

Coopérative
Fédérée
de Québec



Annual
Report
1975

HOWARD ROSS LIBRARY
OF MANAGEMENT
1977
McGILL UNIVERSITY

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Coopérative Fédérée de Québec and subsidiaries Annual Report 1975

The year in brief

	1975	1974
	(dollars in thousands)	
Sales	531,496	422,127
Wages, salaries and employee benefits	20,638	13,455
Depreciation	2,158	1,594
Earnings from operations	12,446	9,558
Accounts receivable and inventories	87,400	62,548
Current assets	91,609	66,003
Current liabilities	63,287	48,922
Working capital	28,322	17,081
Fixed assets, at cost	33,928	20,595
Fixed assets, net	17,773	11,232
Total assets	116,800	83,666
Long-term debt	19,452	9,393
Members' equity	33,142	24,674



Board of Directors

1. Roland Pigeon, President*
and Chairman of the Board
Verchères
2. Jean-Paul Dinel,
1st Vice-president*
Chénéville
3. Paul-Emile St-Pierre,
2nd Vice-president*
Laurierville
4. Alphonse-Roger Pelletier*
La Pocatière
5. Michel Lemire †*
St-Zéphirin
6. Théodore Alain
La Sarre
7. Roger Bilodeau †
Bromptonville
8. Hubert Bousquet †
La Présentation
9. François Champagne
St-Côme Linière
10. Fernand Dionne
St-Arsène
11. Fernand Gonthier
Amqui
12. Léopold Harvey
Delisle
13. Paul Massicotte
Champlain
14. Jean-Charles Mercier
St-Roch de l'Achigan
15. Adrien Roy
L'Ange Gardien

*Members of the Executive Committee
†Directors at large

Only farmers, directors of affiliated co-operatives,
may be elected to the Board.



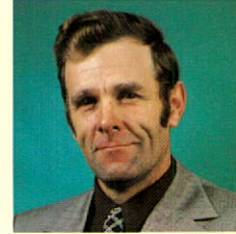
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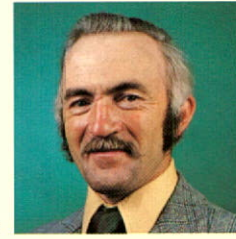
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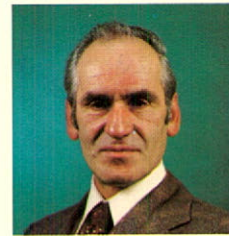
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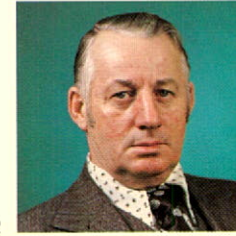
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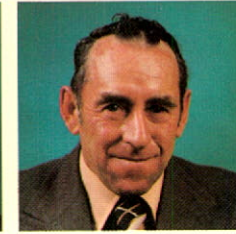
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President's Report

During our past financial year, Coopérative Fédérée was involved in two developments of prime interest to our member cooperatives and their farmer members. These two events take on special significance for us, as farmers and cooperators, since they pave our way to reach some of the main objectives of the farm cooperative movement. We all belong to this movement because we really feel that it gives us the opportunity to achieve such well defined and concrete objectives as, for example, obtaining greater efficiency in marketing our products through collective enterprises devoted to this end.

The acquisition by the Federation of Quebec Poultry Co. Ltd fits right into the objective of developing a cooperative marketing organization for our main agricultural products. Due to the particular nature of cooperative ownership and operations, this procedure must be closely meshed with the primary production sources, in other words, the farmers themselves. Thus, through this acquisition, the Quebec farm cooperative movement rapidly increased its share of the dressed poultry and hog marketing channels. Then followed another step, aimed at the same broad, general objective, which led to further consolidation of the dairy cooperative sector.

A few years ago, Coopérative Fédérée acquired O. Couture & Fils Inc., a dairy firm located in La Durantaye, south of Quebec City. The objective at the time was to help achieve an eventual more orderly development of the dairy industry and a rational use of the milksheds in this entire region. Still working towards the same objective, Fédérée assisted three regional dairy cooperatives to acquire another large dairy operation in the same region, Vermette & Fils Ltée of St-Agapit. All these dairy operations have been consolidated by Coopérative Laitière du Sud de Québec during 1975.

Our very raison d'être

These two steps taken by the Quebec farm cooperative movement, looked at from our perspective as farmers, seem to epitomize the first and basic reason for the existence of our movement. In the modern agri-food industry, the farmer's function actually makes up just one phase (though an important one) of the overall food production process. This situation

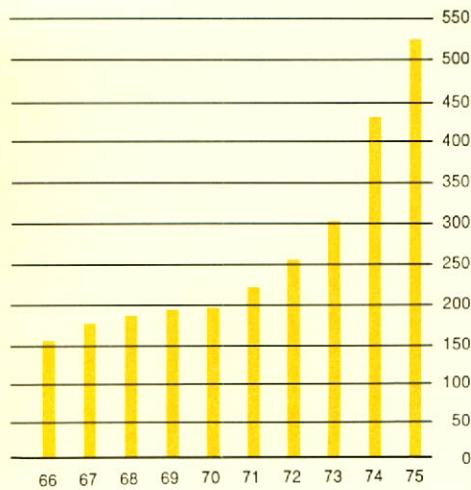
gives the farmer a strong motivation to join a farm cooperative, so that he can link his own personal activities with other related economic activities, which to a great extent, are determining factors in the results he will achieve in the performance of his own task.

By being a member of such a movement, the farmer can broaden the horizons of his own farming operation, not only by drawing additional income from related activities, but also because the cooperative action provides him with ways to make the best possible use of markets accessible to his products. As cooperators, the best way for farmers to achieve these objectives is always through the ownership of marketing organizations which have no other interests to serve than those of their actual owners, the working farmers themselves.

There you have some of the reasons why we give these two events of this past year the place of honor in our opening remarks. Naturally, our financial results for the year, both in terms of business volume and net earnings, are important because they testify to our continued growth and efficiency. But we must always come back to our beginnings. The developments of this past year, as noted here earlier, have great value for us since they are so indicative of the motives which must always inspire our decisions.

We note with satisfaction the progress which our Federation has achieved once again during the year just ended. When reading the Management Report, you will note that our cooperative movement has continued to grow in keeping with the development of the agricultural industry as a whole. It should be emphasized that our Federation's business volume and gross farm revenue in Quebec have both reached new highs during 1975.

Sales (\$ in millions)



A Good Year for Farmers

Since the farm cooperative movement seeks to improve the farmer's lot at every stage, any analysis of cooperative activities for the year must be linked with actual agricultural activity. In other words, we cannot measure our own progress as cooperatives without at the same time comparing it with developments in the farm situation as a whole. We can then say without hesitation that the cooperative movement has enjoyed a relatively successful year, because the agricultural industry as a whole has also enjoyed what we can call a good year as well.

Farm Inputs

The overall cost of farm supplies continued to increase during the past year, especially in the areas of fertilizers and farm equipment. During 1975, the feed grain policy in effect since 1974 made it possible to achieve an acceptable level of equity between the country's two major agricultural regions. It is still too early to assess the results in any definitive way, since too many factors can come into play. However, based on the first one and one-half years the policy has been in effect, it would seem useful to continue the experiment. We note that feed prices have remained relatively stable during the year, a fact which assumes a certain importance for our hog and poultry productions.

Dairy Policy

Although the gross income of dairy producers has increased, this does not prevent us from being quite disturbed about government decisions concerning the national dairy policy. Owned in large part by the milk producers and playing a major role in the marketing of milk and dairy products, the farm cooperative finds itself on the first line of defence for the dairy industry.

At the beginning of the dairy year, the government set a target price of \$11.02 per 100 pounds for manufacturing milk, but the levy to finance exports was increased from 15¢ to 45¢ per 100 pounds. On April 18, 1975, the Federal Minister of Agriculture presented a long-term policy based on the cost of production of milk, under which the target price of \$11.02 became the base price, adjustable every three months according to variations in production costs.

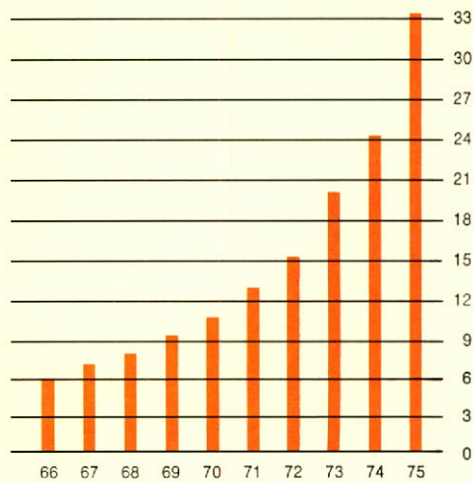
The period of tranquillity on the dairy front did not last long. On July 1, the Canadian Dairy Commission announced that the soaring price of powdered milk on the international market made it necessary to double the export levy, boosting it to 90¢ per 100 pounds. This, quite understandably, came as a shock, and you are fully aware of the reaction it stirred among the producers' organizations. Following negotiations between the parties concerned, the export levy was set at 65¢ per 100 pounds for a five-year period. But it is still placing far too much responsibility for export assistance on the producers' shoulders. In all fairness, we do not feel that the producers have sufficient financial resources to be able to compete with the treasuries of dairy exporting countries.

If we add to the increase of the export levy the decision of the Federal Department of Trade and Commerce to increase the imports of specialty cheeses up to 50 million pounds annually, and the Agriculture Minister's decision to reduce the total quantity of milk eligible for subsidies, the producers have good reason to be seriously concerned. The milk producers cannot accept any drop in income at the very time when the Canadian government, even in its desire to put the brakes on inflation, recognizes the necessity for increasing the incomes of other segments of society.

Income Stabilization

Even though we must deplore the way the dairy policy has been evolving, we should still note an improvement in policies designed to stabilize farm income. The National Assembly of Quebec has adopted an Act providing insurance to stabilize farm income. Similar legislation, or at least inspired by the same objectives, exists in some of the other provinces. The Federal government has amended its Act designed to stabilize agricultural prices in order to take production costs more fully into account. Despite certain deficiencies, we can see in this entire area of stabilization, some indication of an awakening of conscience among governments and also in public opinion. This should help to improve conditions for carrying on our chosen profession.

Members' equity (\$ in millions)



Agriculture and Cooperatives

Other trends in agriculture also merit our attention because, sooner or later, they will affect our industry and our cooperative movement. For example, the size of farms continues to increase, and there is also a trend towards a higher degree of efficiency in farm operation. Agriculture is not static; it is always in motion. The trends towards increased size and efficiency in the average individual farm operation raise some serious challenges for all institutions within our movement. We have said it often, and we believe it worth repeating: the farm cooperative movement exists for its owner users, and it must serve as a tool for the development and improvement of our own agriculture.

As members of a cooperative, we can never place too much emphasis upon the necessity for quality in our institutions. This necessary quality reveals itself in services well adapted to needs, competitive operating costs, up-to-date economical and technical services in all aspects of farming and agricultural production. We must keep this constantly in mind, because if we let down for even an instant, there will be a weakening of all factors which go to make up quality.

We therefore launch another appeal for constant vigilance by all, from the member right up to management level. During the last financial year, we found it necessary, on many occasions, to meet the officers of cooperatives encountering serious difficulties. These difficulties were diverse but, at all times, they sprang from the same causes. There is no need to enumerate them here, because you all know them well. But in every case where problems do arise, it is always agriculture and the farmer himself who suffer. A dynamic and efficient farm cooperative is not only useful and valuable to its members; it is also a spur and an inspiration to all the agriculture related enterprises.

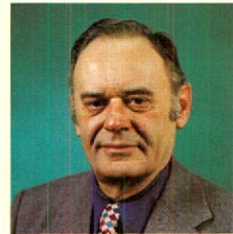
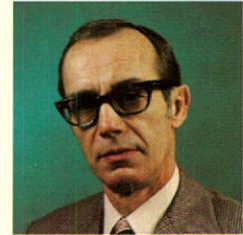
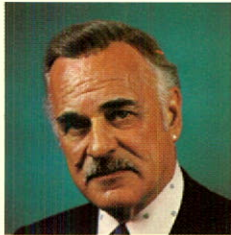
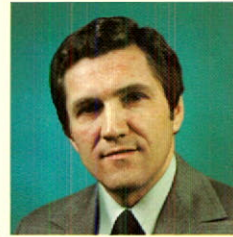
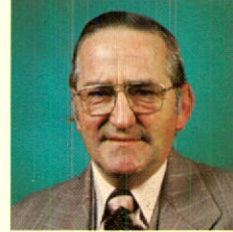
A number of events during the year marked the 25th anniversary of the Farm Machinery Department of Coopérative Fédérée. At this meeting, we will pay special tribute to the pioneers who launched and nurtured this operation which has grown into one of our most important farm supply activities. Our personal appreciation goes out to them all, for the work accomplished by the entire team of the Farm Machinery Department.

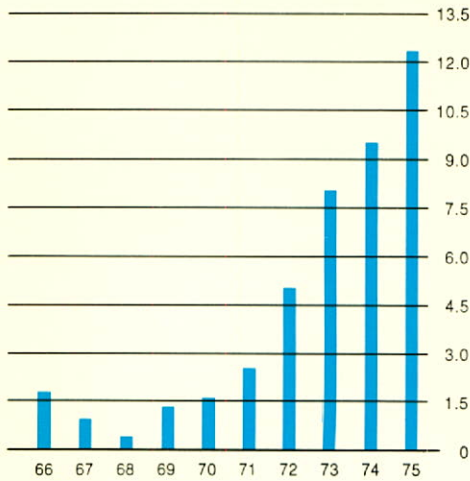
Working closely together, we have all had a hand in making this past year a successful one for Fédérée. We wish to thank each and every one of you, at every level, for what has been accomplished. In any cooperative enterprise, we must always remember that the support of the humblest member is just as important as that of the greatest.

Roland Pigeon, President.

The Management

1. Georges-Etienne Turcotte
General Manager
2. Louis-Philippe Poulin
Secretary
3. Pierre Vézina
Treasurer
4. Richard Newberry
Controller
5. Jean-Paul Cadieux
Manager, Human Resources
6. Paul Tremblay
Manager, Legrade division
7. Philippe Pariseault
Manager, Dairy division
8. Maurice Lavallée
Manager, Feeds and
Fertilizers division
9. Raoul Lebailly
Manager, Farm Supplies division





Management Report

This past year was generally a good one for Quebec farmers and Coopérative Fédérée responded by performing at a brisk pace to scale new peaks in 1975. Total sales for the year passed the half-billion mark (reaching \$532 million), to show a 26% increase over the previous financial year. Earnings from operations, before patronage refunds and provisions for income taxes, climbed from the 1974 level of \$9½ million to \$12½ million in 1975, to which must be added a special revenue of \$800,000 under the heading of extraordinary items.

These figures indicate a continued rate of growth and progress which is a credit to the farm cooperative movement. This is so, even when allowances are made for the effects of inflation and when considering that a number of new activities were launched during the year. Adjusted for inflation and assessed on the basis of comparable activities carried on the previous year, Fédérée sales and other income for 1975 show an increase of 14% over the 1974 figures, while earnings increased by approximately 10% for the year. This less pronounced growth in earnings is partly explained by an estimated \$1¼ million depreciation in inventories at the end of the year, due to downward trends in prices of certain key farm supply items.

Indicative of the impact of new activities was the acquisition of Quebec Poultry Co. Ltd on May 1, 1975. This meant a substantial contribution of an additional \$53 million in sales, as well as bringing valuable human resources to Fédérée. Overall, the before-tax earnings from the numerous Fédérée operations amounted to 2.3 cents of every sales dollar in 1975, compared with a similar 2.3 cents in 1974 and 2.7 cents per dollar in 1973. Looked at another way, earnings varied from 38% to 42% of members' equity for the same three-year period, although the special nature of the cooperative capital structure should be taken into account here.

Those are the salient points in our annual financial statements. Now let us look more closely at our activities. These are extremely varied, ranging from industrial operations of an essentially primary nature to sophisticated commercial activities, making Fédérée a conglomerate which is virtually unique in its field. Sales fall under three main categories: 42% coming from farm inputs, 23% from meat and poultry operations and 35% from dairy products.

Two of our commercial activities are quite similar to brokerage operations: the sale of feed grains to cooperatives and the marketing of dairy products on behalf of dairy cooperatives. Those two important operations account for 49% of our total sales volume and produce 14% of earnings. But they require only 38 employees out of the 2,599 on the payroll of Fédérée and its subsidiaries, which is a good example of profitable diversity.

Although that is just a brief look at the Fédérée picture as a whole, it gives some idea of the strength and continuity of the organization, which we shall now look at, sector by sector.

Meat and Poultry

One of the major objectives set out in the overall development program for orderly growth of the Quebec farm cooperative movement was to: "Endow Quebec agriculture with a network of large, competitive, efficient and dynamic agri-food enterprises that will be well rooted in the milieu and that will serve the owner user better."

That particular objective was crystallized into reality during the year by the acquisition on May 1, 1975 of Quebec Poultry Co. Ltd and its subsidiaries. This network of enterprises owns three poultry plants located in St-Jean Baptiste (Rouville), Berthierville and Quebec City, a poultry processing plant in Ste-Rosalie, an egg breaking plant, two hatcheries and several

poultry farms with production quotas. Its most important products are sold under the "Flamingo" trade mark. This highly efficient poultry processing and marketing network produced sales of close to \$35 million in a six-month period, which represents a substantial contribution to the consolidated balance sheet of Fédérée and its subsidiaries.

The acquisition of this "going concern" has proved to be a valuable addition to Fédérée's existing poultry processing plants at Marieville and St-Félix de Valois. These latter processing plants are supplied by 250 poultry producers, who form a direct membership section. These producers share in the net earnings through patronage refunds at the end of the year, in line with usual cooperative practices.

During recent years, the poultry industry has been on a virtual roller coaster, alternating between peaks and valleys. Last year, 1975, was a peak for producers and processors alike and Fédérée more than held its market share. Processing and sales figures were up slightly, despite strictly limited production quotas during the first six months of the year. Sales from the two Fédérée plants totalled \$26 million for the year. This figure was slightly inflated by a number of factors, including higher beef and pork prices, coupled with a summer of exceptionally high poultry consumption, which led to an inevitable shortage of supplies. As a result, we experienced our best-ever operating margin, but we are well aware that this cannot last forever and that less interesting days lie ahead. The major problem still faced by Quebec's poultry industry is market sharing, especially between Ontario and Quebec. Increased imports of American chickens also present us with another difficult problem.

The year was a satisfactory one for the Legrade Division, despite a 10-week shutdown of the Princeville plant at the end of 1974, due to labor problems. Production for the year as a whole was up slightly, however, and the division was able to break even.

The acquisition of Quebec Poultry Co. Ltd on May 1, 1975, also brought into the Fédérée fold its thriving subsidiary, Turcotte & Turmel Inc. of Vallée Jonction. This well-managed company, which bears an excellent reputation in the trade, operates a large packing plant which processes about 15% of Quebec's total hog slaughtering. Sales for the last six months of the year totalled \$22 million, with a substantial contribution to consolidated earnings. The firm has retained its corporate identity and administrative team under the terms of the merger and Fédérée is counting on this company's experience and knowhow to extend its meat packing activities. A team is following livestock meat operations very closely to advise on the decisions to be taken and to consider ways and means to integrate the overall operations in the best interest of producers. The objective is to provide a broader market and better income for hog and beef producers. We all wish that the hog market in 1976 will continue to be as favourable to the producers as it was in 1975 and that the beef situation will substantially improve.

Dairy Division

The Dairy Division as usual performed well during the year, with sales up by 25% over 1974, to reach a record \$185 million. Both greater volume and higher prices contributed to this increase, with only cheese showing a downward trend. Volume of milk received and processed by all dairy cooperatives rose by 15.3% during 1975, as the Division brought in a reasonable share of earnings.

An outstanding development in 1975 was the consolidation of dairy operations south of Quebec City under the wing of Coopérative Laitière du Sud de Québec (CLSQ). This is all part of the forward-looking plan launched a few years ago to organize the Quebec dairy industry for utmost efficiency for the benefit of co-op members. The initial phase was the acquisition by Fédérée in 1970 of O. Couture & Fils, of La Durantaye. Then, last year, Vermette & Fils Ltée was acquired in a joint move by Coopérative Agricole de Granby, Coopérative Laitière du Sud de Québec and Coopérative Agricole de la Côte Sud, Fédérée backing the venture with a loan and Quebec Trust Company acting as trustee.

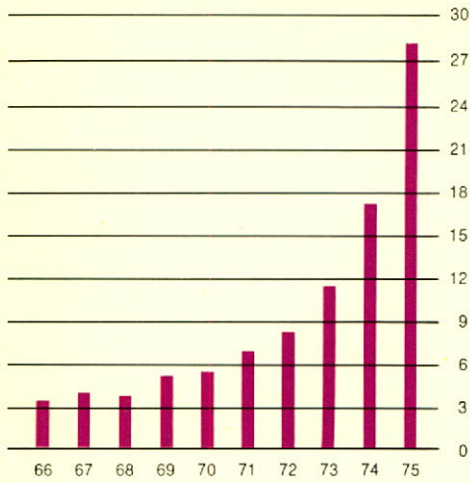
Under agreements between the parties, CLSQ now assumes the leading role in consolidating dairy activities throughout this region. It becomes Quebec's second largest dairy cooperative since it acquired Vermette & Fils Ltée from the other two associates, and the O. Couture & Fils operation from Fédérée. So the farm cooperative movement moves steadily towards its goal of a well organized and integrated dairy industry under the direction of strong regional cooperatives. Fédérée is satisfied to have played a leading role in this achievement as it is a worthwhile answer to the best interest of its member cooperatives and their members. Now, the Dairy Division will be able to devote its attention solely to important auxiliary functions: marketing, consultation, information, representation and assistance in orienting and coordinating dairy activities. All will be handled under the guidance of the Dairy Cooperatives Council, set up for this purpose by Fédérée's Board of Directors.

Farm Inputs

This is an important sector of Fédérée activities, with the Feeds and Fertilizers Division and the Agricultural Supplies Division accounting for total sales of \$225 million in 1975. This was an increase of 11% over the previous year, but while volume was up satisfactorily, earnings were down by 7%, due to unfavorable economic conditions encountered during the year.

The Feeds Department brought in total sales of \$110 million during the year, indicating the importance of these products in Quebec's agricultural economy. Livestock and poultry producers did well during 1975, thanks to firm prices (with beef the sole exception) and lower feeding costs. Grain and feeds sales were down because of good forage crops during the year and stricter limits on

Working capital (\$ in millions)



poultry production quotas. Another factor was that some cooperatives temporarily withdrew from hog raising. Feedmill operators also had a rather difficult year, meeting stiffer competition along with higher operating costs due to inflation. Nevertheless, this Department contributed 9% more earnings than last year.

By contrast, the Fertilizers Department encountered a rather difficult year. The severe shortage of fertilizers in the Fall of 1974 forced Fédérée to pay a premium of close to one-half million dollars for the fertilizers its members needed. Additional problems were created by the lengthy strikes at two Quebec phosphate plants, not to mention the strikes at the St. Lawrence ports right at the time when we should have been receiving our supplies. However, there was a complete turn-around in the supply situation within a very short period and, since June 1975, a surplus has been shaping up, which should again fill the world's supply lines and replenish seriously depleted inventories.

This reversal in the overall supply pattern in no way hinders Fédérée from continuing its program to improve and integrate its entire fertilizers distribution system. We are going ahead with our program of installing blender plants to serve our farmers better. Security of supplies will be ensured through our association with CF Industries, a basic fertilizer manufacturer owned jointly by 17 United States cooperatives, United Cooperatives of Ontario and ourselves. While fertilizer operations were not so profitable this past year, we nonetheless achieved our primary objective of serving our member needs. Sales increased by 10% during 1975, whereas industry sales as a whole in Quebec remained stationary.

For the Seed Department, lower prices encountered during the year resulted in a setback and a loss in inventories.

Sales of the Farm Supplies Department merely kept pace with last year's figures, totalling \$21 million at year-end. But earnings were non-existent, due mainly to chaotic conditions in the baler twine market during 1975. The artificial shortage created by the sisal producing

countries resulted in a near panic situation in the consuming countries and especially here in North America. This created serious problems for everyone who bought twine at inflated prices, only to find themselves with substantial losses at the end of the year when the market collapsed. Fédérée was unable to foresee the future any better than others.

This has been a year of careful analysis for the Petroleum Department, on the heels of the 1974 oil crisis. While feeling its way, the Department voluntarily reduced its volume flow to meet current conditions and plan future actions. A new supply and distribution system is being worked out, while its advantages and disadvantages are being carefully assessed. As a result of careful management, the Department made an appreciable contribution to earnings in 1975, unlike the previous problem year.

The Farm Machinery Department celebrated its Silver Anniversary by breaking all sales records in 1975. Total sales volume of \$32 million represented a hefty 50% increase over 1974. Even after allowing for 12% to 15% inflation, this still gave us a substantially increased share of the market, maintaining our regular pace.

Our dealers are building up a trained and fully competent team of technicians to ensure constantly improved service to the farmer: our primary objective. As a result, and with the able efforts of its staff, the Farm Machinery Department in 1975 for the first time in its history reached the \$2 million mark in net contribution, after deducting its proportional share of Head Office expenses.

An Eventful Decade

This rapid review of Fédérée activities provides us with a satisfying picture of growth, but it really does not tell the complete story. Because Fédérée — as this Federation of farm cooperatives is known everywhere — is far from being an ordinary kind of enterprise. Fédérée is not a self-sufficient business entity: it

exists, rather, for the sole purpose of serving its member cooperatives. These individual cooperatives have selected Fédérée as their "leader" to take the necessary actions to improve the economic situation of member cooperatives and their farmer members. That is why we often speak of the farm cooperative movement — or of a farm cooperative undertaking — rather than just of Fédérée alone.

The activities and the financial results reported here are important measures of just how well we have been able to serve the best interests of the farmers who have chosen the cooperative way as the tool best able to protect them and help them prosper in a highly competitive world. In this respect, it might be useful to take a look at just what role the farm cooperative movement plays in the Quebec agricultural scene as a whole. For some interesting comparisons, we only have to look back 10 years — one short but rather eventful decade.

The Quebec farm cooperative movement apart from Fédérée accounted for an estimated \$650 million worth of business in 1975, compared with \$250 million in 1965. That is a hefty 250% growth rate. During this same period, Fédérée saw its sales increase fourfold: from \$128 million to \$531 million. The combined figures, for the various cooperatives operating independently and for the operations conducted by Fédérée, amount to more than \$1 billion. Looked at another way, that is \$20 million a week, or \$4 million each weekday, excluding Saturday and Sunday, although farmers are not excluded from working on those days, by any means.

The dairy cooperatives understandably are in the fore-front since they alone account for close to two-thirds of Quebec farm income. At present, dairy plants owned by the cooperatives process four billion pounds of milk annually, with an eventual possible capacity of 5½ billion pounds of milk. Value of dairy products manufactured, including butter, cheese, milk powder and others, amounts to some \$500 million annually.

In 1965, the dairy cooperatives processed 45% of Quebec's manufacturing milk

production in 140 small plants scattered around the countryside. Today, in 1975, there are only 16 of these cooperative plants but they are thoroughly modern, fully equipped and extremely profitable, with the versatility and capacity to process 80% of milk produced. These dairy cooperatives, jointly owned by Quebec milk producers, are shining examples of what farmers can accomplish working together.

While Fédérée's meat packing activities are not on such a large scale, they nevertheless produce a respectable \$80 million in annual sales since the recent acquisition of the Turcotte & Turmel plant in Vallée Jonction. It is expected that our meat operation will soon handle 20% of all hogs slaughtered in Quebec.

Since the acquisition of Quebec Poultry Co. Ltd, Fédérée now ranks as Quebec's largest poultry processing and marketing organization. Its sales now total \$100 million annually, with a potential to supply 40% of the Quebec poultry meat market.

Major progress has also been made in the farm supplies field. In the production of field crops, the very foundation of any predominantly grazing farm economy, the cooperative movement provides the farmer with a favored position on the seeds and fertilizers markets. Abandoning its former role as a broker, Fédérée became a fertilizer manufacturer in 1966. Then, in 1974, it joined CF industries — a large manufacturing complex jointly owned by 19 North American farm cooperatives. During the past five years, Fédérée has built up a network of blender plants near the producers to ensure farmers of better supply and service. As a result, the farm cooperative movement has increased its share of fertilizer sales on the Quebec market from an estimated 23% in 1965 to 28% in 1975.

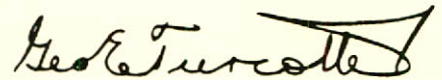
Livestock production is truly the lifeblood of the Quebec farm economy, with animals and animal-related products representing 80% of total farm income. This is one of the main reasons why so many other farm services have grown up around the original, small feedmill cooperatives. The cooperative feedmill network today produces nearly 900,000 tons of feeds. This represents about 35% of all feeds in Quebec, compared with 31% in 1967. Grain volumes have doubled over the past decade.

The Farm Machinery Department of Fédérée has increased its sales by an unbelievable 700% over the past decade. It has proved itself to be such an essential service that it prompted the Barber Royal Commission on Farm Machinery to cite it as an example in its 1971 Report. The Farm Supplies Department has seen its sales volume grow by four and one-half times, by offering farmers a wide choice of needed supplies of good quality at competitive prices.

The sale dollar value of the Petroleum Department has increased sixfold since 1965. Actual volume of products distributed to members, through its own network of some 100 distribution centres, has grown from 40 million gallons annually to 125 million gallons during that same period.

So there you have a portrait of our Quebec "multinational", solidly based on Quebec soil and soundly equipped to meet the needs of the 35,000 farmers who are at one and the same time its owners and users, as members of the 186 different cooperatives affiliated with Fédérée. It is a complex and important operation which employs some 6,000 people — a good indication of the extent and diversity of the Quebec farm cooperative movement.

A country's wealth is expressed in terms of the Gross National Product. The wealth of Quebec's farm industry can perhaps be well expressed in terms of "Gross Cooperative Effort", because it is effort and teamwork which makes the farm cooperative movement a success. This success is made possible by the tireless efforts of the Board of Directors, the dedicated Management team, and all the executives and employees . . . our thanks go to everyone of them.



Georges-Etienne TURCOTTE
General Manager

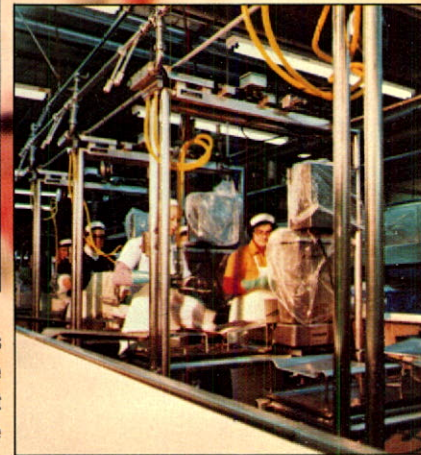
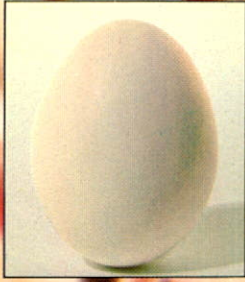
Coopérative Fédérée acquires Quebec Poultry Co. Ltd.



One of the major objectives set out in the overall development program of the Quebec farm cooperative movement was to "Endow Quebec agriculture with a network of large, competitive, efficient and dynamic agri-food enterprises that will be well rooted in the milieu and that will better serve the owner-user".

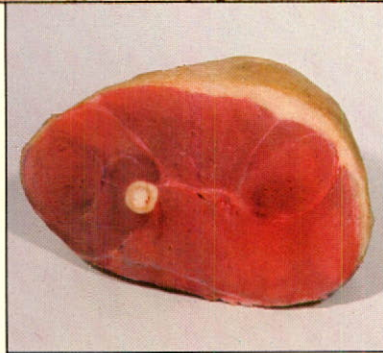
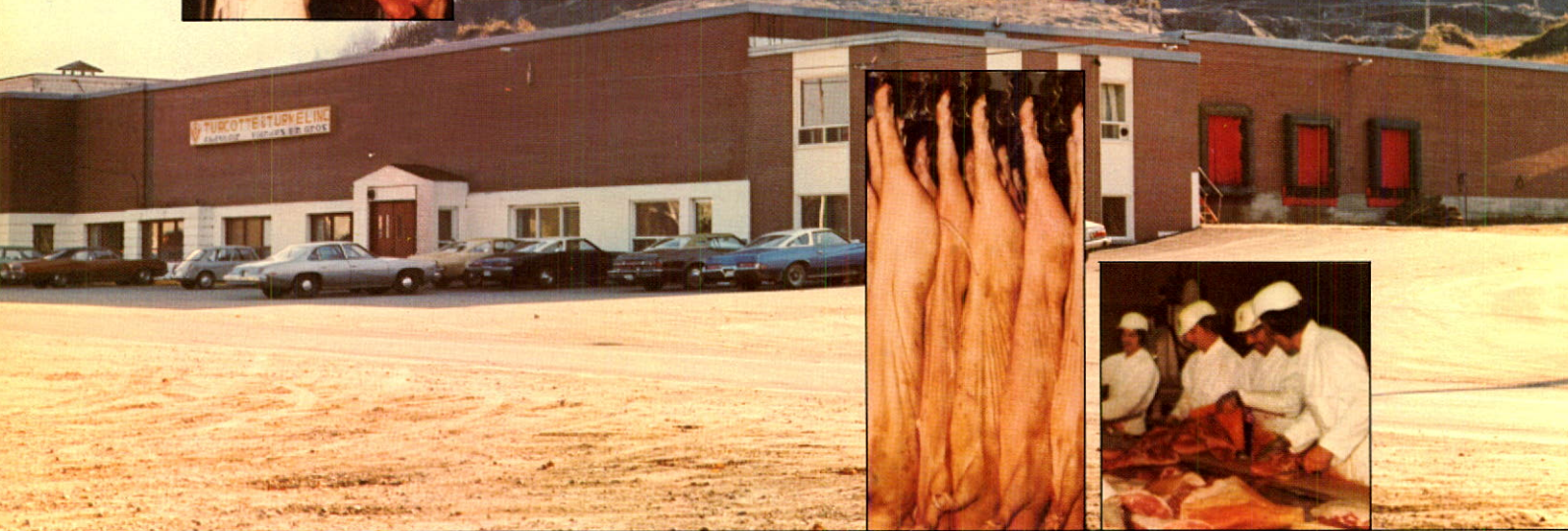
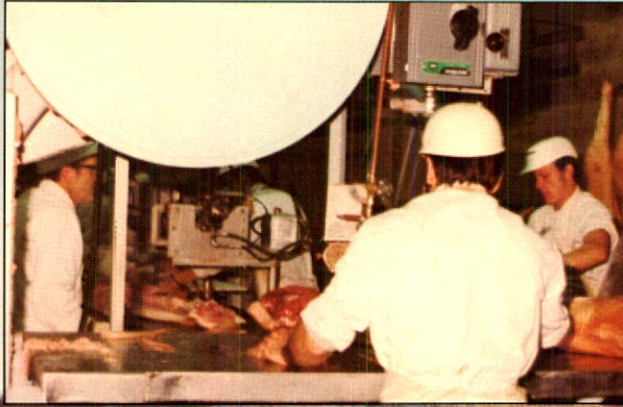
That particular objective was crystallized into reality during the year by the acquisition on May 1, 1975 of Quebec Poultry Co. Ltd and its subsidiaries. This network of enterprises owns three poultry plants located in St-Jean-Baptiste (Rouville), Berthierville and Quebec City, a poultry processing plant in Ste-Rosalie, an egg breaking plant, two hatcheries and several poultry farms with production quotas. Its most important products are sold under the "Flamingo" trade mark.

(Excerpt from the Management Report)



Quebec Poultry Co. Ltd has contributed substantially to the growth of the poultry meat industry in Quebec. Since quite a few years, it is the leading enterprise in this important sector of the agri-food industry. As in the past, the company continues to provide a substantial contribution to the food industry. Through its modern plants located in the heart of the poultry producing areas of the province, it offers the consumer a wide range of poultry products. Now as an integral part of the Quebec farm cooperative movement, the company adds a new and exciting dimension to the cooperative poultry business. The FLAMINGO chickens continue to be "well-bred". On these pages are shown the plants and the products.





Through the acquisition of Quebec Poultry Co. Ltd, Coopérative Fédérée becomes closely associated with its subsidiary, Turcotte & Turmel Inc. This company, which bears an excellent reputation, operates a large hog processing plant located in Vallée-Jonction (Beauce) and accounts for about 15% of the total Quebec hog marketings. Turcotte & Turmel Inc. represents an important addition to the cooperative livestock and meat operations and the farm CO-OP movement in general.

TURCOTTE & TURMEL INC.



Coopérama

One of the main objectives of the Quebec farm cooperative movement is to make sure that its owner users always have access to a complete and varied range of farm tools and supplies. While the farmer needs livestock feeds, fertilizers, farm machinery, gasoline or diesel fuel and so on, he also must regularly purchase a thousand and one other items under the broad general category of farm hardware or accessories. This includes a host of small tools and gardening implements, fencing materials, other steel products, baler twine, batteries, tires and many other items. This broad range of products is provided by Coopérative

Fédérée through its Farm Supply Department.

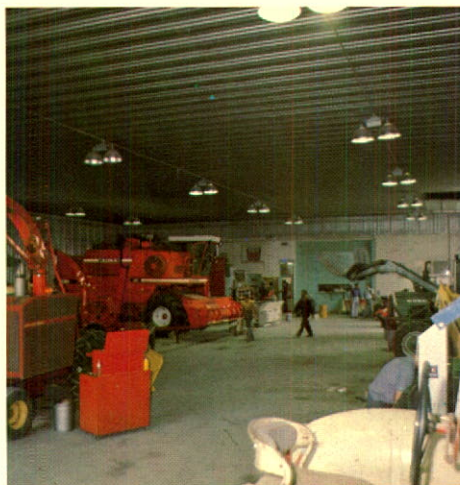
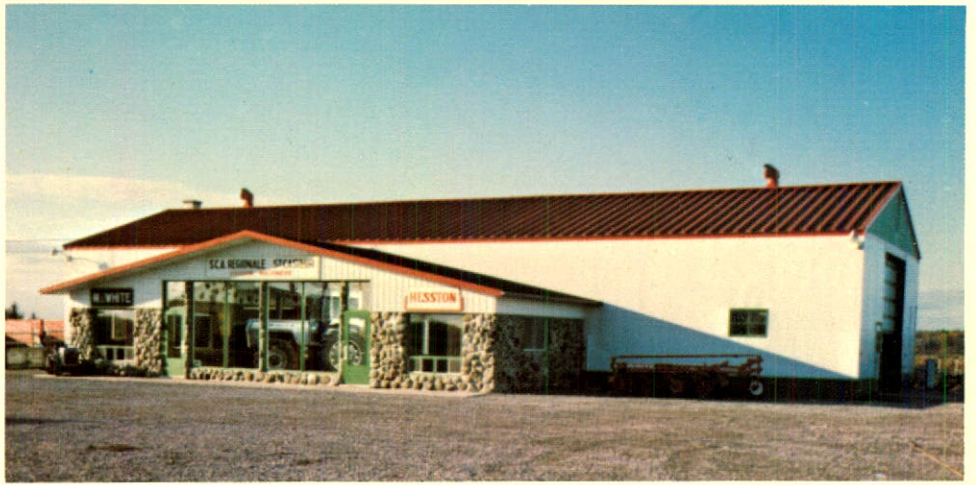
Each Fall, the Farm Supply Department organizes important exhibitions or trade fairs in Montreal and Quebec City, where it shows all the products offered and available to cooperatives and farmers. Representatives from the various member cooperatives are invited to these fairs to meet the manufacturers, learn about new products, make necessary purchases, etc. These important annual events go under the name of "COOPÉRAMA" — and the photo on this page shows COOPÉRAMA '75 in Montreal.

The first 25 years

Coopérative Fédérée's Farm Machinery and Equipment Department celebrated its 25th anniversary in 1975. This anniversary was marked by various events to recall to farmer members and to others interested that this essential service has truly come of age.

An efficient distribution of farm equipment is not the easiest task in the world. To-day the Quebec farm cooperative movement has proved that it has the experience and know how to pursue this activity successfully.

One of the keys to success in farm machinery sales is being able to guarantee the users the most efficient possible after-sale service. Several farm cooperatives now make such after-sale service available to their members, through repair shops fully equipped for the maintenance and repairs of farm machinery. Photos on this page show some of these facilities.



Top to bottom:

Exterior view of the repair shop and showroom of S.C.A. Régionale de St-Casimir (Portneuf);

Modern farm equipment displayed outside the shop and showroom of S.C.A. de Ste-Rosalie (Bagot);

Inside view of the well equipped repair shop of that co-op located in Ste-Rosalie.

Consolidated Statement of Earnings

for the year ended October 31, 1975

	1975	1974
Sales and other income	\$531,496,320	\$422,127,316
Costs and expenses		
Costs of goods sold	\$478,730,694	\$385,200,159
Wages, salaries and employee benefits	20,637,824	13,455,170
Other operating expenses	5,759,565	3,648,854
Distribution and selling expenses	6,966,933	4,737,692
General administrative expenses	2,570,206	1,786,395
Interest on long-term debt	1,356,600	818,156
Other financial expenses	870,326	1,327,668
Depreciation	2,157,883	1,594,537
	\$519,050,031	\$412,568,631
Earnings from operations before patronage refunds, income taxes and extraordinary items	\$ 12,446,289	\$ 9,558,685
Patronage refunds (note 8)		
Cash	\$ 3,440,000	\$ 2,641,807
Preferred shares	2,580,000	2,678,193
Common shares	2,580,000	2,280,000
	\$ 8,600,000	\$ 7,600,000
Earnings before income taxes and extraordinary items	\$ 3,846,289	\$ 1,958,685
Income taxes	1,689,915	803,787
Net earnings before extraordinary items	\$ 2,156,374	\$ 1,154,898
Extraordinary items (note 9)	1,290,676	(529,959)
Net earnings	\$ 3,447,050	\$ 624,939

Consolidated Statement of General Reserve

for the year ended October 31, 1975

Balance at beginning of year		
As previously reported	\$ 11,333,118	\$ 9,776,524
Prior year's patronage refunds and income taxes (note 1)	8,164,166	7,232,511
As restated	\$ 3,168,952	\$ 2,544,013
Net earnings	3,447,050	624,939
Balance at end of year	\$ 6,616,002	\$ 3,168,952



Coopérative Fédérée de Québec and Subsidiaries

Consolidated Balance Sheet as at October 31, 1975

ASSETS	1975	1974
Current assets		
Accounts receivable	\$ 56,052,874	\$ 38,709,107
Accumulated provision for possible future losses	(2,491,885)	(1,653,718)
	\$ 53,560,989	\$ 37,055,389
Inventories	33,840,322	25,492,683
Income taxes receivable	874,811	—
Prepaid expenses	1,693,552	1,095,731
Other receivable and short-term deposit	1,425,000	2,224,075
Investments — current portion	214,768	135,571
	\$ 91,609,442	\$ 66,003,449
Deferred accounts receivable	\$ 376,714	\$ 412,478
Investments, at cost (note 2)	\$ 4,358,809	\$ 3,016,116
Fixed assets (note 3)		
Land, buildings, machinery and equipment, automotive equipment, at cost	\$ 33,928,207	\$ 20,595,031
Accumulated depreciation	(16,155,398)	(9,362,792)
	\$ 17,772,809	\$ 11,232,239
Other assets (note 4)	\$ 2,682,674	\$ 3,001,876
	\$116,800,448	\$ 83,666,158

On behalf of the Board
Roland Pigeon, President
Jean-Paul Dinel, Vice-president

LIABILITIES	1975	1974
Current liabilities		
Outstanding cheques, less cash	\$ 6,386,930	\$ 2,282,316
Bank advances	840,000	7,600,000
Accounts payable and accrued liabilities	25,460,003	20,348,819
Short-term notes	23,826,000	14,418,650
Income taxes	480,773	(52,035)
Patronage refunds payable	3,440,000	2,641,807
Redemption of capital stock	—	398,193
Current portion of long-term debt	2,852,891	1,284,686
	\$ 63,286,597	\$ 48,922,436
Deferred income taxes	\$ 919,177	\$ 676,714
Long-term debt (note 6)	\$ 19,452,224	\$ 9,393,409

Members' equity

Capital stock (note 7)	\$ 26,526,448	\$ 21,504,647
General reserve	6,616,002	3,168,952
	\$ 33,142,450	\$ 24,673,599
	\$116,800,448	\$ 83,666,158

Commitments (note 10)

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

for the year ended October 31, 1975

	1975	1974
Working capital at beginning of year	\$ 17,081,013	\$ 11,872,486
Source of funds		
Net earnings before extraordinary items	\$ 2,156,374	\$ 1,154,898
Charges not requiring an outlay of funds	3,049,081	1,876,619
Funds from operations	\$ 5,205,455	\$ 3,031,517
Decrease in deferred receivables	122,804	(180,228)
Current portion of investments	170,934	135,571
Sale of fixed assets	552,693	199,787
Decrease in other assets	64,400	—
Long-term debt	5,161,447	3,336,821
Issue of shares	5,240,550	5,047,289
Acquisition and sale of subsidiaries, net of working capital (note 5)	1,776,888	(396,184)
	\$ 18,295,171	\$ 11,174,573
Use of funds		
Increase in investments	\$ 1,258,522	\$ 737,842
Additions to fixed assets	2,828,068	3,171,958
Decrease in long-term debt	2,680,154	1,620,365
Acquisition of minority interests in a subsidiary	62,846	—
Redemption of shares	223,749	435,881
	\$ 7,053,339	\$ 5,966,046
Increase in working capital	\$ 11,241,832	\$ 5,208,527
Working capital at end of year	\$ 28,322,845	\$ 17,081,013

Notes to Consolidated Financial Statements

as at October 31, 1975

Note 1 — Accounting policies

Coopérative Fédérée de Québec follows generally accounting principles applied on a consistent basis, except for modifications which are made from time to time to reflect current accounting practices and to improve financial reporting. Accordingly, the present financial statements give effect to the patronage refunds and to the provision for income taxes in the year they refer to. Formerly, these items were deducted from the general reserve of the subsequent financial year.

Consolidation — The consolidated financial statements include the accounts of Coopérative Fédérée de Québec and those of its wholly-owned subsidiaries, namely:

Legrade Inc
 Eastern Abattoirs Limited
 Fédérée Elevators Limited
 Canadian Livestock Cooperative of Quebec Limited
 Mont-Joli Products Ltd
 Quebec Seed Ltd
 Edmond Sylvain Limitée 1954
 Quebec Poultry Co. Ltd and its subsidiaries
 Abbotsford Poultry Farm Inc
 Flamingo Farms Ltd

Coopérative Fédérée de Québec accounts for acquisition of subsidiaries on a purchase basis. Operations of Quebec Poultry Co. Ltd and its subsidiaries, of Abbotsford Poultry Farm Inc and of Flamingo Farms Ltd are consolidated since May 1, 1975, date of acquisition.

Stocks — The stocks are valued at the lower of cost or net realizable value.

Fixed assets — Fixed assets are carried at cost and are depreciated on the reducing balance basis at the main following rates:

Buildings — 5% and 10%
 Machinery and equipment — 20%
 Automotive equipment — 30%

Assets acquired or sold during the year are depreciated at the same rates, proportionately to the number of months they are used.

Poultry quotas — The amortization of half of the cost of acquisition of poultry quotas is computed on the straight-line method over a period of ten years; the balance is amortized on the basis of the undepreciated capital cost for income tax purposes.

Excess of cost of shares in subsidiaries over net book value at dates of acquisition — The excess of cost of shares in subsidiaries over the net book value at dates of acquisition is being amortized on a straight-line basis over a period of ten years.

Deferred income taxes — Deferred income taxes are mainly due to the fact that capital cost allowances claimed for income tax purposes exceed the depreciation recorded in the books. These income taxes will become payable in the years when depreciation exceeds capital cost allowance.

Note 2 — Investments, at cost

	Current portion	1975	1974
Shares and advances in 50% owned companies (book value: 1975 — \$638,554; 1974 — \$649,802)	\$ —	\$ 474,000	\$ 470,000
Corporate shares	—	2,406,608	1,655,745
Mortgages	130,013	1,035,419	1,025,942
Other investments	84,755	657,550	—
	<u>\$ 214,768</u>	<u>\$ 4,573,577</u>	<u>\$ 3,151,687</u>
Current portion		214,768	135,571
		<u>\$ 4,358,809</u>	<u>\$ 3,016,116</u>

Note 3 — Fixed assets

	1975		1974	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 970,832	\$ 939,867	\$ 541,596	\$ 519,375
Buildings	13,271,321	9,189,592	6,976,056	5,072,218
Machinery and equipment	15,709,863	5,663,386	10,420,752	4,279,957
Automotive equipment	3,976,191	1,979,964	2,656,627	1,360,689
	<u>\$33,928,207</u>	<u>\$17,772,809</u>	<u>\$20,595,031</u>	<u>\$11,232,239</u>

Note 4 — Other assets

	1975	1974
Goodwill	\$ 1	\$ 1
Poultry quotas, unamortized cost	699,241	280,929
Deferred charges	180,343	85,539
Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition	<u>1,803,089</u>	<u>2,635,407</u>
	<u>\$ 2,682,674</u>	<u>\$ 3,001,876</u>

Note 5 — Acquisition and sale of subsidiaries

Non-fund assets and liabilities arising from acquisition and sale of subsidiaries are as follows:

	1975	1974
Assets		
Investments, at cost	\$ 342,145	\$ —
Fixed assets — net book value	6,416,265	497,184
Other assets	652,400	—
Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition (negative)	<u>(630,262)</u>	<u>169,092</u>
	<u>\$ 6,780,548</u>	<u>\$ 666,276</u>
Liabilities		
Deferred income taxes	\$ 133,676	\$ 10,092
Long-term debt	7,561,469	260,000
Minority interests	44,059	—
Excess of sale price of shares over their net book value at date of sale	<u>818,232</u>	<u>—</u>
	<u>\$ 8,557,436</u>	<u>\$ 270,092</u>
Increase (decrease) in working capital	<u>\$ 1,776,888</u>	<u>\$ (396,184)</u>

Note 6 — Long-term debt

	Current portion	1975	1974
Coopérative Fédérée de Québec			
Debentures, series "A", 7%, 1976	\$ 277,000	\$ 277,000	\$ 352,500
Debentures, series "B", 9½%, 1976	419,400	419,400	1,187,400
Debentures, series "B", 8¼%, 1976-77	500,000	925,200	1,238,700
Debentures, series "B", 7¾%, 1977-78	—	1,936,900	1,956,800
Debentures, series "B", 7¾%, 1979	—	722,300	744,700
Debentures, series "B", 9%, 1976-79	900,000	3,586,200	3,354,100
Debentures, series "C", 7½%, 1976-79	74,500	309,500	381,500
Debentures, series "D", 9¾%, 9¾%, 1978-85	—	<u>4,939,100</u>	—
	<u>\$ 2,170,900</u>	<u>\$13,115,600</u>	<u>\$ 9,215,700</u>
Other loans	8,299	28,356	66,074
	<u>\$ 2,179,199</u>	<u>\$13,143,956</u>	<u>\$ 9,281,774</u>
Eastern Abattoirs Limited			
Bonds, 7½%, 1976-87	\$ 75,000	\$ 900,000	\$ 975,000
Mortgages payable, 7%, 8%, 1976-84	20,500	122,000	142,500
	<u>\$ 95,500</u>	<u>\$ 1,022,000</u>	<u>\$ 1,117,500</u>
Edmond Sylvain Limitée 1954			
Mortgage payable, 7%, 1976-83	\$ 23,641	\$ 212,265	\$ 234,312
Term notes, 6%, 1976-77	10,096	19,476	29,509
	<u>\$ 33,737</u>	<u>\$ 231,741</u>	<u>\$ 263,821</u>
O. Couture & Fils Inc			
Mortgage payable, 6%, 1976	\$ —	\$ —	\$ 15,000
Quebec Poultry Co. Ltd and its subsidiaries			
Bonds, 8¾%, 9.9%, 11½%, 1976-93	\$ 131,400	\$ 3,264,300	\$ —
Debentures, convertible, 6½%, 1984-87	—	2,000,000	—
Mortgages payable, 6% to 10%, 1976-84	76,865	1,187,135	—
Term notes, 8% to 11%, 1976-82	119,141	1,071,851	—
Other loans	217,049	384,132	—
	<u>\$ 544,455</u>	<u>\$ 7,907,418</u>	<u>\$ —</u>
	<u>\$ 2,852,891</u>	<u>\$22,305,115</u>	<u>\$10,678,095</u>
Current portion		<u>2,852,891</u>	<u>1,284,686</u>
		<u>\$19,452,224</u>	<u>\$ 9,393,409</u>

Payments required in the next five years to meet long-term debt instalments and sinking fund provisions are:

1976 — \$2,852,891;	1978 — \$4,220,702;	1980 — \$1,342,075.
1977 — \$3,606,046;	1979 — \$3,211,927;	

Note 7 — Capital stock

According to section 5 of the Act incorporating Coopérative Fédérée de Québec, the capital stock is composed of the common shares subscribed by the members and of the preferred and common shares issued by it. Such capital stock is variable. Common and preferred shares may be redeemed by resolution of the Board of Directors in as much as the provisions of the trust deeds dealing with redemption of capital stock are complied with. They may be reissued.

	1975	1974
Preferred shares, of \$10 each		
1966 series "B", redeemable at the latest in 1986	\$ 608,930	\$ 621,270
1967 series, redeemable at the latest in 1987	666,130	678,770
1968 series, redeemable at the latest in 1988	752,980	768,370
1969 series, redeemable at the latest in 1989	546,290	555,890
1970 series, redeemable at the latest in 1990	1,338,140	1,361,870
1971 series, redeemable at the latest in 1986	1,377,660	1,394,140
1972 series, redeemable at the latest in 1987	1,997,430	2,006,850
1973 series, redeemable at no set date	221,870	221,880
1974 series, redeemable at the latest in 1984	2,806,570	2,816,070
1975 series, redeemable at the latest in 1985	2,668,520	2,678,190
1976 series, redeemable at the latest in 1986	2,580,000	—
	<u>\$15,564,520</u>	<u>\$13,103,300</u>
Common shares		
Qualifying shares of \$10 or \$25 each, convertible in preferred shares	\$ 24,735	\$ 24,735
Qualifying shares, class "A", of \$25 each	1,213,600	1,198,575
Class "B", of \$25 each	280,850	285,675
Class "C", of \$10 each	2,569,380	2,581,560
Class "D", of \$10 each	6,809,650	4,243,350
	<u>\$10,898,215</u>	<u>\$ 8,333,895</u>
Partially paid		
A balance resulting from the allotment of non-assessable preferred and common shares in payment of patronage refunds remains credited to members as the individual amounts allotted are insufficient to equal the par value of these shares	\$ 24,813	\$ 22,952
Poultry growers		
Qualifying common shares, class "A", of \$25 each	\$ 38,900	\$ 44,500
	<u>\$26,526,448</u>	<u>\$21,504,647</u>

Note 8 — Patronage refunds

In accordance with the terms of the Act incorporating Coopérative Fédérée de Québec, the Directors, at their meeting held on January 15, 1976, declared, out of earnings from operations of the current year, patronage refunds of \$8,600,000. They resolved that this refund be paid and allocated as follows:

Cash	40%	\$ 3,440,000
Preferred shares, redeemable at the latest in 1986	30%	2,580,000
Common shares	30%	2,580,000
	<u>100%</u>	<u>\$ 8,600,000</u>

This allocation is reflected in the consolidated financial statements.

Note 9 — Extraordinary items

	1975	1974
Gain (loss) on disposal of fixed assets	\$ 6,813	\$ (202,647)
Amortization of excess of cost of shares in subsidiaries over net book value at dates of acquisition	(225,843)	(327,312)
Recovery of income taxes arising from the application of prior years' losses	691,474	—
Gain on sale of shares of a subsidiary	818,232	—
	<u>\$ 1,290,676</u>	<u>\$ (529,959)</u>

Note 10 — Commitments

- a) Coopérative Fédérée de Québec and some subsidiaries have certain lease agreements for the rental of buildings, installations and equipment for varying terms up to 1990. The aggregate annual expense of these leases amounts to \$800,000 approximately. Two of these leases have been signed with Greater Montreal Central Market Co. Ltd, of which Coopérative Fédérée de Québec holds more than 30% of the common stock.
- b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amounted to approximately \$750,000 as at October 31, 1975.
- c) Changes in the pension plan have resulted in a liability for past services estimated at \$3,000,000. This amount will be amortized over a period not exceeding seven years.

Auditors' Report

To the members of Coopérative Fédérée de Québec,

We have examined the consolidated balance sheet of Coopérative Fédérée de Québec and its subsidiaries as at October 31, 1975 and the consolidated statements of earnings, general reserve and changes in financial position for the year then ended and have obtained all the information and explanations we have required. For Coopérative Fédérée de Québec and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of Coopérative Fédérée de Québec and its subsidiaries, these consolidated financial statements present fairly the financial position of Coopérative Fédérée de Québec and its subsidiaries as at October 31, 1975, and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving effect to the change in accounting patronage refunds and provision for income taxes, as referred to in note 1.

Boulangier, Fortier, Rondeau & Cie
Chartered Accountants

January 16, 1976



The Marievalle Poultry Plant

Growth of the poultry co-operation was the highlight of the 1974-75 financial year. The acquisition of Quebec Poultry Co. Ltd was one important factor in this development; the other was the modernization of the Marievalle poultry plant which is operated by Coopérative Fédérée since the past ten years. This plant was completely renovated throughout, building and equipment alike, and the accompanying photo shows the plant's smart new exterior. Another poultry plant operated by Coopérative Fédérée for a number of years, this one at St. Félix de Valois (Joliette), was also renovated a few years ago.

