



Garden City Co-op, Inc.

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Annual Report 2008

There is much to celebrate in the progress made by your Co-op in the fiscal year 2007-08. Your Co-op is reporting record earnings of almost \$18 million before income taxes. That is a 34.8% return on equity. Not all of that comes in cash today, but almost all financial indicators are improved for your Co-op, some in record fashion. The requirements for a strong balance sheet and good earnings are high given the many demands to finance higher priced commodities. We were happy to bear the burden for the higher grain prices while they lasted that resulted in opportunities for our members. We hope for their return.

We find ourselves in a turbulent time in worldwide financial and agricultural commodity markets. This unprecedented volatility has presented many challenges and opportunities. As we near the end of our 8th decade of serving famers in Southwestern Kansas, it is appropriate to first celebrate the fact that we are still here. Many well known firms across the country will not be having annual stockholder meetings in the coming year because they no longer exist.

This year, we were able to meet the challenge of commodity prices extending our credit needs from a historically normal level of \$10-14 million to a high of \$110 million. That required a huge infusion of working capital to support that level of debt. It required us to have the discipline to do a few things we would have preferred not to do. The main examples of this were the suspension for part of the year of grain contracting past the current year's crops and the second year without a significant equity retirement. I appreciate the discipline expressed by the management team to make the difficult choices to keep your Co-op strong and viable. I appreciate the Board's hard work in understanding the challenges, risks and opportunities we experienced over the last year. They lead the way in maintaining the absolute strength of the balance sheet that we continue to enjoy.

In the last year, we have had major restructuring in our petroleum business. It was important for the Co-op to refocus on the agricultural production needs of area farmers. We exited many businesses that were primarily a supplier to the non-agricultural patrons in our hometowns. In the last year, we sold service stations and truck stops. We sold all of the automated fueling stations from

Brownell to Garden City. We made money in some of the transactions and did not in others. The important thing to recognize is that we now have very few assets that are not directly related to your needs on the farm. This is important because it is no longer necessary to expose ourselves to the risk of a volatile fuel market. We will no longer subsidize non-farmers with poor retail fuel margins and be distracted by running businesses that don't directly affect your farm. The good news is that we were able to dispose of those businesses as functioning contributors to their communities. The towns will be well served by the dedicated management provided by local people that were given a chance to run their own family business. Everyone in these transactions was a winner. We were able to keep our promise to the communities that we would not close these important businesses.

The Garden City Co-op has invested heavily in fixed assets over the last year to improve our level of service to you. We have added grain dryers, application rigs, a seed cleaner, warehousing and trucks. We have positioned ourselves for future growth within our current trade territory by the purchase of real estate close to existing facilities in need of expansion. We obviously would like to do more by improving existing grain storage and handling. We are committed to do that as we can. Most importantly, we will need to be disciplined in those investments so that our financial strength is maintained.

The Co-op's outside investments have made another huge contribution again this year. East Kansas Chemical returned an astonishing 47% on our equity. WindRiver Grain returned 30% on our equity. Our new start up, Western Ag Chemical, returned 30% in its second year. We had nice gains in our petroleum partnership with six other co-op partners. CHS continues to be a huge contributor to our operations by both sharing the earnings from their refineries and contributing to our extraordinary growth. This year, we marketed over 65 million gallons of fuel making us the largest customer CHS has. This year's patronage from their fuel earnings should make us the largest shareholder of that incredible cooperative. It is true that not all of these earnings from our investments are returned in 100% cash. Those companies must also protect their balance sheets and our investment. It is also true that we are able to use our ownership in these fine companies to return large earnings that were not created by margins from the business we do with you. My only criticism of our investment portfolio is while it is substantial, we could always use more of that kind of action. We just have to watch carefully for opportunities to work with neighboring co-ops to continue to create new profitable services for you.

Weather extremes, commodity markets, global influences, the credit crisis and the fluctuating dollar make this a challenging business out here. With all of the turmoil, it is difficult to remember this has been a great year; by any measure though, this has been a great year. We have improved our financial strength and brought our business back into focus on you and your farms. That is a formula that has worked for almost 90 years.

We would love to do more and plan for that improvement in services and the return of more dollars to you. You have our assurance that we will do exactly that as we can. There are examples of trying to do too much too fast though. A Co-op in Eastern Kansas is trying to sort out their bankruptcy with a judge that is holding members out of the money grain and input contracts and not allowing the co-op to perform on contracts in the farmer's favor. This is the extreme but these are extreme times. You can be assured that your Co-op continues to improve in financial strength so that we are a contributor to your farm that you can count on.

This year, the Co-op has shown what can be accomplished by a committed group focused on a single end result. The dedication of our employees in handling two record crops and showing growth and profit in almost every business segment is obvious. Please thank them as they serve you because that means a lot. Our management team demonstrated insight and discipline in a profitable but challenging year. The Board provided strong leadership and encouragement as we advanced through the year. The results all boil down to you as member/owners. We hope that we have met your needs and you are proud of your investment in this wonderful Co-op.