

Directors' & Manager's Report



DAN JONES
Board Chairman

Mid-summer greetings! Judging from a recent trip to Fargo over the 4th of July weekend, our trade area in south-central Minnesota has the best looking crops in the state. Other places are certainly wetter and later in their crop development than those in our geography. Like our parents always told us, "things could always be worse."

Mark your calendars for one of the upcoming Customer Appreciation Pork Chop Dinners to be held on September 13th and 14th. In the past, we've held three of these events: one in the west area at LaSalle; one in the central area at Nicollet, Lake Crystal, or Vernon Center; and one in the east

area at Janesville. This year, we are combining the western and central appreciation dinners with a single one to be held at our Highway 60 site in Madelia. This will double as our Open House for the new 4.5 million bushel grain storage building being completed this summer.

Later in August, Crystal Valley will be mailing out equity revolvment checks to our patrons. These tax-free returns will be for deferred local and regional equities from 1996 for Crystal Cooperative, LaSalle Farmers Grain, Southern Valley Coop and Tri-County Coop. In addition, we'll clean up all the remaining old regional equities from the Southern Valley and Janesville-Waseca Ag Cooperatives.

The feed division recently completed a major upgrade to the mill in Janesville. A micro-ingredient and computerized automation system was installed to improve the feed milling efficiencies and reduce the amount of manual labor required. Additional storage for DDGs was installed along with modification of the receiving system in order to not tie up a grain dump while bringing in feed ingredients.

If you haven't been following the construction progress on our new grain storage project in Madelia, you can do so by going to the Crystal Valley website home page and clicking on the link. The roof is nearly finished, the floor will be poured soon after, and then millwork will need to be completed. We plan to be ready well before corn harvest.

Thank you for your patronage.



ROGER KIENHOLZ
General Manager

DIRECTORY

Main Office

507-726-6455
800-622-2910

Darfur

507-877-5011
800-658-2475

Elysian

507-267-4305
866-317-3136

Janesville

Agronomy
507-234-5155
507-835-1720
866-458-9886
Grain/Feed/Petro
507-234-5610
507-835-3646
800-201-3646

Lake Crystal Grain

507-726-2051
800-451-3984

Agronomy
507-726-2057

Petro-Propane
507-726-6455

LaSalle

507-375-3468
507-642-3300
507-439-6385
888-544-7687

Madelia

Agronomy/Petro
507-642-3276
800-245-5857
Elevator/Hwy 60
507-642-8896

Nicollet

507-232-3453
800-720-3453

Vernon Center

Agronomy
507-549-3056
Grain/Feed
507-549-3722
888-501-5947

Waldorf

507-239-2172
800-569-1321

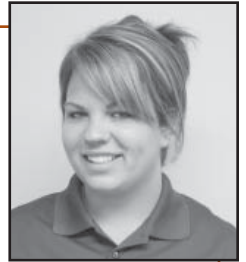
An aerial applicator spreads urea as
it flies over a patron's field.



Did you know Crystal Valley has a Summer Internship Program?

Every year Crystal Valley hires college agricultural students as summer interns. Our interns are a valuable part of Crystal Valley and help perform the daily tasks of summer. Typically, each location has an agronomy intern, and on an occasional basis, our other departments—grain, feed, and energy—also hire summer interns. Currently, we have 12 interns that have joined the Crystal Valley team for Summer 2011. This year, we have eleven agronomy interns focusing on crop scouting, tissue sampling, soil sampling and other seasonal tasks and one intern spending time in both grain operations and grain marketing. An internship at Crystal Valley is a great way to add hands-on work skills and knowledge in your desired field to your college learning experience. Crystal Valley has recently expanded its internship program, adding an orientation meeting and final presentation to the overall experience.

Even though summer is not over, Crystal Valley is already thinking about next year. We will be attending several agricultural college campus career fairs this fall, hoping to recruit great interns to work with us in Summer 2012. Ashley Leivermann, Crystal Valley's new Human Resources Coordinator, will be attending the fairs and helping to coordinate the hiring of the interns (as well as full-time positions). If you are a current college student majoring in an agriculturally related field, please get in contact with Ashley this September or October. Ashley can be reached at the main office, 507-726-6455 or Ashley.leivermann@crystalvalley.coop.



ASHLEY LEIVERMANN
Human Resources



Students in attendance at the 2011 Summer Internship Orientation stop for a picture with General Manager, Roger Kienholz (far right). The orientation was held in April and enabled students to learn about their new roles and meet Crystal Valley staff and fellow interns.



DALE BOTTEN
Agronomy Manager

Agronomy Report

A late spring resulted in a short and fast planting season for both the corn and soybean crop. A large percentage of the crop was planted within a week. A wet and windy June resulted in a short window to get post-emerge spraying completed for corn and soybeans. We saw record amounts of nitrogen side dressed on the corn crop this summer. With the addition of three high clearance sprayers, Crystal Valley was in a better position to handle additional requests by customers for side dressing nitrogen. With the large number of corn acres that our agronomy staff was able to tissue sample in June, we were able to identify nutrient deficiencies in the corn crop. Secondary and micronutrients were added at the time of post emerge spraying to address those deficiencies. Crystal Valley was able to offer side dressing of corn in the form of aerially applied urea on a significant number of acres. This is a new customer service for Crystal Valley. If there is a continual interest in this service, we plan to offer it again in the future.

Crystal Valley is offering to our customers the option to contract fertilizer for the Fall 2011 and Spring 2012 application season. Customers should consider contracting and prepaying for their crop nutrients as they contract their grain for the

2012 production year. Early fertilizer contracting will allow customers to purchase crop nutrients at a set price, allowing your cooperative to have those products available when you need them.

With the higher cost of crop nutrients, soil sampling is still the best way to obtain the most efficient use of your fertilizer dollar. Our agronomy staff has been soil sampling this summer. A large percentage of this sampling was grid sampled. Because of the large amount of grid sampling completed this summer, we expect a large amount of VRT application this fall. This would include VRT application of dry fertilizer, anhydrous ammonia, and lime. Our locations are equipped to handle all your VRT custom application needs. If you have not signed up to have your fields soil tested, please contact your nearest Crystal Valley agronomy location.

After experiencing a very late spring planting season, it reminds everyone that getting as much fertilizer application done in the fall of the year saves time and money. The fall season is still the best time, because of timing and price, to apply your crop nutrients and pre-emerge Dual herbicide.

With all the changes going on in agriculture today, Crystal Valley is committed to focusing on your needs now and in the future. Thank you for your support of Crystal Valley and let us know how we can serve you better in the future.



MATT SCHOPER
Agronomy Sales Manager

HOW IS YOUR CROP DOING?

What a spring filled with challenges due to the curve balls thrown at us from mother-nature! With all the rain we have experienced this spring, it is time to think about how it may have affected the nutrient availability in your crop. The crop has a large nutrient demand over the course of the summer months, which helps determine your yield levels in the fall. At Crystal Valley we are seeing that additional Nitrogen is the macronutrient most needed this growing

season. We are also seeing some micronutrient deficiencies such as Zinc, Manganese and Boron. A great way to get a report card on your crop's nutrient utilization is to have a tissue sample test completed. The tissue sample test, conducted by Crystal Valley's Agronomy Department, will indicate whether or not you have sufficient levels of macro- and micronutrients available to maximize your yield potential. Please contact your local Crystal Valley agronomist if you have questions or interest in getting a report card on your corn and soybean crop.

AGRONOMY STAFF UPDATE

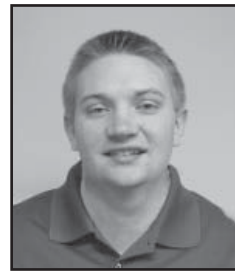
Since the last newsletter, we have made some changes to our agronomy team to help serve your needs better. We have recently added two new sales agronomists and a new precision



JASON LEARY
Agronomy



DAVE ULFERS
Agronomy



RITCHIE SCHAEFER
Agronomy

ag specialist to our staff. The first addition is Dave Ulfers at the Waldorf location. Dave brings years of great experience from his work in the seed and crop protection business prior to coming to Crystal Valley. The second addition is Jason Leary, a recent graduate of South Dakota State University where he focused on precision ag. Jason will be working out of the Madelia location; however, he will help serve the precision ag needs of all our locations. Our final change was transitioning Ritchie Schaefer out of his precision ag specialist role into a sales agronomist position at the Nicollet office. Please help me welcome the new agronomy staff members to Crystal Valley! Additionally, we have eleven summer agronomy interns this year. There is at least one intern at each location, and we are pleased to have these students with us.



JEFF SPENCE
Grain Manager

Grain Report

OPERATION UPDATES

The building project in Madelia is proceeding along well even with all the rain we have had so far this year. The sheeting on the roof is expected to be completed by the end of July. The cement floor should be finished by the middle of August, and the millwork should be completed by the end of August. The

new outbound scale and scale building have been completed and are already in use to speed up dumping capabilities. We are also installing the CompuWeigh Smart Truck dumping system to not only increase the speed of the scales but also the accuracy of putting the correct name on all the scale tickets. We still fully expect that all the construction at the Madelia site will be done prior to the fall harvest.

Trains have been coming on a timely basis, and we are hoping the flooding will not get any worse to change this pattern. We fully expect to have all the elevators empty by harvest and ready to handle this year's crops. We are not expecting to see many changes in discount, drying, and storage charges this year. We will send out a notification prior to harvest.

MARKETS

Whoa! The markets this year continue to be a roller coaster ride. With so many things playing into the markets from around the world there is no way to predict the highs and lows. The June 30 USDA acreage report numbers were a big surprise. They found more corn acres (92.3 million acres) than the

trade was guessing (90.7 million acres). They also raised our corn on hand by 368 million (now estimating on hand bushels to 3.267 billion). In beans, they reduced the acreage (75.2 million acres) from trade expectations (76.5 million acres) but raised our beans on hand by 29 million (.619 million bushels verses .590 million bushels). The funds are running for cover and liquidating long positions for now. USDA has announced that there could be a problem with their acreage numbers and they will update them in August. The bears will be in control for a while but weather, China purchases, Greek defaults, or other unexpected events could still be a major factor that could change the pricing outlook prior to harvest.

EMPLOYEE UPDATES

I want to welcome some new employees to the grain division. Brett Annexstad has recently joined us as a replacement for Christian Eberhart. Brett will be handling the grain origination for the east side of our territory. Brett is from a farm near St. Peter and has previous work experience with CHS in Grain Merchandising. At our Madelia location, Chad Clobes is now the Grain Superintendent, Nathan Boomgarden is a new Grain Operator and Corey Wiederhoeft is our Summer Intern. At our Lake Crystal location, Joe Williams has joined Grain Operations replacing Marty Christenson who has retired. At our Janesville location, Logan Juliar and Tanner Flitter have joined our Grain Operations. We feel we have made some great additions to our work force and hope you get a chance to get to meet and know each of these employees you will be working with for years to come.



GARY HULKE
Credit Manager

Credit Report

BELT-TIGHTENING

The financial crisis over the last few years has led banks to tighten their credit terms. It has become more difficult to borrow money without proving how you are going to repay the loan. Along with banks, our state and federal governments are also attempting to do some "belt-tightening."

At Crystal Valley, we also continue to monitor credit terms and our customer's ability to pay for the products and services we provide. We do make changes to individual accounts frequently based on our experiences with the individual customer. Continual monitoring of individual accounts for payments leads to a stronger company which benefits all of our members. Thank you for your patience and understanding when these changes affect your account.

FINANCE CHARGES

When account balances become past due, cooperatives are allowed by law to assess finance charges of 1 1/2 percent a

month, which equates to an 18 percent annual rate. This rate is very comparable or even lower than other forms of unsecured credit extension. Many credit card rates are in excess of 20 percent annual rate. Secured credit is generally at a substantially lower rate because the lending institution has security in one or more of your possessions as collateral.

Crystal Valley's primary purpose in business is to provide you with the products and services you need. Using accounts receivable balances for financing is not part of our core business services. Paying your account before the due date indicates good management practices on your part, and we appreciate those timely payments.

RETURNED CHECKS

Most payments come to Crystal Valley in the form of a check. Returned checks will have a \$30 service charge added to the amount owed. Your check and/or service charge may be electronically represented. Additional civil penalties may be imposed on dishonored checks for non-payment after 30 days.



RYAN BRANDTS
Grain Originator

Grain Marketing Report

Well I think most people would agree that saying this spring was a challenge is an extreme understatement. Producers have battled the weather from the beginning of planting all the way through the attempt to finish spraying. There are rarely many certainties in weather and markets, but I think it's safe to say that this year they have been both volatile and unpredictable. With both weather and marketing being extremely important to the profitability of your operation, it is important we are exercising some risk management and taking advantage of the potential record profitability.

Market volatility continues to be the norm. In the last month, we rallied to new highs of \$7.9975 and only ten days later saw price decline by a \$1.60 in the July 2011 corn contract. The USDA report was a surprise and the market has dropped dramatically in light of the higher than expected planted acres and grain stocks. Ironically, this same report a year ago gave us the surprisingly bullish estimates in both the acreage and grain stocks that helped jumpstart the current price rally. Don't believe all hope is lost due to the current USDA numbers.

With the extremely high prices, we have been cautioning producers to not get too complacent. There are a lot of uncertainties that may drive volatility and impact price direction dramatically one way or the other for the crop currently in your field. However, with the future prices still very profitable for 2011 and 2012 production, we encourage you to take a look at your breakeven and potential profitability and make some sales accordingly. As we have seen over the last few weeks, high prices are not guaranteed and can deteriorate quickly. We would rather see you make proactive sales based on your profitability and not reactively based on market volatility.

I'd like to take this opportunity to welcome Brett Annexstad to Crystal Valley. Between Brett and myself, we look forward to helping you with all of your grain marketing needs. If you have any questions feel free to call Brett at 507-381-2910 or myself at 507-380-9959. We hope you enjoy the rest of your summer.



BRETT ANNEXSTAD
Grain Originator



Construction progresses on the Madelia Grain Storage Building.



GLENN THOMPSON
Energy Manager

Energy Report

Crystal Valley would like to introduce your energy sales staff. There is a sales representative in your area that will be happy to assist you with all of your petroleum, propane, and oil/lube needs. Contact the salesman in your area about contracting, market trends, and new products. Sam Schwark is the newest member of Crystal Valley's energy department team; he is helping with

sales, service, and delivery in all areas. The energy sales staff would like to thank you for your continued support, and we look forward to serving you both now and in the future.



PAUL HUEBERT
Oil & Lube Sales



ERIC HOPP
North Energy Sales



SAM SCHWARK
Energy Sales & Service



DARIN WILMES
West Energy Sales



JAKE COLE
South Energy Sales



BILL LANDIN
East Energy Sales

NEW OIL CATEGORIES FOR PASSENGER CARS

Several automakers, including Chrysler and Ford, are starting to require SN-rated oils in some of their engines. The new grade is designed for better gas mileage, increased lubrication, protection for turbocharged and ethanol fueled engines, and cleaner burning.

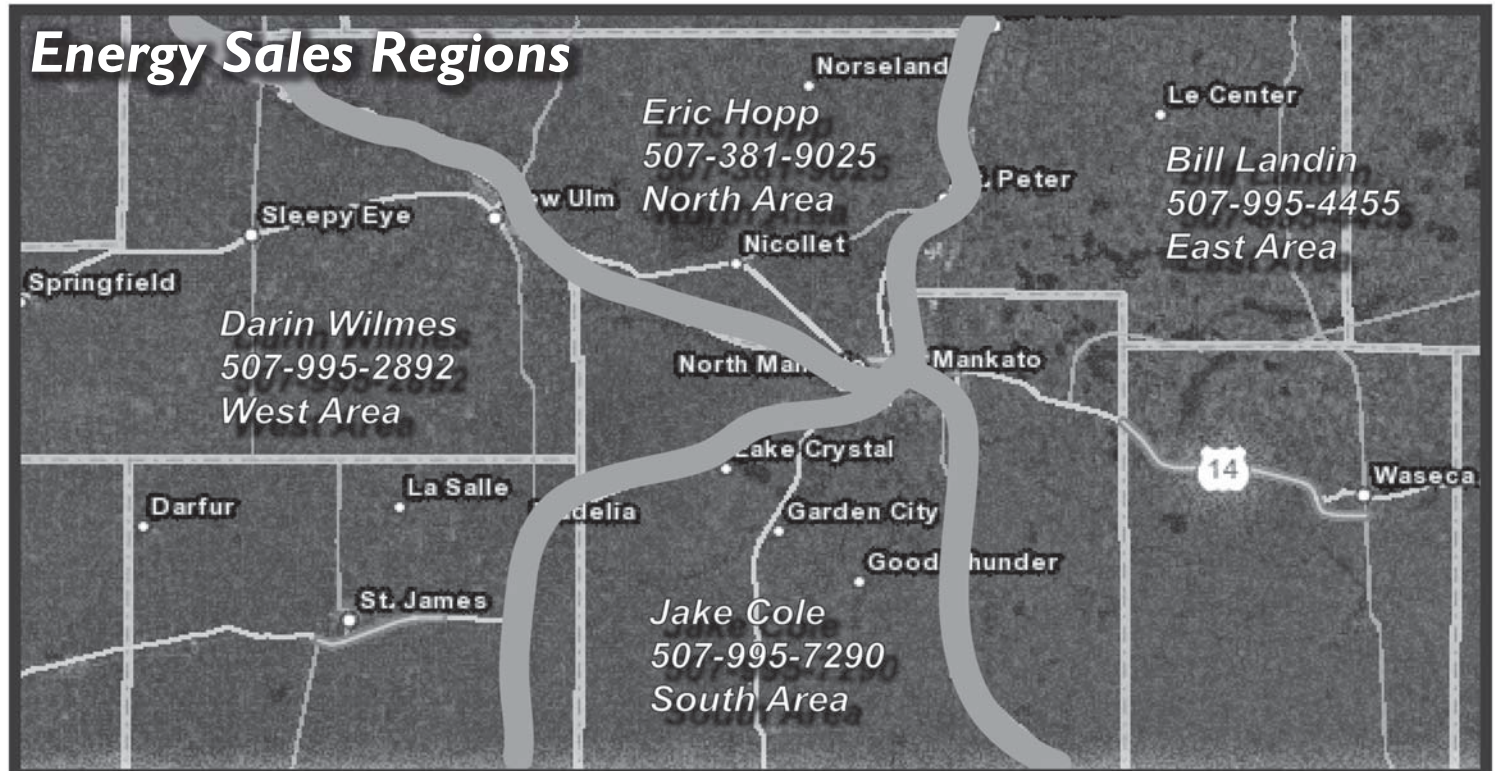
SN rated oils have measures to prevent phosphorus and sulfur from getting into the exhaust, and to extend catalytic converter life. Most customers with newer vehicle makes should find they are changing oil far less frequently even without the newer oils.

Grades of SN-rated oil available included 10W-30, 0W-20, 0W-30, 5W-20, and 5W-30. Most 2012 model year cars from all manufacturers are expected to use SN rated oils; the replacement cost is expected to be 10% higher, but due to the more highly refined base, the oil should last longer in normal use and result in less engine wear. Owners should be able to spend less overall due to wider spaced change intervals; customers should know that 3,000-mile changes are no longer needed in most cases.

Oils have been passing increasingly strenuous testing since the first American Petroleum Institute certifications were created. As with most new formulations, SN are backwards compatible though those with some classic cars may need to consider zinc replacement additives.

For additional information contact your Crystal Valley Oil and Lubricant Salesman, **Paul Huebert** at **507-381-1246**.

Energy Sales Regions





WILL BOWERS
Feed Manager

Feed Report

JANESVILLE

The remodel project in Janesville is nearing completion, and I would like to thank all of our patrons for their understanding and patience during this project. During the past couple of months the staff at Janesville has had to endure some long days due to the production interruptions and has done a great job in keeping their customers supplied with the quality feed you expect from Crystal Valley.

In addition to my gratitude for their work during the mill remodel, I would also like to congratulate the Janesville mill on their recent Land O'Lakes Dedication to Quality Award for licensed feed manufacturers. The Janesville mill, along with our other two mills at LaSalle and Vernon Center, are dedicated to producing high-quality feed and providing top-notch service to you every day.

MARKETS

The recent Hogs and Pigs report showed numbers slightly above industry estimates but also showed that there is no major herd expansion expected for 2011. The June 1 total number of pigs in the US totaled 65 million head. That was only .5% higher than last year, which illustrates that there has not been any major expansion in the industry. This report has given the market a chance to stabilize a bit and given hog producers a few opportunities to lock in positive margins. The USDA has also helped livestock producers out with a rather surprising Acreage and Stocks report for the June 30th. With the bearish numbers that have come out of the report, producers may be able to price inputs at levels we have not seen for a while.

NEW FEDERAL REQUIREMENT

New federal food safety requirements are quickly coming to the feed industry. We have always been responsible for ensuring that your feed is labeled and manufactured with the correct nutritional values and does not contain unsafe additives or contaminants. Additionally, we have also been responsible for ensuring that any drug additives are approved by the FDA for use in animal feeds. To meet those requirements we have in the past carefully adhered to the FDA's Feed Manufacturing Standard. However, recently Congress has passed new requirements, called the Food Safety Modernization Act (FSMA). These new requirements will require your Crystal Valley feed mills to go above and beyond our current established best practices. In much abbreviated terms, now

virtually every aspect of how we make and deliver your feed has to be carefully documented and certified. To meet these new requirements, Crystal Valley is in the preliminary stages of creating a Hazard Analysis and Critical Control Point (HACCP) program. HACCP programs are based off seven principles. Principle one is to conduct a hazard analysis. Principle two is identifying critical control points. The third step is to establish critical limits for each critical control point. The fourth principle is to establish critical control point monitoring requirements. The fifth would be to establish corrective action plans. Principle six is to establish procedures for ensuring the HACCP system is working as intended. The seventh and final step would be to establish proper new record keeping procedures. I think you can see by the comprehensive list of seven principles that this will be quite an undertaking. We are currently interviewing outside companies to help us look at our facilities and develop the correct program for each mill. In a perfect world, it would be great if Crystal Valley could establish one program for all three mills. But, we all know that we are far from a perfect world. The fact that all three mills handle products and make feed differently requires that we do three separate HACCP programs. We plan to complete and implement our new HACCP programs before the new FSMA requirements go into effect.

Thank you for your continued business, and have a safe and pleasant summer!



Russ Crawford (center), Janesville Feed and Grain Location Manager, accepts the 2011 Land O'Lakes Dedication to Quality Award. Also in attendance were (from l to r): Kevin Roeker, Roger Kienholz, Will Blowers, and Land O' Lakes Representative, Scott Wassink.



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Lake Crystal, MN 56055
www.crystalvalley.coop

PRSR STD
U.S. POSTAGE
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Madelia, MN
56062

Crystal Valley Customer Appreciation Dinners

September 13 - Madelia Grain Storage Building 4:30–7:30PM

September 14 - Janesville Seed Shed 4:30–7:30PM

Please let Crystal Valley say thank you for your patronage and join us at either Madelia or Janesville for a delicious pork chop dinner served by Crystal Valley employees. The dinner in Madelia will also serve as the Open House for our brand new 4.5 million bushel grain flat storage building.



We hope to see you there!