



February 2011

PGG Energy Operations

PGG Energy is comprised of Propane, Refined Fuel, Lubricants & the Auto Service Center. Bryan Bailey serves at your Energy Operations Director.

The PGG Propane department continues to see moderate growth despite the slow economy and lack of new construction in our service area. With our company's vision to expand and grow, PGG purchased a propane company which operates in Arlington and provides propane service to Gilliam, Wheeler, and Morrow Counties and will provide more opportunity for growth into areas not currently serviced by PGG. We currently provide propane sales and service to over 2600 customers throughout NE Oregon and SE Washington with annual sale approaching 1.5 million gallons. Our propane operation consists of a rail terminal located in Hermiston that is capable of offloading propane railcars into two 30,000 gallons storage tanks. The propane is then transported from the Hermiston rail terminal to our bulk facilities located in Milton-Freewater, Pendleton, and Arlington where it is then loaded onto one of our four delivery units and delivered to our customers.



As the propane business continues to grow we will explore new technology such as electronic metering for the delivery trucks which will increase efficiency and reduce invoicing errors, and the use of routing software which will increase delivery efficiency and reduce out of gas situations. With the increase of propane use, we have added an addition Service Tech to support propane appliance installations and service. Much of the success and growth that we have seen is directly attributed to our dedication to superior customer service and hard work of the propane team as well as the programs we have developed to assist our customers with the cost of winter heating, such as the Budget Payment Plan and the schedule delivery program.

The PGG Petroleum department has seen significant growth over the last couple of years. We currently deliver more than 4.5 million gallons of fuel annually. We have expanded fuel delivery into the LaGrande area and have added an additional driver and fuel delivery unit to ensure customer service. One program that has proved to be a valuable tool in growing our fuel business is the Fixed Forward Price program. With this program you are able to fix or lock in a price for a certain volume of diesel or gasoline and then take delivery of that product during the month you indicate. This program is a great tool in assisting our customers on their budgeting process or used to hedge against higher fuel prices during the peak demand season. The prices are posted daily on the PGGCOUNTRY.COM web page. As with the propane department, much our success in the petroleum department can be directly tied to the continued emphasis on customer service and hard work of the petroleum team. I would like to thank all of our customers for their continued support now and into the future.

PGG Country Newsletter is published by PGG Staff every quarter.

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if there are topics that you would like to see published, if you would like to unsubscribe or
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Michelle Fox at 541-278-5004 or e-mail her at mfox@pggcountry.com



From the CEO's Desk

Off to a Great Start!

In the last newsletter I expressed excitement over having our PGG Pure Canola Oil on the shelves before Christmas. That didn't happen. We had scheduled an inspection of our crushing facility, but due to inclement weather our inspector cancelled. We scheduled two more times, but the inspector cancelled. Finally, we received our final inspection the last week in January and we are good to go.

We did not want to put our product on the shelf until all our processes had been inspected. The PGG Pure Canola Oil will be on our shelves in each of our stores the first week of February. I hope you will stop by and give it a try.

Currently, we are wrapping up our year end paperwork for 2010 and the completing our year-end audit. Final results will be presented to the membership at our annual meeting in April. We have had an outstanding year as you will note in our CFO's report.

It wasn't without its challenges, but I believe our team met those challenges and we are seeing the fruit of their hard work and commitment. As we look to 2011, our senior managers have developed an aggressive Annual Plan of Operation. We have a lot of work to do but we are excited about the possibilities.

As our economic, market and technology environments change we as a company must adapt to those changes in order for PGG to remain competitive and relevant in the business environment. I can truly appreciate what James Hill Jr., PGG General Manager 1934-1970 said many years ago, "As times change, there must inevitably be adjustments. Will not these same changes bring new opportunities?" Incredible insight as how true this is today, a lot of challenges requiring adjustments, but filled with opportunities.

So, 2011 is off to a great start! And I hope that each of you have a wonderful year as well.

Allen B. Haggomer



Financial Report Melanie Correa CFO

PGG had an exceptional year in 2010! Sales for the fourth quarter (October – December) increased 87% over fourth quarter last year. Year to date sales, improved 19% over last year, exceeding \$150 million.

We are still wrapping up the year- end numbers and completing our financial audit, but preliminary earnings are well above our budgeted projection of \$1,506,226. 2010 could be one of our best years.

The volatility in the grain market was challenging at times, however, grain operations led the Company in earnings. Agronomy operations capitalized on market volatility, procuring product at the best time.

While the Energy group increased volumes in both petroleum and propane markets, earnings were slightly below budget due to less margin in the market.

Retail and Pump & Irrigation continued to experience the downward pressure from the economy, with earnings below budgeted projections.

As we look forward, the Board of Directors has approved the 2011 budget with a targeted net income of \$1,729,000. All operations have completed their annual plan of operations which will guide them as they implement the strategic plan of the Board. We continue to look for ways to improve our processes and become more efficient and effective. I am anticipating a lot of change in 2011 as we implement these new processes, and am excited about the opportunities that may present themselves.

Our management team is prepared and ready to begin a new year!

Melanie Correa

I am excited to announce that our Canola Oil Products have been approved and that they are now available in all of our Ag Supply stores. It is gratifying to put together a product that is grown locally by our co-op members, crushed in our McKennon Station facility and sold in our own stores.

It is heart healthy oil that is available now in 16 ounce bottles and 4.5 gallon commercial containers. The 16 ounce product is available in Plain, Spicy Pepper, and Italian flavors. Our canola oil is pure, natural, filtered canola oil that has no bleach or hexane gasses used on it. I am sure you will love our new, local product as much as I do.

Thank you to our PGG Board of Directors, our management and crew for being so helpful and encouraging in this endeavor.



**Steve Haun
Business
Development
Officer**



Meet your PGG Energy Department

If you need any assistance please give us a call 1-800-422-7611



Charvae Madsen

Charvae is the face behind the the voice on the phone. Charvae has been the Energy Department Office Assistant since 2008.



Dale Tinhof

Dale delivers Fuel in Pendleton and all the way down to Long Creek. Dale has been with PGG since 2003.



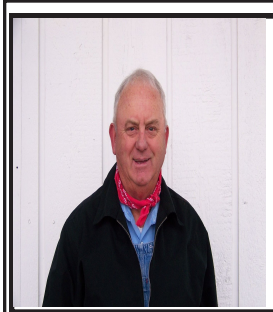
Ronda Oertwich

Ronda has been our Energy and Grain Office Assistant since 2010. You may recognize Ronda, as she previously worked in the Pendleton Ag Supply store. Ronda has been with PGG since 2008.



Curt Claughton

Curt delivers Propane in the Hermiston and Tri Cities area. Curt has been with PGG for 7 years.



Mike Brumbach

“PGG Mike”, as he is known by his customers, has been delivering Fuel in the Milton-Freewater / Walla Walla area for 16 years!



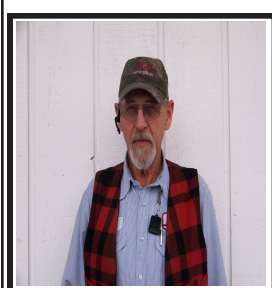
Charles Ferguson

Charles delivers Fuel in the Hermiston area. Charles began his career with PGG in 2010.



Dane Newton

Dane delivers Propane in the Pendleton area. Dane has been with PGG since 1995.



John Douglas

John has been delivering Propane in the Milton-Freewater/ Walla Walla & North Pendleton area since 1999.



Matt Howard

Matt has been with PGG since 1998. Matt covers all our customers, providing Propane Sales and Service.



Tory Covlin

Tory delivers fuel to the North Pendleton area and LaGrande. Tory has been with PGG since 2008.



Lee Aamodt

Lee covers Propane Sales & Service in Morrow, Gilliam and Wheeler counties. Lee has been with PGG since 2009.



PO Box 1248
Pendleton, Or 97801

PGG Safety & Compliance

PGG's Safety Program has been going through an internal review and is now in the process of implementing policy and procedures to address the focus points through cooperative coordinated efforts company wide.

Our goal is to provide a safe and healthy work environment for our employees, while achieving compliance with the rules and regulations from the various regulatory agencies we deal with in daily operations.

In 2011 the safety program is focusing on completing the implementation of an updated Safety Manual with Policies & Procedures, training of our employees not only in the safety realm but continuing professional training specific to their operations, inspections of daily operations at our worksites and work practices.



Mark Swanson
Safety and Compliance Director



Ag Supply

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Expires Feb. 28th 2011