

Coopérative
Fédérée
de Québec

Annual
Report
1976

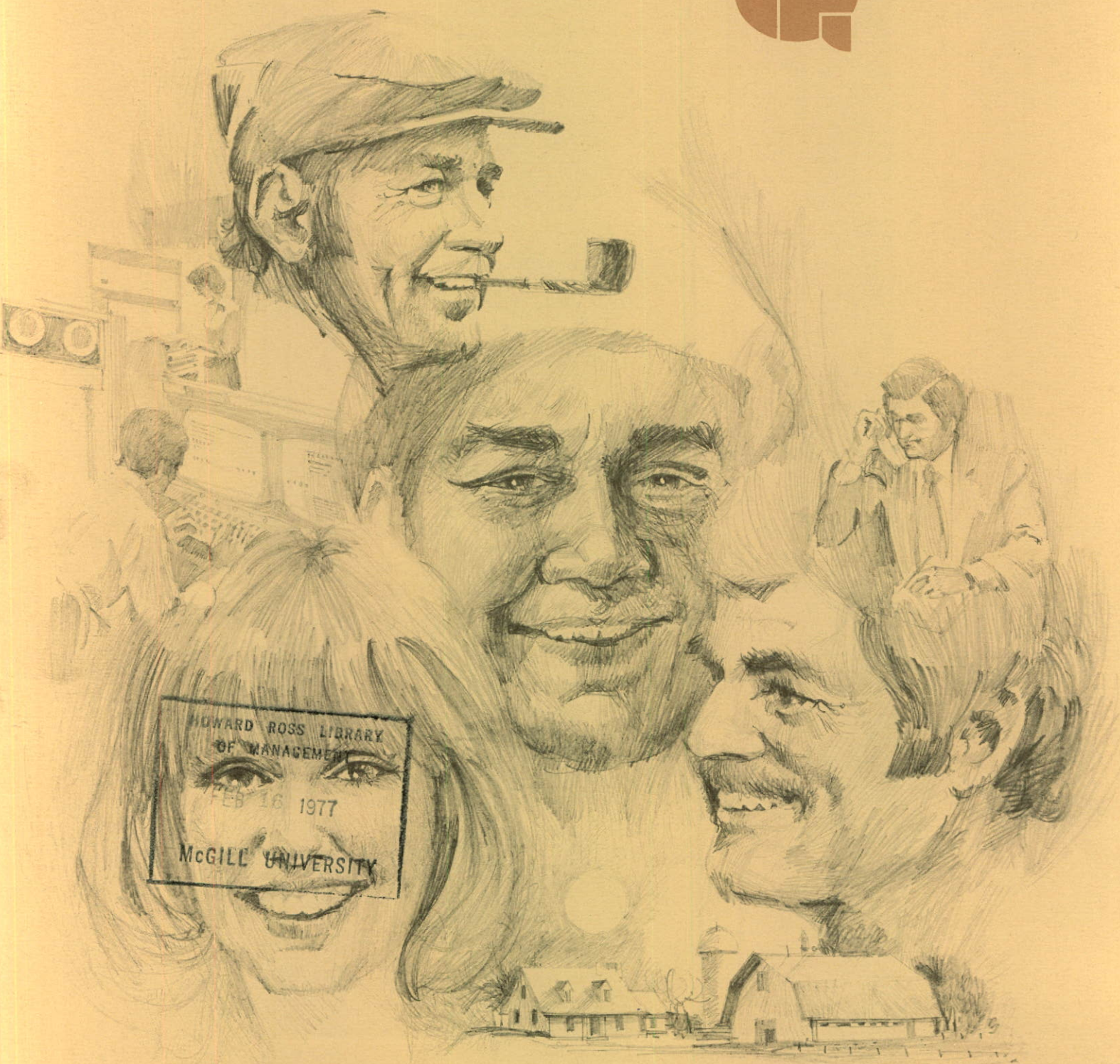


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Human Resources

Quebec's farm cooperative movement rests solidly upon many resources. First and foremost of all are its human resources. Lacking those, none of the physical resources of the farm, the basic unit or Coopérative Fédérée itself could be efficient. This vital wealth of ours is made up of the hard-working farmers who are the owner-users of the movement and the many dedicated people who every day keep the cooperatives and the Federation running smoothly and successfully. We should never become so impressed by the movement's physical assets that we forget the guiding force behind them. That is why, in this Annual Report, human resources play the starring role.

Coopérative
Fédérée
de Québec
and subsidiaries

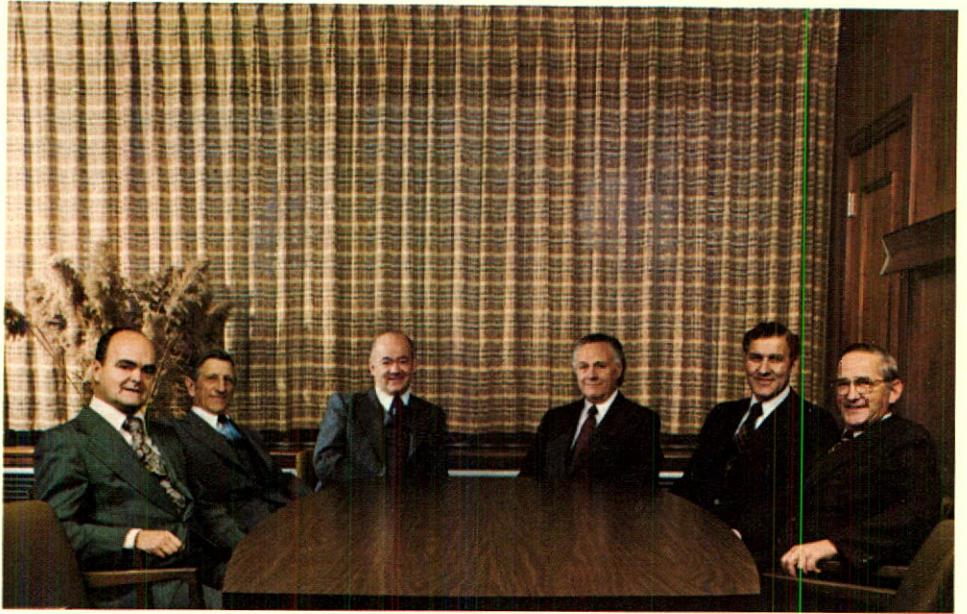
Annual
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1976



Highlights

	1976	1975
	(dollars in thousands)	
Sales	630 775	531 496
Wages, salaries and employee benefits	32 467	20 638
Depreciation	3 036	2 151
Earnings from operations	14 177	13 150
Accounts receivable and inventories	93 657	87 400
Current assets	96 538	91 208
Current liabilities	69 024	62 806
Working capital	27 514	28 402
Fixed assets, at cost	39 739	33 928
Fixed assets, net	21 073	17 773
Total assets	125 325	116 399
Long-term debt	16 276	19 452
Members' equity	38 767	33 222

Board of Directors and the Management



1



2

1 — From left to right, M. Gingras, Executive Secretary to the Management, J.-P. Diné, 1st Vice-president, L.-P. Poulin, General Manager, R. Pigeon, President and Chairman of the Board, P.-E. St-Pierre, 2nd Vice-president, and P. Vézina, Treasurer.

2 — F. Gonthier, Director, R. Newberry, Controller, L. Harvey, Director, A. Roy, Director and J.-P. Cadieux, Manager, Human Resources.

3 — M. Lemire, Director and member of the Executive Committee, M. Lavallée, Manager, Feeds and Fertilizers division, R. Lebailly, Manager, Farm supplies division, P. Massicotte, Director, and A.-R. Pelletier, Director and member of the Executive Committee.

4 — J.-C. Mercier, Director, T. Alain, Director, P.-H. Tremblay, General Manager, Legrade Inc., R. Mainville, Manager, Poultry Processing Department, and G. Lévesque, Director.

5 — F. Champagne, Director, R. Bilodeau, Director, P. Pariseault, Manager, Dairy division, L. Bois, Manager, Regional Development, and H. Bousquet, Director.

Not pictured:

R. Jean, General Manager, Quebec Poultry Ltd., and G. Turcotte, General Manager, Turcotte & Turmel Inc.



3



4



5

President's Report

Although agriculture encountered some rather difficult conditions during 1976, Coopérative Fédérée nevertheless did quite well during the year. Indeed, it is a real pleasure to note that our annual sales volume reached a new record high. This serves to indicate that there has been no slackening off in the dynamic drive which has marked our Federation these past few years. It also shows that the initiatives taken in the agri-food industry in recent years, such as the acquisition of companies, improvement programmes and reorientation of some of our activities, are now bearing fruit. The Management Report will provide you with more details on these developments, as well as it will give you a view of the performances of our organization, sector by sector.

General Management

Before going any further, we would like you to pause for a moment to join us in a modest tribute to the man whose hand on the tiller skilfully guided Coopérative Fédérée from 1965 until 1976: Mr. Georges-Etienne Turcotte. A staunch advocate of the farm cooperative movement, he devoted the greater part of his solely agricultural oriented career to its advancement. A tireless worker himself, he always surrounded himself with a team of people whom he inspired with his own dynamic spirit and the pleasure he took in striving for the benefit and betterment of the farming community.

Under the stewardship of Mr. Georges-Etienne Turcotte, as General Manager, Coopérative Fédérée achieved many successes in recent years. Those of us who had the privilege of working shoulder to shoulder with him every day over these past few years know that he was one of the most devoted supporters that the Quebec farmer has ever known. We are fully aware of the tremendous work he accomplished for us, as farmers and

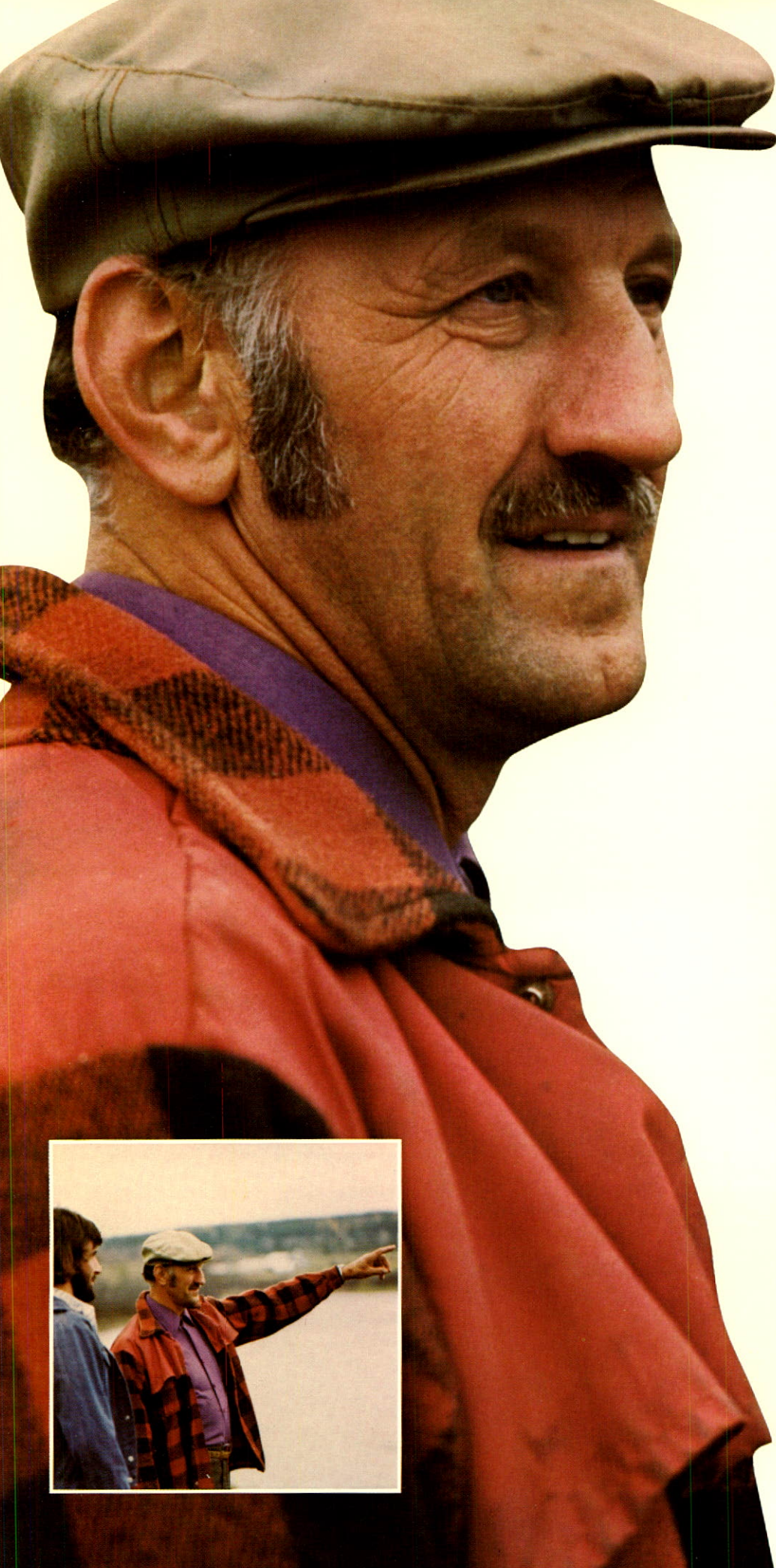
cooperative members. May we keep him present in our memories.

To succeed him, your Board of Directors has nominated Mr. Louis-Philippe Poulin. Active in our movement for several years as corporate Secretary, Mr. Poulin is well suited for the post through his experience in agriculture and in business, his firm belief in cooperative principles, and his knowledge of people and events. We know that he can count on everyone's full cooperation in the performance of his particularly difficult task that confronts him.

Dairy policy and its results

After a truly exceptional year for agriculture in 1975, Quebec farmers encountered some especially difficult periods during 1976. The announcement in April of a dairy policy aimed at limiting milk production was certainly no encouragement. It is easy to understand why the producers sometimes reacted rather violently to the restrictions imposed upon them. They most certainly could not be happy at seeing their incomes reduced, while at the same time other sectors of society were successfully fighting inflation by getting more money. As a result, some producers, especially the younger ones, found themselves in a precarious financial situation, to the point that some had to abandon their profession. While in no way setting ourselves up to judge and condemn, we nonetheless believe that a better planned policy and a more enlightened system of supply management would have helped to avoid the traumatic situation which a good number of producers had to face. It is our earnest hope that the 1976 experience will induce governments and other organizations involved to reflect a little, leading them to establish future policies which will not only be better thought out but more human.





A Hog Producer

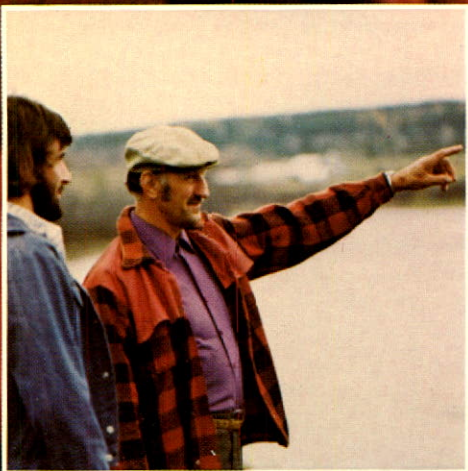
Paul-Emile Fortier

Paul-Emile Fortier of St-Malachie (Dorchester) typifies the progressive spirit of today's hog producers in Quebec. In 1952, he was raising about 50 hogs a year; today, his annual production reaches 2,800.

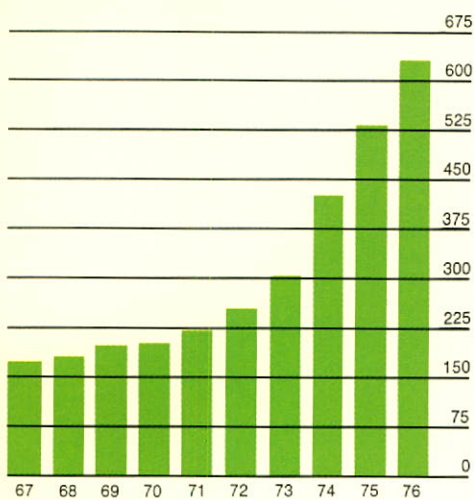
Although his specialty is hog breeding and rearing, Mr. Fortier is also an excellent dairyman. Member of Société Coopérative Agricole de St-Anselme since it was organized, Mr. Fortier is one of those foresighted farmers who were in at the beginnings of Quebec's farm cooperative movement. Their membership in cooperatives has given these alert farmers the economical and technical tools to help them expand and prosper.

Mr. Fortier is a worthy representative of those thousands of Quebec farmers who, by their professional approach and efficiency, have won a high rank in North American agriculture, as well as making a valuable contribution to Quebec's agri-food industry.

Mr. Fortier works closely with his son, Daniel, who displays a keen interest in the future of the family farm operation. Along with thousands of other rural families, the Fortiers have become successful professional farmers because each member of the family willingly contributes the efforts needed to reach the common goal. Married to the former Lucille Pouliot, and the father of five, Paul-Emile Fortier faces the future with optimism.



Sales (\$ in millions)



The 1976 dairy policy affected not only the incomes of producers, but also our agricultural economy as a whole. During the last few months of the year there was a substantial drop in sales of dairy feeds, fertilizers, farm equipment, silos and other farm supplies. Profitability of our member cooperatives declined, along with that of several of our Federation's operating departments. Finally, how can we exactly measure the problems encountered by dairy cooperatives who had to face a sharp drop of milk receipts?

Feed grains

For years Eastern farmers have complained about the inequities in feed grain prices in our area as compared with the Western provinces. But this situation seem to be a thing of the past, following the changes made in Canada's feed grain policy during 1976. In fact, since August 1, 1976, the loss of the freight subsidies was more than offset by lower prices we are now paying for our grains as compared with those prevailing before the grain policy was amended.

Agri-food industry

During the past year, Coopérative Fédérée undertook major renovations at two of its agri-food establishments. One was the expansion of the Turcotte & Turmel Inc. plant that greatly increased its slaughtering and pork cutting capacity. The other was in Quebec City where the poultry plant, formerly operated by Quebec Poultry Co. Ltd., was completely transformed into a modern processing and distribution centre for Legrade meat products in the Quebec metropolitan area. These improvements, following the acquisition in 1975 of Quebec Poultry Co. Ltd and its subsidiaries, have helped us increase our market share in the poultry and meat sectors to interesting levels.

The growing strength of the dairy cooperatives in the milk sector is well known to all. The most recent indication of this strength was the acquisition last August of J. J. Joubert Ltée from Borden Company. Coopérative Agricole de Granby took over Joubert through its subsidiary, Québec-Lait Inc., with Coopérative Fédérée assisting in the financing. This latest transaction, along with several others completed by Quebec dairy cooperatives in recent years, have given these cooperatives a significantly increased share of the market in the fluid milk sector, as well as in a number of other dairy products such as ice cream.

We should more often recall to ourselves the importance of such activities carried out by the Federation and its member cooperatives. They not only give Quebec farmers the physical tools of modern manufacturing and marketing, but also

allow us to gradually control the most important sectors of our entire farm economy.

Feedmill planning

Last August your Board of Directors set up a Feedmill Planning Committee. Its primary mandate is the reorganization and development of a network of Quebec cooperative feedmills to serve the foreseeable needs of agriculture in this province. Special attention is being paid to the autonomy of the basic units, in a movement such as ours which wishes to focus on the needs of the farmer as such and not on the number, size and area served by the cooperatives themselves. The Committee is associating talents and ideas from every level of the movement: Federation directors, managers of cooperatives, executives of the Feeds and Fertilizers Division, a representative from Management and regional development department. Work is now well underway, and it will be interesting to see a few months from now what the Committee will present in the way of recommendations and general objectives.

Relations with the farm union

Over the past few years relations between the farm cooperative movement and the farm union have been cordial, if not always without disagreements. When problems do arise, both sides find the will to form a united front to defend the farmers' interests. Notable examples of these joint efforts have been in the areas of manufactured milk and feed grains. Numerous meetings have also been held on such vital questions as hog and poultry marketing. These discussions have generally proved to be profitable to both parties and, consequently, to the producers.

There are, of course, differences of opinion at various levels of the organizations involved. But we can categorically state that these differences of opinion are never allowed to create a situation where either party forgets the primary and common goal, which is to defend the economic interests of all their members. We never lose sight of the fact that discussions in good faith between partners can generally lead to a valid and workable agreement. Belligerence rarely solves any problems...





A Head Office Employee

Mrs. Majella Normandeau

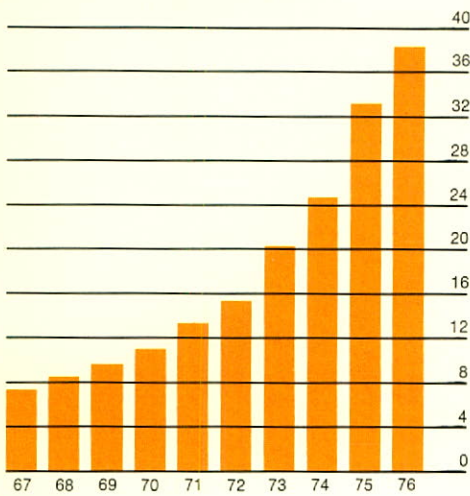
Mrs. Majella Normandeau is one of the many highly efficient female employees working at the head office of Coopérative Fédérée de Québec. She joined the accounts receivable department 15 years ago. After being a key-punch operator for one year, she then was an accounting machine operator until she left, six years later, to get married. When she returned after her two children were born, her first job was to oversee bank deposits. Since a few years she is in charge of computer accounting of receivables, a position she fills so capably.

The roles which Mrs. Normandeau and her fellow workers in Coopérative Fédérée office fill may seem remote from the cooperative members and the actual farm operations. Nonetheless, without their essential efforts, all the praiseworthy cooperative ideals and principles would remain unattainable dreams. The farm cooperative movement needs competent employees like these to handle the countless details necessary for an efficient and economic operations.

Mrs. Normandeau, a lifelong resident of Montreal, is truly interested in her work and is proud of her contribution. For almost 15 years now, she has played a part in the economic life and success of thousands of farm cooperative movement members.



Members' equity (\$ in millions)



Human resources and the future of the farm cooperative movement

No one can dispute the fact that the Quebec farm cooperative movement is now solidly established as a positive element in the province's economy. Neither is there any legitimate doubt that we wish to maintain and even improve the position we now hold.

In order to do so, we must be ever alert to conserve and strengthen the greatest asset any progressive enterprise can have: its human resources.

On the one hand, our institutions of tomorrow must be managed by competent, forward looking and knowledgeable people. That is precisely why we are today issuing a call to all our member cooperatives to help us in this task. More than ever before, they must bend every effort to single out and train alert directors in whose hands will lie the future destinies of larger and larger basic units.

On the other hand, the cooperative, just as any enterprise seeking success, must depend upon career managers ready to tackle any and all problems arising. There again, each cooperative must be ever vigilant and knowledgeable in selecting the people best qualified to perpetuate the successes of their predecessors. In its search for talent, the cooperative movement can call upon a vast reservoir of more than 6,000 employees, among whom are many outstanding prospects waiting to be found and trained.

But the human resources of the movement are by no means limited to its own directors and employees. There are also those important ones without which no cooperative can truly be "an association of men and women". Those are the members,

whom we constantly ask to remain faithful to their cooperative organization and principles. Yet this same organization may sometimes neglect to keep its members fully informed on current problems in agriculture and the farm cooperative movement as a whole. This is why we urge all our member cooperatives to make effective use in the years ahead of this indispensable tool which lies close at hand: clear, objective and well prepared information. Given directors fully aware of their responsibilities, competent managers and well informed members, we have no doubts whatever about the future of Quebec's farm cooperative movement.

In conclusion, we wish to extend our warmest thanks to all those near or far who have contributed to the success of Coopérative Fédérée during this past financial year. Members, directors, managers or employees . . . all have cooperated wholeheartedly, and we are grateful to one and all.

Roland Pigeon
President



Consolidated Statement of Earnings

for the year ended
October 31, 1976

	1976	1975
Sales and other income	\$630 775 378	\$531 496 320
Costs and expenses		
Costs of goods sold	\$553 788 730	\$478 033 739
Wages, salaries and employee benefits	32 467 485	20 637 824
Other operating expenses	9 385 510	5 759 565
Distribution and selling expenses	11 525 716	6 966 933
General administrative expenses	3 360 990	2 570 206
Interest on long-term debt	1 706 374	1 356 600
Other financial expenses	1 327 859	870 326
Depreciation	3 036 122	2 151 070
	\$616 598 786	\$518 346 263
Earnings from operations before complementary payments, discounts, extraordinary items, patronage refunds and income taxes	\$ 14 176 592	\$ 13 150 057
Complementary payments and discounts	3 471 677	696 955
Earnings before extraordinary items, patronage refunds and income taxes	\$ 10 704 915	\$ 12 453 102
Extraordinary items (note 10)	338 469	1 283 863
Earnings before patronage refunds and income taxes	\$ 11 043 384	\$ 13 736 965
Use of earnings		
Patronage refunds (note 9)		
Cash	\$ 1 311 000	\$ 3 440 000
Preferred shares	3 604 627	2 580 000
Common shares	1 984 373	2 580 000
	\$ 6 900 000	\$ 8 600 000
Income taxes	1 696 901	1 689 915
Net earnings for the year	2 446 483	3 447 050
	\$ 11 043 384	\$ 13 736 965

Consolidated Statement of General Reserve

for the year ended
October 31, 1976

Balance at beginning of year		
As previously reported	\$ 6 616 002	\$ 3 168 952
Refund of income taxes reassessed for 1970	79 507	79 507
As restated	\$ 6 695 509	\$ 3 248 459
Net earnings	2 446 483	3 447 050
Balance at end of year	\$ 9 141 992	\$ 6 695 509

**Coopérative Fédérée
de Québec
and Subsidiaries**

Consolidated Balance Sheet
as at October 31, 1976



ASSETS	1976	1975
Current		
Accounts receivable	\$ 58 296 262	\$ 56 052 874
Provision for possible future losses	(3 510 383)	(2 491 885)
	\$ 54 785 879	\$ 53 560 989
Inventories	38 871 046	33 840 322
Income taxes receivable	520 931	473 545
Prepaid expenses	2 153 932	1 693 552
Other receivable	—	1 425 000
Investments — current portion	206 010	214 768
	\$ 96 537 798	\$ 91 208 176
Non-current accounts receivable	\$ 446 255	\$ 376 714
Investments (note 2)	\$ 4 224 349	\$ 4 358 809
Fixed assets (note 3)		
Land, buildings, machinery and equipment, automotive equipment, at cost	\$ 39 739 471	\$ 33 928 207
Accumulated depreciation	(18 666 027)	(16 155 398)
	\$ 21 073 444	\$ 17 772 809
Other assets (note 4)	\$ 3 042 835	\$ 2 682 674
	\$125 324 681	\$116 399 182

On behalf of the Board
Roland Pigeon, Director
Jean-Paul Dinel, Director

LIABILITIES and MEMBERS' EQUITY	1976	1975
Current		
Outstanding cheques, less cash	\$ 5 462 678	\$ 6 386 930
Bank loans (note 6)	5 882 000	840 000
Accounts payable and accrued charges	31 580 490	25 460 003
Short-term notes	19 664 675	23 826 000
Patronage refunds	1 311 000	3 440 000
Redemption of capital stock	1 534 627	—
Current portion of long-term debt	3 588 370	2 852 891
	\$ 69 023 840	\$ 62 805 824
Deferred income taxes	\$ 1 257 559	\$ 919 177
Long-term debt (note 7)	\$ 16 275 721	\$ 19 452 224

Members' equity

Capital stock (notes 8 and 9)	\$ 29 625 569	\$ 26 526 448
General reserve	9 141 992	6 695 509
	\$ 38 767 561	\$ 33 221 957
	\$125 324 681	\$116 399 182

Commitments (note 11)

Consolidated Statement of Changes in Financial Position

for the year ended
October 31, 1976

	1976	1975
Working capital provided by		
Operations		
Net earnings	\$ 2 446 483	\$ 3 447 050
Charges to income not requiring outlay of working capital	3 857 683	1 758 405
	\$ 6 304 166	\$ 5 205 455
Proceeds of sale of investments	412 635	176 556
Sale of fixed assets	358 020	552 693
Decrease in other assets	—	64 400
Long-term debt	412 700	5 161 447
Issue of shares	5 720 071	5 240 550
	\$ 13 207 592	\$ 16 401 101
Working capital used for		
Increase in deferred receivables	\$ 69 541	\$ (122 804)
Purchase of investments	348 069	1 264 144
Additions to fixed assets	6 334 743	2 828 068
Reduction in long-term debt	3 714 616	2 680 154
Redemption of shares	2 620 950	223 749
Acquisition of minority interests in a subsidiary	—	62 846
Acquisition and sale of subsidiaries, net of working capital (note 5)	1 008 067	(1 776 888)
	\$ 14 095 986	\$ 5 159 269
Increase (reduction) in working capital	\$ (888 394)	\$ 11 241 832
Working capital at beginning of year	28 402 352	17 160 520
Working capital at end of year	\$ 27 513 958	\$ 28 402 352

**Notes
to Consolidated
Financial Statements**

as at October 31, 1976

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.

Consolidation — The consolidated 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.
Centre Avicole Inc. and its subsidiaries
Ferme Joliette Inc.

Coopérative Fédérée de Québec accounts for the acquisition of subsidiaries on a purchase basis. The operations of Centre Avicole Inc. and its subsidiaries and of Ferme Joliette Inc. are consolidated since the date of their acquisition.

Inventories — The inventories are valued at the lower of cost or net realizable value.

Fixed assets — Fixed assets are shown at cost and are depreciated on the diminishing balance basis at the 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 straightline 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 straightline basis over a period of ten years.

Deferred income taxes — Deferred income taxes provided result principally from capital cost allowances for income tax purposes in excess of amounts charged in the accounts. These income taxes will become payable in the years when depreciation will exceed capital cost allowances.

Note 2 — Investments, at cost

	Current portion	1976	1975
Shares and advances in 50% owned companies (book value: 1976 — \$704 237; 1975 — \$639 196)	\$ —	\$ 474 000	\$ 474 000
Corporate shares	—	2 400 428	2 244 108
Mortgages	121 255	833 136	1 035 419
Other investments	84 755	722 795	820 050
	<u>\$ 206 010</u>	<u>\$ 4 430 359</u>	<u>\$ 4 573 577</u>
Current portion		206 010	214 768
		<u>\$ 4 224 349</u>	<u>\$ 4 358 809</u>

Note 3 — Fixed assets

	1976		1975	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 1 361 831	\$ 1 323 587	\$ 970 832	\$ 939 867
Buildings	15 214 623	10 170 726	13 271 321	9 189 592
Machinery and equipment	17 869 573	6 791 671	15 709 863	5 663 386
Automotive equipment	5 293 444	2 787 460	3 976 191	1 979 964
	<u>\$39 739 471</u>	<u>\$21 073 444</u>	<u>\$33 928 207</u>	<u>\$17 772 809</u>

Note 4 — Other assets

	1976	1975
Goodwill	\$ 1	\$ 1
Poultry quotas, unamortized cost	1 085 407	699 241
Deferred charges	138 711	180 343
Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition	1 818 716	1 803 089
	<u>\$ 3 042 835</u>	<u>\$ 2 682 674</u>

Note 5 — Acquisition and sale of subsidiaries

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

	1976	1975
Assets		
Investments, at cost	\$ 36 000	\$ 342 145
Fixed assets — net book value	360 034	6 416 265
Other assets	540 845	652 400
Excess of cost of shares in subsidiaries over net book value at dates of acquisition	270 415	(630 262)
	<u>\$ 1 207 294</u>	<u>\$ 6 780 548</u>
Liabilities		
Deferred income taxes	\$ —	\$ 133 676
Long-term debt	199 227	7 561 469
Minority interests	—	44 059
Excess of sale price of shares over their net book value at date of sale	—	818 232
	<u>\$ 199 227</u>	<u>\$ 8 557 436</u>
Increase (decrease) in working capital	<u>\$ (1 008 067)</u>	<u>\$ 1 776 888</u>

Note 6 — Bank loans

The bank loans are secured by section 88 of the Bank Act.

Note 7 — Long-term debt

	Current portion	1976	1975
Coopérative Fédérée de Québec			
Debentures, series "A", 7%, 1976	\$ —	\$ —	\$ 277 000
Debentures, series "B", 9½%, 1976	—	—	419 400
Debentures, series "B", 8¼%, 1977	462 800	462 800	925 200
Debentures, series "B", 7¼%, 1977-78	973 500	1 910 400	1 936 900
Debentures, series "B", 7¼%, 1979	—	703 400	722 300
Debentures, series "B", 9%, 1977-79	997 000	2 670 000	3 586 200
Debentures, series "C", 7½%, 1977-79	80 000	230 000	309 500
Debentures, series "D", 9¾%, 9¾%, 1978-85	—	4 921 300	4 939 100
Debentures, series "F", 10%, 1982	—	412 700	—
	<u>\$ 2 513 300</u>	<u>\$11 310 600</u>	<u>\$13 115 600</u>
Other indebtedness	8 299	20 057	28 356
	<u>\$ 2 521 599</u>	<u>\$11 330 657</u>	<u>\$13 143 956</u>
Eastern Abattoirs Limited			
Bonds, 7½%, 1977-87	\$ 75 000	\$ 825 000	\$ 900 000
Mortgage, 8%, 1977-84	14 500	101 500	122 000
	<u>\$ 89 500</u>	<u>\$ 926 500</u>	<u>\$ 1 022 000</u>
Edmond Sylvain Limitée 1954			
Mortgage, 7%, 1977-83	\$ 25 350	\$ 188 624	\$ 212 265
Term notes, 6%, 1977	9 380	9 380	19 476
	<u>\$ 34 730</u>	<u>\$ 198 004</u>	<u>\$ 231 741</u>
Centre Avicole Inc. and its subsidiaries			
Mortgage, 6¾%, 1977-89	\$ 1 909	\$ 33 700	\$ —
Quebec Poultry Co. Ltd and its subsidiaries			
Bonds, 8¾%, 9.9%, 11½%, 1977-93	\$ 137 400	\$ 3 132 900	\$ 3 264 300
Debentures, convertible, 6½%, 1984-87	—	2 000 000	2 000 000
Mortgages, 6% to 10%, 1977-84	646 673	1 144 064	1 187 135
Term notes, 8% to 11%, 1977-82	116 142	952 710	1 071 851
Other indebtedness	40 417	145 556	384 132
	<u>\$ 940 632</u>	<u>\$ 7 375 230</u>	<u>\$ 7 907 418</u>
	<u>\$ 3 588 370</u>	<u>\$19 864 091</u>	<u>\$22 305 115</u>
Current portion		3 588 370	2 852 891
		<u>\$16 275 721</u>	<u>\$19 452 224</u>

The aggregate amount of principal payments and sinking fund provisions to be required to meet debt obligations in each of the next five years is as follows:

1977 — \$3 588 370; 1979 — \$3 188 910; 1981 — \$821 739.
1978 — \$4 245 832; 1980 — \$1 351 779;

Note 8 — 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 are complied with. They may be reissued.

	1976	1975
Preferred shares of \$10 each		
1966 series "B", redeemable at the latest in 1986	\$ —	\$ 608 930
1967 series, redeemable at the latest in 1987	—	666 130
1968 series, redeemable at the latest in 1988	733 400	752 980
1969 series, redeemable at the latest in 1989	529 340	546 290
1970 series, redeemable at the latest in 1990	1 292 170	1 338 140
1971 series, redeemable at the latest in 1986	1 322 070	1 377 660
1972 series, redeemable at the latest in 1987	1 928 600	1 997 430
1973 series, redeemable at no set date	214 820	221 870
1974 series, redeemable at the latest in 1984	2 661 870	2 806 570
1975 series, redeemable at the latest in 1985	2 537 200	2 668 520
1976 series, redeemable at the latest in 1986	2 439 700	2 580 000
1977 series, redeemable at the latest in 1987	3 604 620	—
	<u>\$17 263 790</u>	<u>\$15 564 520</u>

Common shares

Qualifying shares of \$10 or \$25 each, convertible in preferred shares	\$ 24 725	\$ 24 735
Qualifying shares, class "A", of \$25 each	1 404 525	1 213 600
Class "B", of \$25 each	—	280 850
Class "C", of \$10 each	2 467 200	2 569 380
Class "D", of \$10 each	8 042 370	6 809 650
	<u>\$11 938 820</u>	<u>\$10 898 215</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 do not equal the par value of these shares	\$ 79 934	\$ 24 813
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Poultry growers

Qualifying common shares, class "A", of \$25 each	\$ 343 025	\$ 38 900
	<u>\$29 625 569</u>	<u>\$26 526 448</u>

Note 9 — Patronage refunds and redemption of shares

Patronage refunds — In accordance with the terms of the Act incorporating Coopérative Fédérée de Québec, the Directors, at their meeting held on January 14, 1977, declared, out of earnings from operations of the current year, patronage refunds of \$6 900 000. They resolved that this refund be allotted and paid as follows:

	1976	1975
Cash	\$ 1 311 000	\$ 3 440 000
Preferred shares	3 604 627	2 580 000
Common shares	1 984 373	2 580 000
	<u>\$ 6 900 000</u>	<u>\$ 8 600 000</u>

Redemption of shares — At their same meeting, the Directors also resolved to redeem the common shares, class "B", issued in 1967 and the preferred shares issued in 1966 and 1967, for an aggregate amount of \$1 534 627.

The effect of these resolutions is reflected in the consolidated statements.

Note 10 — Extraordinary items

	1976	1975
Recovery of income taxes arising from the application of prior years' losses	\$ 610 337	\$ 691 474
Profit on sale of shares of a subsidiary	—	818 232
Amortization of excess of cost of shares in subsidiaries over the net book value at dates of acquisition	(271 868)	(225 843)
	<u>\$ 338 469</u>	<u>\$ 1 283 863</u>

Note 11 — 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 \$900 000 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 \$850 000 as at October 31, 1976.
- c) Actuarial expertise of the pension plan indicates a liability for past services estimated at \$2 400 000. This amount will be amortized over a period not exceeding six years.

Note 12 — Anti-Inflation Legislation

Coopérative Fédérée de Québec and its subsidiaries are subject to the Anti-Inflation Legislation enacted by the Government of Canada effective on October 14, 1975 to provide for the restraint of profit margins, prices and employee compensation. Coopérative Fédérée and its subsidiaries have used their best efforts to comply with the guidelines since their announcement. Although a number of uncertainties concerning the implementation of the program still remain, no serious impact is foreseen on the future financial situation.

Auditors' Report

To the members of Coopérative Fédérée
de Québec,

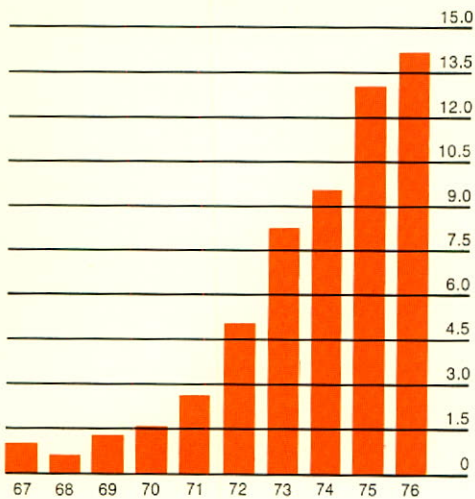
We have examined the consolidated balance sheet of Coopérative Fédérée de Québec and its subsidiaries as at October 31, 1976 and the consolidated statements of earnings, general reserve and changes in financial position for the year then ended and have obtained all the information and explanations we 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. For those subsidiaries of which we are not the auditors, we have relied on the reports of other auditors.

In our opinion, these consolidated financial statements present fairly the financial position of Coopérative Fédérée de Québec and its subsidiaries as at October 31, 1976, 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.

Boulangier, Fortier, Rondeau & Cie
Chartered Accountants

January 14, 1977

Net earnings from operations (\$ in millions)



Management Report

Although sales and other income reached a new peak during the 1975-76 financial year, overall operating results nonetheless reflected the difficulties arising from changing agricultural marketing conditions and continued inflationary pressures.

The first six month results, following one of the best years agriculture had experienced during the past decade, seemed to forecast a highly profitable and successful year. Agricultural production had increased, particularly in the dairy sector, and prices were relatively stable. But in April, at the beginning of the second half-year, the first shock wave hit in the form of a drastic change in the national dairy policy.

Right on the heels of this dairy policy came a severe downturn in the broiler chicken market. Then, hog prices began to sag. As a result, during the second half of the financial year, Quebec's three main areas of farm production barely held their own. Quite understandably, they were major factors in flattening the net earnings growth recorded in the first six months.

Total sales and other income for the year reached \$630.7 million, compared with \$531.4 million in 1975, an increase of 18.7%. Yet real growth, expressed in constant dollars, was lower in 1976 than in the two preceding years.

Net earnings from operations, before complementary payments, discounts, extraordinary items, patronage refunds and income taxes, totalled \$14.2 million, as against \$13.1 million the previous year. It should be noted that in 1976, complementary payments and discounts amounted to \$3.4 million, as compared with \$0.6 million in 1975. These items deducted, net earnings from operations, before extraordinary items, patronage refunds and income taxes, totalled \$10.7 million in

1976, \$1.7 million lower than the year before.

Related to sales, net earnings represent 1.7% in 1976, against 2.3% in 1975, a drop of 0.6%. Although attributable mainly to the complementary payments and discounts, this decrease also reflects inventory devaluation resulting from lower market prices, as well as an increased provision for eventual future losses on accounts receivable.

An in-depth analysis of the year's operations proves once again that the economic destiny of the farm cooperative movement is intertwined with that of agriculture itself. It also highlights the growing importance of government policies, especially farm policies, in the operation and results of an organization so closely linked with agriculture as is Coopérative Fédérée. It must be pointed out that agricultural policies do far more than influence profit margins: they also have a more or less direct effect on farm production and thus on the actual volume of transactions in farm inputs and outputs.

Furthermore, any policy which is inappropriate creates a pessimistic attitude among farmers and can have a decisive effect on the results achieved in the para-agricultural sector.

Meat and livestock

Sales of Legrade Inc. and Turcotte & Turmel Inc. reached almost \$90 million during the year. The addition in 1975 of the latter subsidiary expanded our Meat Packing Division operations to the point where it now ranks among Quebec's major meat processing organizations. Hog slaughterings have tripled, while beef and veal processing has more than doubled.



Coopérative Fédérée operates three packing plants, located at Princeville, Bic and Vallée-Jonction. A few years ago it acquired Edmond Sylvain Ltée to provide itself with a convenient meat processing and distribution centre in the Quebec City metropolitan area. Once Quebec Poultry Co. Ltd was acquired last year, it was decided to discontinue poultry processing at that company's Quebec City plant. The facilities, including a large cold storage warehouse, were then modernized and transformed to make them suitable for the Edmond Sylvain Ltée operation.

Substantial improvements have also been made to the Vallée-Jonction plant, increasing hog slaughtering and pork cutting capacity by about 60%. Quebec's cooperative meat packing operations now represent about 20% of the province's total annual production.

We are quite satisfied with net earnings on meat packing operations at more than 1% of sales. Over the past few years, Legrade Inc. profitability has been marginal at best. Several decisions have been taken to correct the situation. Objectives were set to obtain a greater regularity of livestock arrivals, a faster turn-over of inventories, a greater productivity in the plants and, finally, the manufacture of a higher proportion of smoked, cured and cooked meats. Results of the past year show that important progress has already been made. We hope this trend will continue.

The Canadian Livestock Cooperative of Quebec Ltd serves regularly as our commission sales agent at the Eastern Montreal Market. During this past year, it marketed 42,130 heads of livestock, an increase of 12.5% over the previous year's volume. Good year or bad, this department has an adequate return on sales, and judging from the number of farmers using it to market their livestock, it still plays a useful role.

The Meat Packing Division has reached the level of technology and economic organization that makes it a force to be reckoned with in the North American meat packing industry. Over the years, since its origins in the 1914-16 era, the meat activity has had its successes and its disappointing lows. Management, on a number of occasions, has seriously questioned the validity of this operation and even its orientation. The individual and consolidated results of Legrade Inc. and Turcotte & Turmel Inc. of the last two years provide some sound basis for a positive answer to this question.

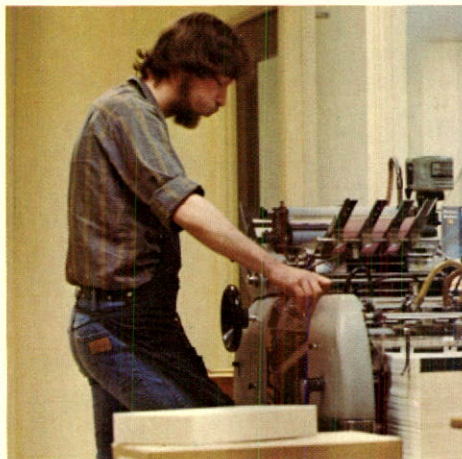
Poultry processing

Poultry production and marketing evolves in a controlled economy at both the levels of

production at the farm and prices paid for the birds. In such a context, the possibility of increasing actual physical volume is strongly limited. A greater share of the market is the only solution, and this was the course taken in acquiring Quebec Poultry Co. Ltd. Coopérative Fédérée, by this action, became Quebec's largest poultry processing and marketing organization, accounting for about 45% of the province's poultry meat.

Total sales have almost reached the \$100 million mark. Profitability was most satisfactory at the beginning of the financial year, due to a strong market and good prices. But profits declined in the second half, in the wake of massive imports of lower priced broilers from the United States. Even so, the Federation and its subsidiaries have made complementary payments, totalling more than \$2 million, to our poultry producers while at the same time providing for the eventual payment of respectable patronage refunds to members of our Poultry Producers Section.

Poultry raising is another disconcertingly cyclical industry, swinging rapidly between feast and famine. Good times for the industry prevailed during the latter part of the 1974-75 financial year and the first half of last year. However, since the summer of 1976, the market has been exceedingly difficult and times have been lean. Both for the sake of the hard pressed producers and the processing activity, we must hope for the early establishment of a national broiler marketing board that will give the Federal government the power to control imports from the United States. Such action would ensure the least possible disturbance to the Canadian industry and to Quebec producers in particular. This could mean millions of dollars in extra income for these highly specialized farm producers, who have every right to run their individual businesses in a more stable economic climate.



At the present time, Coopérative Fédérée and its subsidiaries operate four poultry processing plants, located at Marieville, St-Félix-de-Valois, St-Jean-Baptiste-de-Rouville and Berthierville. There is also a poultry food processing plant at Ste-Rosalie, an egg breaking plant, two hatcheries and several farms. All aspects of the industry are vertically integrated within Coopérative Fédérée. Following the successful example set by the dairy cooperatives, the poultry structure now provides an essential decision making centre to protect the interest of both the poultry producers and general farmers alike.

Fruit and vegetable Department

The fruit and vegetable department is a small one among the activities of the Federation. Annual sales are close to \$3 million, and overall business has been dropping these past five years, since marketing of canned fruits and vegetables has been discontinued. However, the activity remains profitable. Management has set up a planning committee to determine the best future course to take and precise recommendations will be made at a later date.

Dairy Division

Recording sales of slightly more than \$215 million last year, the Dairy Division undoubtedly leads in this area as it contributes just over one-third of Coopérative Fédérée total sales in 1976. Dairy Division sales were greater than last year by 17.5%, due to price increases and a 12.2% increase in products marketed. Yet the Division's earnings were lower, due to special transactions that did not take place as was the case the year before.

Higher marketing volume was achieved during the first half of the year, when dairy production climbed substantially. But changes to the national dairy policy had a severe impact on the dairy industry as a whole, and a sharp effect on milk producers' income, the industrial milk producers especially. In addition to problems created by the dairy policy, a number of situations arose from the industry's administrative structure. As a result, the Cooperative Dairy Council had to meet more frequently during the past year to define more clearly the stances to be taken when dealing with the Canadian Dairy Commission, the Federal Department of Agriculture, the Quebec Department of Agriculture, the Quebec Farm Products Marketing Board and the Federations of Milk Producers.

In addition to its strictly commercial function, this Division also provides member cooperatives with management consultant

A Milk Producer

Jean-Maurice Bourassa

Jean-Maurice Bourassa of Ste-Anne-de-la-Rochelle (Shefford) is a milk producer with whom many Quebec farmers can easily identify themselves. When he started out, back in 1955, he had only 16 cows on a 150-acre farm, of which only 40 acres were cultivated. Today, through hard work and planning, he has a herd of 45 cows and 385 acres of land. Of these, about 130 acres are cultivated. He also has a sugar bush operation.

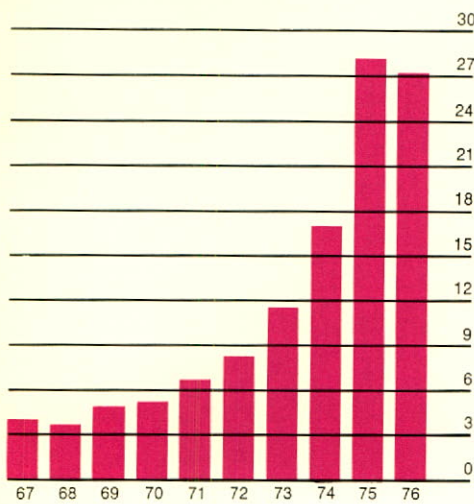
Mr. Bourassa learned his trade from his father, an ardent cooperative member who was always extremely active in farm circles. Member of Coopérative Agricole de Granby from the time he began farming, he is an active worker for the movement. Mr. Bourassa shares this enthusiasm for cooperative principles with his brothers, farmers like himself.

Much of the mushrooming success of the farm cooperative movement is certainly due to such tireless workers as Mr. Bourassa. In this, he is fully typical of so many of Quebec's milk producers. Married and the father of four children, he has passed along to his family those same cooperative principles which he learned from his father and which have always guided his actions.

On this page, we present a close-up picture of Mrs. Jean-Maurice Bourassa. We want to recall that, in agriculture, a farmer's wife is the most faithful and loyal associate. Through Mrs. Bourassa, we wish to pay a special tribute to all the beautiful ladies of Quebec's farms.



Working capital (\$ in millions)



services, technical assistance, and acts as a strong voice for Quebec's dairy cooperative movement. In this Quebec large and important industry, the cooperatives are playing a leading role in the industrial milk sector and are rapidly spreading in the fluid milk sector. Because the industry's economy is controlled to a high degree, and because each of its individual sectors has its own structure and needs, a great deal of work of a specialized institutional nature is required. This work taxes the Division's manpower and is a heavy burden on its budget. But it is the price which must be paid to ensure a united and coordinated action of this most important segment of Quebec's farm cooperative movement and to preserve the cooperative action of our various institutions, special emphasis being on the relations between the cooperatives and their members.

There you have a brief summary of what Coopérative Fédérée has done in marketing Quebec's farm products during the past year. Sales achieved by these marketing efforts totalled \$403.7 million, accounting for 64% of our sales from all sources, and providing about 46% of earnings before general administrative expenses.

Farm Supplies

The important task of keeping members supplied with all their needs is shared by the Agricultural Supplies Division and the Feeds and Fertilizers Division. The Agricultural Supplies Division operates three separate departments: Farm Supplies, Farm Machinery, and Petroleum. Despite some real difficulties encountered in certain activities, the Division's overall performance can be considered quite satisfactory, since its contribution to earnings was about 25% greater than last year. Sales were above \$100 million for the first time in its history; this is worth noting.

Sales by the Farm Supplies Department were slightly higher this year, despite a serious drop in the prices of such impor-

tant volume items as baler twine and farm drain pipes, along with lower prices for a number of hardware items. Among the compensating factors which helped make up for this lost income, let us mention the truck delivery service offered to all cooperatives and the automatic order facilities available 24 hours a day. Those initiatives helped to provide a much more efficient service to member cooperatives, and to increase sales.

The Farm Machinery Department was one of those most affected by the dairy policy changes. During the second half of the year, producers were understandably much less inclined to invest in equipment such as silos, forage harvesters, forage boxes and mower-conditioners. Under the circumstances, the department's sales at \$30 million were the same as last year, but its net contribution to earnings was down slightly. Fortunately, the excellent results of the first six months helped to cushion the impact of decreased sales in the second half of the year and the growth and progress of this department was not hampered too seriously.

This department went through some difficult times in the first few years after it was set up, but it has been remarkably dynamic during the last five years. Its sales and net earnings almost tripled in the period from 1972 to 1976. One reason for this rapid growth is undoubtedly the restructuring of its sale service in the field, along with the training of more and more accredited farm machinery specialists. This is another area where the Quebec farm cooperative movement now plays a useful and profitable role, because both the cooperatives and the Federation were willing to bear the difficulties of the set up period.

Sales of the Petroleum Department amounted to \$49 million, a 15% increase over last year, in spite of a physical volume increase of approximately 6% — a discrepancy explained by higher prices for petroleum products. On the heels of its deficit position in the 1973-74 financial year, during the oil crisis, the department's contribution to earnings has improved. The figure for the year just ended was greater than last year by 20%, but still far from matching its earnings for the years 1970 to 1973.

Feeds and Fertilizers

The Feeds and Fertilizers Division manages three departments: Grains, Feeds and Fertilizers and Seeds.

The Grain Department suffered a substantial drop in sales, due to a decrease of about 11% in feed grain prices. Volume was down about 8%, as a result of im-



A Milk Tankwagon Driver

Lucien Lapierre

Lucien Lapierre of St. Gervais (Bellechasse) is just one of the numerous people employed by Coopérative Laitière du Sud de Québec. Six days a week, starting at 8 a.m., he does his run of the 28 milk producers on his route, collecting his load of some 6,400 pounds of milk earmarked for the cooperative plant at St. Claire. Like so many of his fellow workers in the cooperative movement, he really enjoys his job.

One important reason why Mr. Lapierre decided to become a driver for the cooperative is because he likes the atmosphere of association among employees, so often lacking in other fields of activity. Son of a farmer, he is proud to work in his milieu where he feels that he is helping to improve the economic well-being of the Quebec farming community. He has shared this feeling of togetherness for the past 20 years with other drivers who also put their hearts into their jobs.

The truck driver is another essential job in the smooth operation of the farm cooperative. Even more than most employees, he is usually the most visible link between the cooperative and its members. Whether he is ensuring prompt delivery of farm supplies and equipment or moving farm products to market, his economic role is an important one. The milk collection man is typical of the thousands of drivers throughout Quebec who keep the cooperatives rolling smoothly.

As the Lapierres have always lived in the St. Gervais area, Lucien knows its people as well as their aspirations. The steady progress made by Quebec's dairy cooperatives owes much to the efforts of men such as Lucien Lapierre. Their work has helped bring about improved conditions for the milk producers and all other farm cooperative members in Quebec.



proved local harvests. Despite those unfavourable factors, its contribution remained almost at the previous year's level.

The Feeds Department quickly felt the effects of the revised dairy policy. Sales of dairy feeds dropped substantially during the second half, with the net result that the department's physical and sales volume were both down slightly for the year as a whole. The decision to allow cooperatives discounts on bulk concentrates, at a total cost of \$660,000, has reduced accordingly this department's contributions to overall income and net earnings, but it still remains very profitable. Sales of livestock health products continued their upward trend. The hatcheries had sales slightly higher, although the contribution to earnings were lower. It is interesting to note that 89% of the eggs incubated in hatcheries operated by Coopérative Fédérée are produced in Quebec.

Summing it up, the Feeds Department can be said to have enjoyed a good year, even when the discounts referred to above are taken into account.

As to the Fertilizer and Seeds Department, it can easily be understood that the difficult times prevailing in the fertilizer industry throughout North America over these past several months seriously affected the department's profitability. Even with an increase of its share of the Quebec market, a greater physical volume in this highly competitive industry and sales remaining about the same as in 1974-75, there was a net drop in the department's earnings which was actually on the minus side.

In an effort to correct this situation, Coopérative Fédérée is continuing its program of installing blender plants to serve our farmer-producers more quickly and efficiently. Coopérative Fédérée has 16 of these blender plants operating in

various regions and five others are operated by member cooperatives. The Federation has already ensured better continuity of supplies and some protection against fluctuating costs through its membership with C.F. Industries, a basic fertilizer manufacturer owned jointly by 19 regional farm cooperatives throughout North America. But even if we have to face and suffer the sudden jolts of a highly competitive and fluctuating market, we must still press on with our program for growth and development. Here, as in many other fields, we must look beyond tomorrow, and the day after.

The Seed Section recovered well from its 1975 loss position and produced very satisfactory results in 1976. Although sales were up by about 5%, the department made an interesting contribution to earnings. Finally, the Farm Chemicals Department showed a sales increase of about 10%, but due to higher expenses and lower gross margins, its contribution was slightly below that of the previous year.

Corporate Services

The departments of Secretariat, Treasury, Control, Human Resources and Regional Development compose the general corporate services. Many people are involved in the constant review of commercial and industrial activities. But still many more work at a multitude of tasks to ensure the joint success of the corporate life, lending their support in 1001 ways. All those people who are daily involved in purchasing problems, in keeping plants operating, in running warehouses, in building sales through aggressive efforts and competitive pricing, they are all fulfilling important management roles. The job of each, though it may seem only a supporting one or a matter of another pair of hands, is nonetheless essential to the efficient and successful operation of the organization as a whole.

The farm cooperative movement consists of many various elements, linked in a province-wide network of organizations known as the cooperatives and their Federation. Although differences may exist between these organizations — in size, locality, economic activity and philosophy — the people serving each of them must always fashion their actions and attitudes with the constant aim of working to build a stronger and more unified network of cooperatives. This is the only way to ensure the growth of the farm cooperative movement as a valid, fully integrated and economically sound organization, and not as a mere collection of disparate groups unable to band together to face and conquer the great challenges ahead. To all these people, with whom I daily work, I say, thank you.



Louis-Philippe Poulin
General Manager





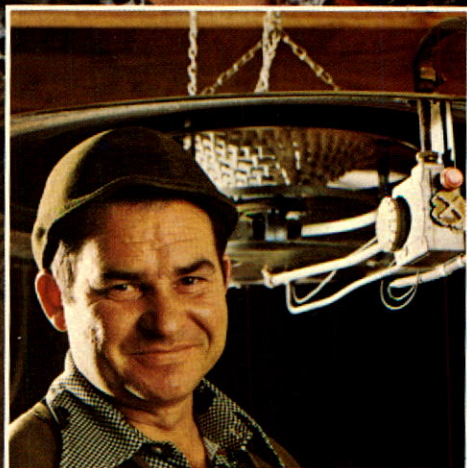
A Poultry Producer

Marcel Héneault

Marcel Héneault of St-Jean-de-Matha (Joliette), is an excellent example of Quebec's ambitious and hard working poultry producers. He started on a relatively small scale in 1968. He was then producing 17,000 broiler chickens annually in an old poultry house of some 5,000 square feet. Today, his production has grown to 132,000 broilers a year, in a modern structure of 40,000 square feet.

A member of the farm cooperative movement since 1970, Mr. Héneault joined other specialized producers who work closely together to integrate all economic activities of the poultry industry. Since this is a vertically integrated industry, the cooperative efforts of Mr. Héneault and of his fellow producers enable them to be much more efficient in the highly competitive poultry market. Like many other poultry producers, his association with the cooperative movement enables Mr. Héneault to run a tight operation and to make the maximum possible profit.

Raising broiler chickens is not an easy nine to five task. The job demands constant attention from the time the chicks arrive until they are ready for processing and the entire Héneault family pitches in to help out. Married for 15 years and father of three daughters, Marcel Héneault is deservedly proud of his business and highly appreciates the help given him by his family and the entire farm cooperative movement.



A Feedmill Employee

Georges-Henri Savignac

Born in St-Jean-de-Matha (Joliette), Georges-Henri Savignac represents another of the many occupations which make up Coopérative Fédérée de Québec. Starting as a stock handler in the grain silos, he is now a maintenance man at our Montreal St. Henri feedmill.

Mr. Savignac has been playing his unsung but important role in the farm cooperative movement since 1953. Through his daily work he helps ensure that thousands of owner-users have the basic feeds they need to raise healthy and vigorous livestock. Milk and livestock production provides the largest single source of gross revenue for Quebec's agriculture industry. Many people like Mr. Savignac, in many different occupations, must play a part. All too often the role of the feedmill worker is forgotten. Yet his professional competence and conscientious workmanship are essential if the objectives of the many owner-users are to be achieved. So the mill worker and his companions are vital members of the team.

Mr. Savignac is typical of the many employees serving Coopérative Fédérée de Québec and the farm cooperative movement. He likes his job and works diligently at it. Married and the father of five, he lives in Pointe-aux-Trembles, a Montreal suburb. The contribution he has made to Quebec's farm economy over the past 23 years is a source of quiet but genuine satisfaction to him.

