees the content on FCL's public web site (www.coopconnection.ca) and the internal intranet site (the Employee Portal). The Communications Unit also worked closely with the Information Technology Division to support the rollout of the CRS Employee Portal in 2011 and continues to work with Information Technology to enhance the functionality of both the CRS Employee Portal and the public web site.



Marketing Services continued to provide print services and marketing materials support (e.g.: flyers, point-of-sale materials) to FCL and the CRS. During the year, Marketing Services also worked closely with the Consumer Products Division to develop and launch an eFlyer service, and to develop and execute a refresh of the grocery flyer presentation. Marketing Services continues to work with the Consumer Products Division on a further revision of the grocery flyer presentation.



One of the most time intensive activities in 2011 was the early stage development of a Brand and Social Responsibility framework for FCL. Many of the activities noted above supported the significant effort that was invested in these two very closely integrated projects. Research was conducted with a wide range of stakeholders to determine the baseline status of the CRS's brand recognition. Corporate Affairs worked closely with several retail members to share research findings that informed the baseline brand assessment. As this research was made available, FCL developed a much clearer picture of the CRS's current brand state, and of how best to position and enhance this brand, and develop a comprehensive Social Responsibility program to support it into the future.

Faramarz Farahani
Vice-President
Information Technology



Division Report

INFORMATION TECHNOLOGY DIVISION

The Information Technology Division was formed on November 1, 2010. The division's mandate is to define and implement innovative technology solutions in support of FCL's vision by addressing the increasing demands from retailers for a unified approach to Information Technology (IT). The division defines roadmaps, sets guidelines and implements solutions that meet the needs of clients within FCL and across the CRS.



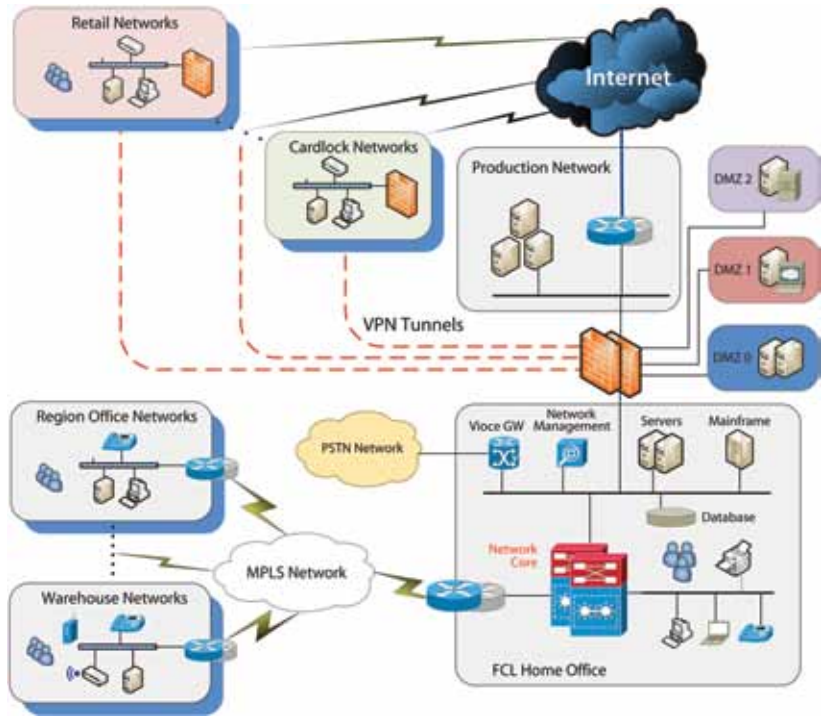
The division is focused on increasing productivity. A number of changes were introduced this year to achieve this objective, including: the conversion of the laptop and desktop platforms to Dell; and, the renegotiation of the wireless contracts which offered retailers the option to join a more cost effective plan.

MAINFRAME ENVIRONMENT / On August 24, 2011, FCL announced a partnership with ISM Canada that will transform today's success into tomorrow's smarter retailing for the CRS. This alternative service partnership provides better support for the mainframe environment while at the same time allowing the transformation of IT services to more effectively meet the technology demands from retailers. This decision also allows FCL to leverage the scale of ISM Canada's data centre to reduce risk, increase security and improve processes to realize greater efficiencies in its operations.

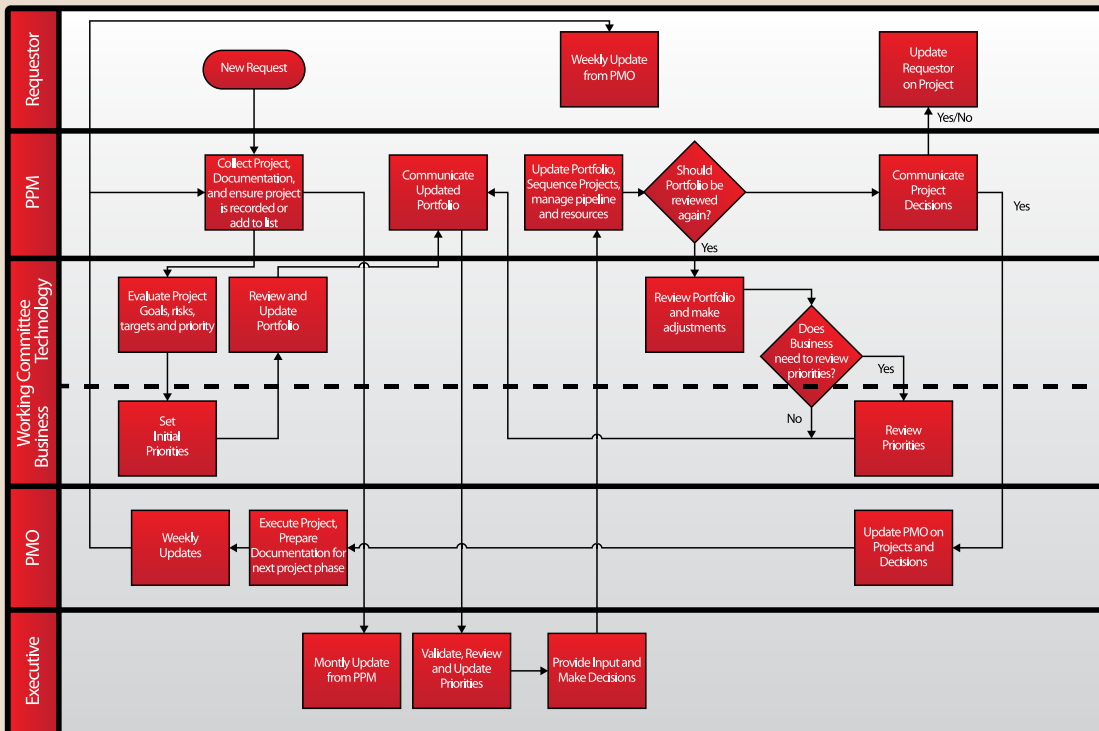
Over the next few years, intense focus will be placed on the major modernization of FCL's critical applications systems. These changes will pave the way for the deployment of demand-driven, innovative IT solutions to help FCL take advantage of new opportunities and changes in the business landscape and achieve its business objectives.

ARCHITECTURE / An Architecture team was formed to provide a holistic approach to implement technological solutions and create consistency in delivering solutions to business problems. The Architecture team will achieve this by creating an enterprise wide repository of business and technical knowledge, and by establishing related processes and governance.

NETWORK UPGRADE / Current day-to-day requirements and new strategic initiatives are driving the demand for a network that is flexible, scalable, redundant and highly reliable. To address this demand, an independent third party network assessment was performed in March 2011. This assessment encompassed FCL's core network and connectivity to distribution centres and region offices. The assessment highlighted several areas of concern.



The Network team started a large project to replace and upgrade FCL's data network. This new network will meet current needs and scale for future demands of technical and business initiatives.



PROJECT PORTFOLIO MANAGEMENT PROCESS / The Project Portfolio Management Process assists FCL in prioritizing technology projects that are most critical to implement to benefit the CRS. The process ensures that the Senior Leadership Team understands, and approves, the priority projects that will benefit all operating divisions and the entire CRS.



INTERNATIONAL CO-OPERATIVE ALLIANCE

Statement on the Co-operative Identity

Definition

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

Values

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

Principles

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

1. Voluntary and Open Membership

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

2. Democratic Member Control

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

3. Member Economic Participation

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

4. Autonomy and Independence

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

5. Education, Training and Information

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

6. Co-operation Among Co-operatives

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

7. Concern for Community

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

Manchester, United Kingdom, September 23, 1995

Code of ETHICAL STANDARDS FOR CO-OPERATIVES

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

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

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

Ethical Standards

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

Application of the Code

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

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

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



integrity

Be honest and trustworthy

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

excellence

Strive to be the best

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

responsibility

Accountability matters

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



Federated Co-operatives Limited



Co-operative Enterprises Build a Better World