Lifeline

HEARTLAND CO-OP

IN THIS ISSUE

A Message From the CEO/General Manager - **Larry Petersen**

2009 Harvest Completed

Although we still have a few areas with unharvested corn, the 2009 harvest season should be considered finally ended. What an unusual long drawn out affair it became. It developed into a harvest that most of us would not like to experience again anytime soon. We at Heartland sincerely appreciate the understanding that was shown by our customers in getting through the season. The Heartland employees deserve a special thanks for all of the hard work that was needed to "get the job done" during this harvest season. That thanks goes out to employees in all areas because it seems every aspect of Heartland was impacted in some way by this year's unusual weather conditions.

In spite of the unusual conditions, our receipts of both corn and beans were exceptionally high. We received the most soybeans and the most corn ever as compared to any other year before or after any of our unifications. Our actual take of soybeans increased almost 2 million bushels or 11.6% over last year while corn increased more than 6 million bushels or 12.9% over last year. Compared to the last 5 years of history, we had 8 locations that experienced their largest soybean receipts while 17 locations took in the most corn during that time.

Moisture content of the harvested soybeans and corn became big factors in the handling of this year's grain harvest. Although we ended the soybean harvest at an average 12.6% moisture overall, we received many bushels that surpassed the ideal 13% moisture level. Corn moisture for the season averaged 19.2% which is well above the discounted levels of 15% for sale and 14% for storage. These moisture levels created bottle necks in both the handling and drying of the incoming grain and creates challenges concerning the ongoing storability of the crop.

Additionally, this year's corn crop was of a much more questionable quality level. Quality of corn can be determined by the test weight calculation. This year's harvest received by Heartland had a test weight factor of 54.7 lbs. per bu. with many location averages below the 54 minimum level. This year's test weights are a far cry from many harvests when we experienced levels from 56 to 59. This issue will create challenges of both questionable storability and limitations to shipping because of the inability to be able to meet grade factors dictated by end users.

After the rigors of this harvest season and the known trend line of increasing grain yields, the shortfall of Heartland's grain storage and drying operations have become more of a discussion focus at the Board level. Discussions have ensued on the needs of our customer to both store their grain and to unload in as quick a manner as possible. Particularly in today's restricted credit environment, the limiting factor to deliver this space and speed need is the amount of capital we have available within Heartland's balance sheet. In the cooperative form of business, the only real means of providing capital is through profit generation. How the Board handles these profits that can allow for expanded capital needs is a central point of debate. The Board has discussed several possibilities to cover capital needs including a lowering of the cash percentage for current patronage, less revolvement, and the utilization of tax law advantages. It should be noted that there continues to be other ongoing needs within the Company that further exacerbate the need for capital.

Overall, we should be thankful for the great abundance of grain this year. This is a harvest that should be seen as a harbinger of what is to come and a launching point for discussions on how are we going to prepare ourselves to meet the needs of our customers in the future.

Neal Tapken - Director, Credit & Collections

Crop Input Financing

The crop of 2009 could have potentially been your most expensive crop of all time. Many of you not only had to overcome the obstacles of mother nature but also had to manage the volatile prices of crop inputs. As you prepare for next years crop I encourage you take a look at the risk management tools that Heartland Co-op offers. Last year in this newsletter I mentioned the importance of using our input financing program to help prepare for the higher input costs. Many of you took advantage of the low interest financing that we offered. Last year 63 producers used the crop input financing for a total of over 5 million dollars. The most impressive fact is that 52 of those producers were return applicants which gives an indication that the program is working. Heartland Co-op has offered crop input financing with The Cooperative Finance Association (CFA) for several years and the portfolio has increased every year. The incentive of our input financing program is not only the low interest rates but also the ease of the application process.

2010 Crop Input Financing

Prepay products	CFA base rate*
In-Season products	CFA base rate* plus 2.00%
Third party purchases	CFA base rate* plus 3.00%

*CFA base rate is defined as a variable interest rate set by CFA, 3.50% as of 1/8/2010.

➪ Subject to CFA Input Advantage loan approval and $125 loan fee advanced on the loan.

➪ Third party purchases pending approval from CFA, must be crop related expenses.

Upon credit approval you will qualify for a triple rate crop loan that can be used for all Heartland Co-op products and a few select third party expenses. The application and approval process is quick and easy. All loans under $250,000 are only required to complete a simple two page application. The application review process is handled by CFA and you will typically have a response within 48 hours. Many of you will have questions regarding the CFA base rate. The CFA base rate is a variable rate determined by the cost of funds to CFA. Typically the CFA base rate will match or stay very close to the Wall Street Journal Prime Rate. As a Cooperative, CFA has a history of pricing its loans competitively within the agriculture lending marketplace and sees no particular benefit in doing otherwise. As of 1/8/2010 the CFA base rate is 3.50%.

I encourage you to contact your Heartland Co-op salesman or myself to discuss the benefits of financing your crop input expense using the CFA financing options. Feel free to contact me at 515-974-4337 if you would like more information or a copy of the credit application.

Tom Hauschel - Exec. V.P. of Grain & Risk Management

2009 Brings Change

The 2009 Harvest will be a season that will bring changes to the grain Industry as a result of the challenges created by this harvest. Heartland Co-op experienced record corn and soybean receipts as an overall company, even with the limitations of corn drying capacities and regions of the company where mud and snow never allowed harvest to take place. Back to back high moisture harvest seasons stress the need for additional improvements to our grain handling systems. The elevators which make up Heartland Co-op were not built to handle both high moisture corn and soybeans. The aerations systems in these elevators do not provide the volumes of air flow required to store wet soybeans while removing enough moisture to allow the soybeans to meet current soy processing standards.

The corn story is even more complicated as we are dealing with extreme moisture levels and poor quality corn. High moisture corn pushes the limits of the grain drying systems of the entire grain industry. The combination of low test weight and high moisture bring many new challenges to corn handling and marketing systems. Removing ten points of moisture from a kernel of corn creates stress fractures in the seed coat of the kernel. The stress fractures cause the corn to break during handling reducing storability, increasing mold growth, and reducing air flow through the corn.

Low Test Weight Corn

Low test weight corn brings a unique set of challenges also. Reduced storability, increased mold activity, and the low density of the corn are just a few of the related issues. Low density is the most problematic as it reduces the amount of corn that will fit into each bin.

The low test weight corn also does not meet the quality requirements of many of our long time customers. The resulting loss of markets reduces the sale price of corn received by Heartland Co-op, as well as reducing the price that can be paid to the members for their corn. The low density or pack factor of light test weight corn reduces the amount of corn that will fit into a bin. Heartland is currently experiencing a 10% reduction in storage utilization as a result of the poor test weights. This reduction in space utilization lowers storage revenues and carrying charge returns on the space that the Co-op owns. The financial cost currently is $245,000 per month, or an estimated $2,200,000 for the fiscal year. This opportunity loss converts to 2.5 cents per bushel of corn that each member sells to the Co-op. The resulting marketing losses/discounts combined with the storage utilization losses greatly reduce the revenues Heartland Co-op can return to its members as well as reducing the cash flow needed to make improvements to our grain handling systems.

2010 Construction Projects

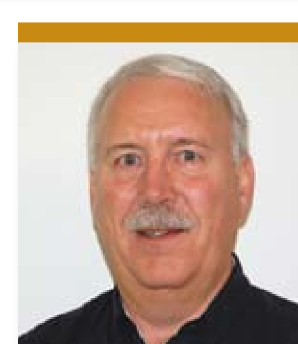
The Heartland Co-op Board of Directors has approved the expansion of three grain locations and the addition of new grain dryers at four locations. The expansion projects will add 1.3 million bushels of new storage capacity and related handling systems. The grain drying projects will add 10,000 bushel per hour of corn drying capacity.

The storage projects will include a 550,000 bushel bin at Malcom, a 375,000 bushel bin at Kellogg, and a 375,000 bushel bin at Redfield.

The grain dryer projects will install additional dryers at Dallas Center, Malcom, and Conroy. The Conroy project will also replace the fill conveyors on the top of the elevator. Avon is the fourth location to get a new dryer. The Avon elevator is a five million bushel grain storage facility which currently does not have a grain drying system. Historically Avon was able to handle the majority of the wet corn tributary to the location by blending wet corn with dry corn from other Heartland locations. The past two harvest seasons have changed the needs of the location.

Rick Petersen - Manager of Diversified Ag Services, LLC

Crop Insurance Part of Your Marketing Plan



We all buy insurance to help control the risk of loss - loss of life, health, property, income or use. Failure to grow a normal crop due to poor weather is a huge risk for producers. Farmers need good production to pay for what they have invested in land, machinery, fertilizer, herbicides, etc.

Crop insurance can replace bushels if they are lost due to a drought but I would contend that covering the loss of revenue is more important than covering the loss of bushels. We've all seen those years when the price was so low that even with normal yields we couldn't generate enough revenue to cover the cost of production. Since 1996 farmers have been able to purchase revenue crop insurance products that would guarantee a minimum, level of income per acre. Each farmer can calculate his cost of production and determine what level of revenue coverage to purchase.

I also want to remind you that you have risk when prices move higher after planting. Seven years out of ten the best price for a crop is before pollination or pod set. That is why many farmers forward contract a percentage of their expected production before they have actually grown it. It only makes good grain marketing sense to forward contract some bushels, especially when the price is above the cost of production. What happens if you contract a portion of your production and then we have a severe drought or hail storm and you can't produce the bushels that you have forward contracted? Normally when this happens the price per bushel also goes higher and the elevator that you contracted with will make you buy back the bushels that you can't deliver on your contract at the higher price. This is where a revenue insurance product with the harvest price option will pay you more for your loss as the price per bushel goes higher. With a higher indemnity from the insurance company you can now afford to purchase the bushels that you can't deliver on your contract.

Revenue insurance products protect you when the price goes lower and they can also protect you when the prices go higher. This is why you should look at crop insurance as part of your grain marketing plan.

You could do the same thing by purchasing put options on the Chicago Board of Trade but it is much cheaper to buy crop insurance. Keep in mind that unlike most other insurance policies, crop insurance is subsidized by the Federal Government. Some crop insurance products are subsidized more than others and it is up to you and your agent to maximize the subsidy you get on your policy but also to purchase the level of coverage that fits your individual tolerance for risk.

Heartland Co-op has agents that can help you chose the right crop insurance product to fit your needs. We can also show you how your crop insurance fits into a grain marketing plan. If you need help, your nearest Heartland Co-op location manager or agronomy salesman will know how to contact me. March 15th is the deadline for signing up for crop insurance for 2010, so you need to be thinking about it now.

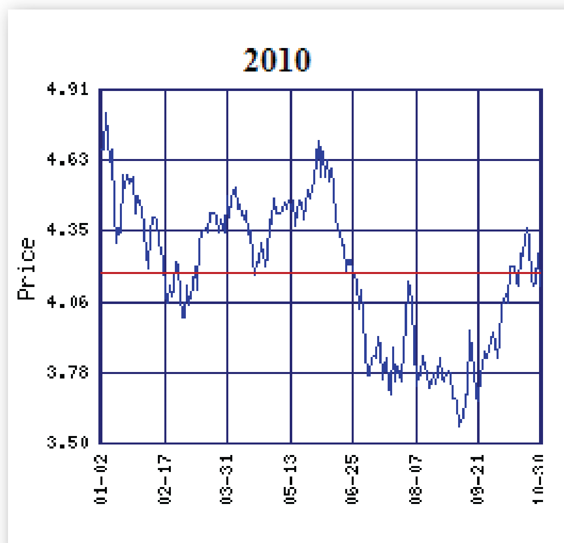
Dean Ohrt - Director of Eastern Grain Origination

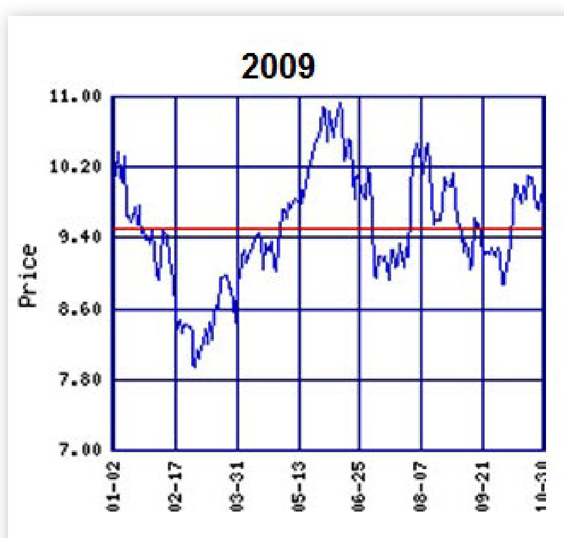
Outlook For 2010 Price Prospects

The January 12, USDA Crop Report has certainly changed the outlook for 2010 price prospects. While the funds add a lot of excitement to markets, they consume nothing and ultimately we have to support prices with real demand. This coming year will see our competitors with better crops but limited export demand. China and ethanol have been the drivers for better prices the past three years. The world financial crisis can change government policies rather quickly. Being one step ahead of the market and capturing profitable hedging opportunities will be critical in the coming year.

It is always good at year end to look back to see where we have been. This past year was filled with many challenges for grain and livestock producers. Again this past year we had several opportunities to sell above the average price. Keeping ones perspective is a distinct advantage and key to grain marketing. Average prices give someone the perspective of where we have been and help us keep our sales above "the line". Last year we worked extensively with our "Beat the Average" marketing tool. It is very easy to work with and performed very well. It takes time to gain confidence but as you work with it, you also will see how it can be of tremendous help in your marketing. The average is a very good thing in grain marketing. Consistently beating the average is quite achievable and quite profitable.

Agricultural options have been around more than twenty years but they have not been adopted widely in producer marketing programs. Options need to be actively managed to be successful. All contracts have advantages and disadvantages. They must be used in the right situation and both parties need to be aware of their risk and limitations. Having been in the grain business since the "Grain Embargo", I have also learned to be quite skeptical knowing there is not a magic bullet. When used in the right situation and with full understanding, premium offer programs can add significantly to your marketing profitability.

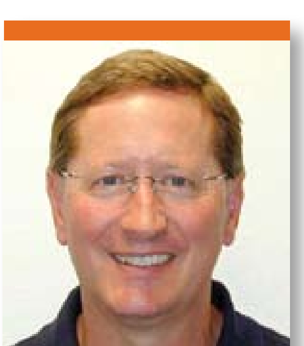




The Accumulator contracting program gives farmers the opportunity to use options to add value to the crop with minimal risk and management. The contract provides guaranteed price and a premium for offering an additional quantity if the market exceeds the premium price. The contracts can be tailored to fit your situation whether you are selling grain or buying for feed. Contact your location or grain originator for full details.

The electronic markets are a relatively new part of the CME and commodity trading and hedging. The volume has quickly moved from the pit to the electronic system. We all have the idea that electronic is better and faster and usually that is the case. However with the rapid growth in this market, there are bottlenecks. Currently there are issues with how the close is determined. The close at 1:15 is the close, but not necessarily. If there are large orders to fill, it will be extended a short time, usually 60-90 seconds. This can create a higher or lower close than you might normally have. For hedgers such as Heartland and other grain buyers, this creates a problem in posting the correct bids. We will continue to monitor this but you need to be aware.

Options and futures in farther out months can be very thinly traded and illiquid. What you may see on the screen may not be tradable. This is frustrating for all of us but it is part of the business. It is helpful for you to give us offers and avoid placing orders in the last 5 minutes of the close. The volume on the electronic trade in the evening is usually good on the nearby and the new crop futures, but the further out months can be very thin. Just be aware. We want to do the best we can for you but we have to work with the CME and its issues also.



Dave Coppess - Exec. V.P., Sales & Marketing

Helping Farmers produce and market, profitably.

Heartland Agronomy Field Assignment Changes

At a recent forum sponsored by CropLife magazine, several key ag retailers throughout the United States came together to discuss some of the drivers and changes taking place within our industry. A common theme brought forth was the current demographic changes taking place at the farm-gate, and the impact / challenges these changes are presenting for ag retailers to create new value for a rapidly evolving customer base.

Ag retailers are finding that customer's value more frequent, timely information, and access to specialists with very specific skills to fill voids they cannot provide themselves. This need varies from customer-to-customer. Consequently, Heartland Co-op has decided to adjust our sales accountabilities to provide a better mix of Sales Agronomists complimented with agronomy specialists.

Our plan is to address this change in a very subtle manner. During the next month, Heartland will be re-assigning a small segment of our sales team to broaden their accountabilities from Sales Agronomists to Sales Account Managers. This small nucleus of people will assume accountability for building a relationship with the "next generation" farms so that we can more thoroughly understand their specific needs, and develop equitable programs for growing this business with Heartland.

We will also create some new positions with very specific skill roles such as Seed Sales Specialist and Precision Ag Sales Specialist positions to compliment the Account Manager and Sales Agronomist efforts. These jobs represent very specific needs that all of our customers seem to value. There may also be a few other tweaks as these changes unfold and we adjust to the marketplace.

Our overall objective is to bring more specific skills and information to the market that will create value and differentiate Heartland from our competitors. We believe we have the resources to make these adjustments with minimal disruption to our current agronomy support and customer service levels. We ask your patience and support while we work through these adjustments. We think you'll be pleased with the outcome.

Kevin Lange - Certified Energy Salesman

Petroleum News

Total Protection Plan Warranty Program – New and Used Equipment

As we enter the new year of 2010, I would like to look back at fall 2009 for a moment. September showed signs of normal fall weather, which then turned into a wetter than normal October, followed by above average conditions in November. I believe more hours were spent on harvest and tillage in November than I have ever seen before. This not only added to farmer stress, but we worked our equipment countless hours and may have overlooked some important maintenance.

Now that things have settled down a bit and you have time to evaluate your equipment line, you may be looking to purchase or upgrade to a newer model. I would like to talk to you today about a program Heartland Co-op and CHS Inc. offers to its Fuel and Lubricant customers.

It is called the Total Protection Plan (TPP) Warranty Program.

Let's look at what makes this warranty the best in the industry:

1. Covers new equipment for up to 10 years or 10,000 hours, used equipment for up to 8 years or 8000 hours.
2. Covers a wide variety of equipment.
3. Extends protection above and beyond your equipment manufactures warranty.
4. No deductable.
5. Requires no burden of proof.
6. Includes periodic maintenance reminders to help keep your equipment in top shape.
7. Helps avoid down time through Lube Scan fluid sample report that provides insight into internal equipment condition.
8. Transfers to purchasers of your equipment.

Whether you buy new, used or have qualifying equipment sitting in your machine shed, you simply won't find a better way to protect your investment than with the Total Protection Plan Warranty. It is a small investment to make in exchange for valuable piece of mind.

Think of it as a no fault insurance policy that will keep you in the field instead of the shop. There's no burden of proof and no deductable, which can really pay off and help keep things moving during crunch time.

You get unsurpassed coverage while ensuring that only high-quality products are being used in your equipment. When using Ruby Fieldmaster Premium Diesel Fuels and Cenex Lubricants exclusively you can get up to 10 years or 10,000 hours of engine and transmission coverage.

When you are making a purchase, ask your dealer if the tractor or combine has a TPP Warranty. Bring the equipment lube scan reports to your Heartland Petroleum Salesman and he can help to interpret the condition of the equipment. If you are trading equipment that has an existing TPP Warranty, the warranty will add value to your trade-in.

Protection + Performance = Peace of Mind

That's what Heartland Coop and the Total Protection Plan Warranty Program offers you. Contact Heartland's Petroleum Salesman in your area for details on how you can take advantage of this great offer:

West - Kevin Lange - 515-240-3663 kevin.lange@chsinc.com
Central - Adam Wissink - 515-231-9047 adam.wissink@chsinc.com
East - Chuck Barnes - 319-231-5319 chuck.barnes@chsinc.com

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PO Box 71399
Des Moines, IA 50325-0399

Address Service Requested

HEARTLAND CO-OP LOCATIONS

Alleman 515-685-3541 866-613-0094
Belle Plaine 319-444-2154 800-328-2667
Blairstown 319-454-6411
Booneville 515-996-2295 800-244-8579
Cambridge 515-383-4345
Carlisle 515-266-4215
Chelsea 641-489-2724
Collins 641-385-2334 800-448-4028
Colo 641-377-2253 800-397-9513
Conroy 319-662-4100 800-272-6422
Dallas Center 515-992-3767 800-362-0305
Des Moines 515-262-2522
Elberon 319-439-5382
Enterprise 515-964-2390
Gilman 641-498-7495 800-493-6019
Grundy Center 319-824-5466 800-319-7775
Hartwick 319-525-2311
Holland 319-824-6638 800-375-6638
Indianola 515-961-2505 800-992-2505
Jewell 515-827-5431 800-728-0017
Kellogg 641-526-8236 800-845-1075
Laurel 641-476-3427 800-861-7275
Lincoln 641-473-2640 800-392-2667
Luther 515-795-2386
Luzerne 319-434-6211
Madrid 515-795-3047
Malcom 641-528-2535 800-273-4485
Marengo 319-642-5529
Melbourne 641-482-3206
Minburn 515-677-2256 800-422-0298
Mingo 641-363-4250
Mitchellville 515-967-4288 866-605-8167
Montezuma 641-623-5727
Napier 515-292-2323
Newburg 641-498-2553
Panora 641-755-2114 800-422-0914
Pickering 641-478-3296 800-542-7887
Prairie City 515-994-2651 800-383-0723
Randall 515-328-2315 800-334-1182
Redfield 515-833-2953
Reinbeck 319-788-6831 800-717-2667
Rippey 515-436-7411 800-442-7411
Slater 515-685-3571 800-779-3571
Stanhope 515-826-3226 877-255-3506
Traer 319-478-2147 888-243-2149
Washburn 319-296-1392
Waukee 515-987-4511 866-616-8495
West Des Moines 515-225-1334 800-513-3938
Winterset 515-462-4611 866-605-8168

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Producer Checklist

1. Review your 2010 business goals with your agronomist.
2. Finalize remaining pre-pay plans
   A. Fertilizer
   B. Crop Protection
   C. Seed
3. Process Yield Data with your agronomist
4. Precision Hardware - Planter Clutches, Guidance Systems -
   Jason Ribbens 515-249-1659
   Thomas Fawcett 515-975-7843
5. Headline promotion $100/gallon rebate
6. Track other Grower Rebates