Coopérative Fédérée de Québec

Annual Report 1977

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Coopérative Fédérée de Québec
and subsidiaries

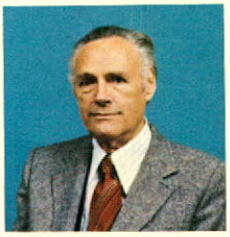
Annual Report 1977

Highlights (dollars in thousands)

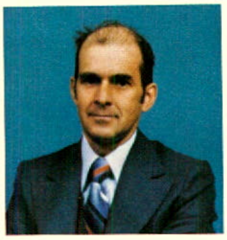
	1977	1976
Sales	**675 008**	630 775
Wages, salaries and employee benefits	**38 471**	32 467
Depreciation	**3 502**	3 189
Earnings from operations	**6 915**	14 177
Accounts receivable and inventories	**112 708**	93 657
Current assets	**115 555**	96 538
Current liabilities	**85 100**	69 024
Working capital	**30 455**	27 514
Fixed assets, at cost	**49 580**	39 757
Fixed assets, net	**27 321**	21 073
Total assets	**150 290**	125 325
Long term debt	**23 209**	16 276
Members' equity	**40 452**	38 767

Ce rapport est disponible en français
en vous adressant au Trésorier,
Coopérative Fédérée de Québec,
Case postale 500 — Station Youville,
Montréal H2P 2W2

Board of Directors



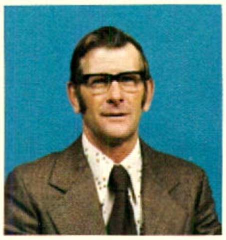
Roland Pigeon*
President
and Chairman
of the Board
Verchères



Bruno Beaulieu
Val Brillant

Roger Bilodeau
Bromptonville

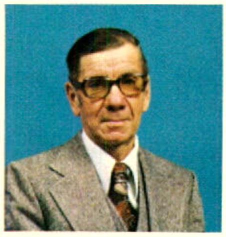
Jean-Paul Dinel*
1st Vice-president
Chéneville



Georges Lévesque
St-Simon

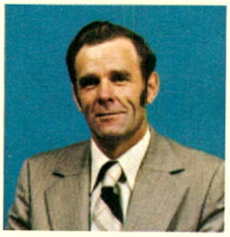
Jean-Marie Moreau
Verchères

Paul-Emile St-Pierre*
2nd Vice-president
Laurierville



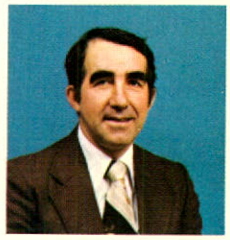
François Champagne
St-Côme Linière

Jean-Charles Mercier
St-Roch
de l'Achigan



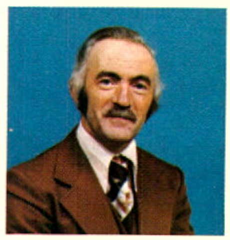
A.-Roger Pelletier*
La Pocatière

Clément Houle
Victoriaville



Paul Massicotte
Champlain

Michel Lemire*
St-Zéphirin

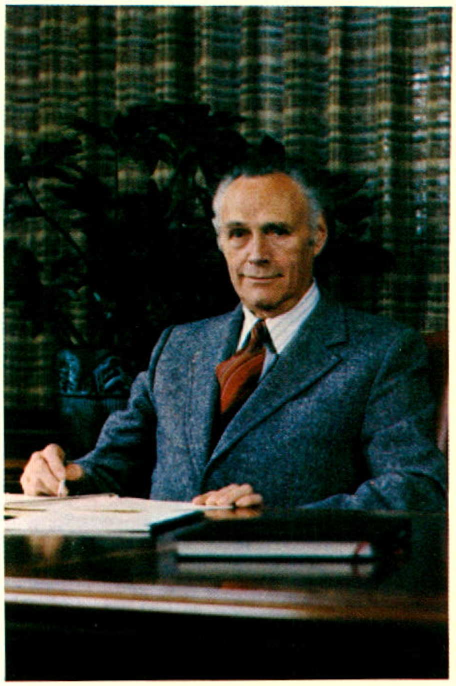


Théodore Alain
La Sarre

Léopold Harvey
Delisle

*Members of the
Executive Committe

President's report



It will come as no great surprise to you when we say that 1977 was generally a particularly difficult year for agriculture as it was for the economy as a whole. As could be expected, this situation took some of the lustre from the year-end results of the institutions jointly owned by Quebec's farmers: namely, the farm cooperatives and their Federation, Coopérative Fédérée. However, even though net earnings were lower, Coopérative Fédérée sales volume still reached a new high in 1977, as it will be noted later in our General Manager's detailed report on the year's operations.

We mourn another loss

For the second straight year, in fact within less than 13 months, the Federation suffered the loss of another of its top executives, Mr. Pierre Vézina, treasurer since 1964. An employee of Coopérative Fédérée for almost a quarter century, Mr. Vézina was a tireless worker, despite an unsteady health. He earned widespread recognition, both throughout the cooperative movement and the business world, as an able and skilful financial man, wholly dedicated to the farm cooperative cause. He richly deserves this tribute which we pay him here today.

The Farm Year in Review

As we mentioned at the beginning, 1977 was far from being an easy year for the farmer. Near drought conditions at the start of the season followed by a real flood at harvest time, along with government policies loaded with uncertainties prevented farmers from planning even for the short term. In fact, nothing seemed to work right. So much so, that even the most experienced farmers began to wonder about their future. Fortunately, precisely because of their vast experience, they understood that after the lean years there is always hope that the sun will break through again and the full ears of corn will return.

The national dairy policy which disturbed Quebec farmers in 1976 continued to play mean tricks on them in 1977. This is one of the reasons why producers showed such great caution in expanding their operations, or even buying new farm equipment. Such a situation had a considerable effect on farm equipment sales by the cooperative to their member-users and, in turn, by Coopérative Fédérée to its member cooperatives. Under such circumstances, all members of the team saw their operating results in the farm equipment sector seriously affected.

Two New Acquisitions

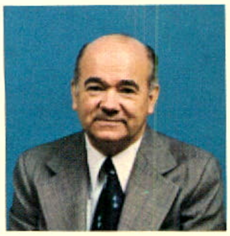
At the beginning of the financial year, we said that 1977 would be a period of coalescence for Coopérative Fédérée after several consecutive years of an all-out expansion. However, that in no way meant that we intended to stop our normal growth. In view of this, it was a logical move for Coopérative Fédérée to acquire in July a firm solidly entrenched in the hardware and building products trade, P.A. Gouin Limitée of Trois-Rivières. The purpose of this acquisition was to ensure that member cooperatives operating hardware departments could be supplied with an almost complete range of products normally offered for sale in any good hardware store. Since farmers are heavy consumers of these products, Coopérative Fédérée's Management believed it worthwhile to expand the service already provided in this area.

A few days later, your Federation acquired full ownership of Les Engrais Laprairie Limitée. You will recall that since 1965 Coopérative Fédérée had a 50% ownership in this fertilizer manufacturing plant. This move was a welcoming step in the Quebec farm cooperative movement's continued expansion in the fertilizer sector.

Dairy Division

In 1977, dairy cooperatives took a giant step forward in their penetration of the fluid milk consumer market. During the year, the Bas St-Laurent, Sud de Québec, Côte Sud, Papineau and Saguenay-Lac St-Jean cooperatives have all participated in the acquisition of dairies. Thus the dairy cooperatives continue to widen the major breakthrough achieved a few years earlier in this vital sector of the agri-food industry involving consumer dairy products.

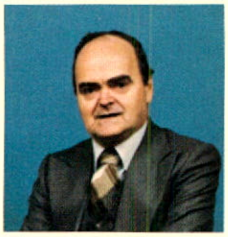
The Management



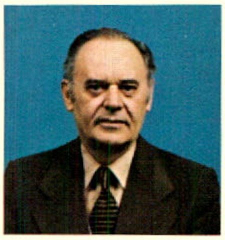
Louis-Philippe Poulin
General Manager

Maurice Lavallée
Manager,
Feeds and
Fertilizers division

René Jean
General Manager,
Quebec Poultry
Co. Ltd.



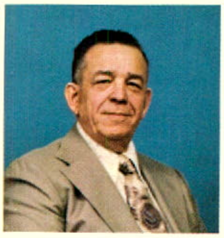
Marcel Gingras
Secretary



Raoul Lebailly
Manager,
Agricultural
supplies division

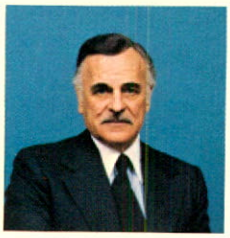
Jean-Paul Cadieux
Manager,
Human Resources

Richard Newberry
Controller



Paul-H. Tremblay
General Manager,
Legrade Inc.

Liguori Bois
Manager,
Regional
Development



Philippe Pariseault
Manager,
Dairy division

Gérard Turcotte
General Manager,
Turcotte &
Turmel Inc.

Roger Mainville
Manager,
Poultry processing
department

Through their cooperatives, Quebec's dairy producers already controlled the major share of the industrial milk processing facilities in the province. These breakthroughs of recent years in the fluid milk sector allow them to foresee the day when they will truly be masters in their own market. Such a goal does not seem at all surprising to us, because it is the most legitimate thing in the world for a producer in any field to aim for complete control of his own product right from his place of production to the consumer's table.

Meat Packing Division

In our Report a year ago, we spoke about the major expansion and renovations undertaken at two Coopérative Fédérée establishments: the Turcotte & Turmel Inc. plant at Vallée Jonction and at the former Quebec Poultry Co. Ltd poultry plant in Quebec City, now operated by Legrade Inc. as a meat packing plant. These improvements are now paying off in tangible terms. Among other things, hog slaughterings at Vallée Jonction have increased appreciably, making it possible to benefit more than in previous years from market opportunities — such as the export of fresh pork to Japan. The Legrade plant in Quebec City, for its part, provides the Meat Packing Division with excellent opportunities for recapturing a substantial share of the Metropolitan Quebec market. A great deal of effort must still be expended in this area, but we are confident that the goals we have set will eventually be reached.

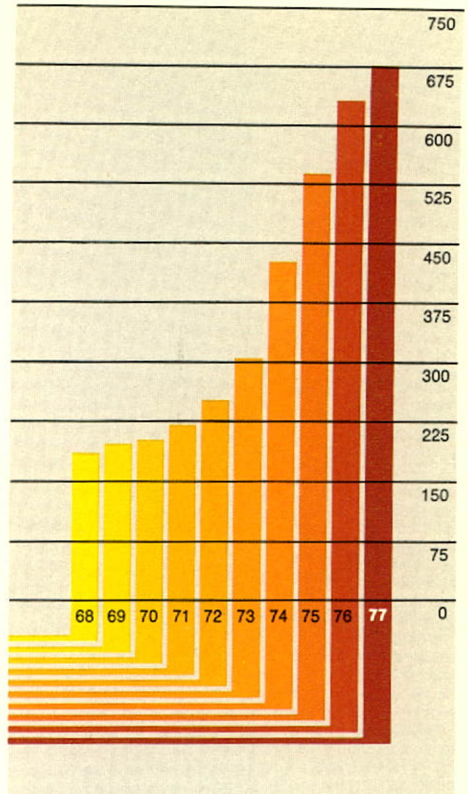
Feed Grains

Both the Federal and Provincial governments, for some years now, have been promising farmers that they would set up programmes aimed at increasing storage capacities for forage crops, as well as drying facilities for feed grains, to ensure greater self-sufficiency for Quebec's farming industry. Suddenly, in October 1977, and just a few days apart, both levels of government announced just such assistance programmes. Naturally, we are quite happy to see the interest our governments have now taken in the need to supply Quebec farms with quality feed grains. It still remains to be seen how they will apply these programmes which normally should bring direct benefits to farmers by encouraging them to increase their incomes through increased production of forage crops.

One welcome result will be appreciable savings in transportation costs. We must nevertheless be realistic, and not expect that self-sufficiency in feed grains can be achieved overnight. Still, substantial sums of money are made available to farmers and livestock feed producers and we hope that the cooperative producers, as well as the farm cooperative movement as a whole, will take advantage of the benefits offered.

Planning of Cooperative Feedmills

The Cooperative Feedmills Planning Committee, set up in 1976 by our Board of Directors, continued its excellent work during 1977. This Committee, drawing its talents from various levels of the movement, has devoted a special attention to the setting-up of a provincial hog producing corporation to be jointly owned by Coopérative Fédérée and several cooperatives directly involved in the production of hogs on a contractual basis. This new corporation known as "Les Elevages Cobec Inc." has provided itself with a structure and powers enabling it to play a most important role on behalf of the owner cooperatives. Its role is to help stabilize income on behalf of cooperatives in an industry that can be as cyclical as hog production. It's an experiment well worth trying, and we hope that it will achieve the desired results.



Sales ($ in millions)

Information Service

In 1972, the farm cooperative movement was midwife at the rebirth of the monthly magazine, LE COOPÉRATEUR AGRICOLE. In the first issue, its editor wrote: "Le Coopérateur Agricole comes on the scene as an instrument available to the cooperatives to promote information, consultation and participation necessary for their progress. A difficult task in the cooperative movement is that of harmonizing service with profitability, reconciling the interests of owner and user, serving the needs of members and customers alike, spelling out the benefits which cooperation offers its supporters. Our magazine will strive to light all these pathways, knowing that until the light shines, one cannot be enlightened."

Since then, our magazine has met the farm cooperative milieu's needs for information to the best of its ability. Based on the interest of our readers and the comments received from them, this publication is steadily fulfilling its primary role, which is to inform. As the years go by, both its content and its format will certainly continue to improve for the collective benefit of the farm cooperative members.

Relations with Farm Unions

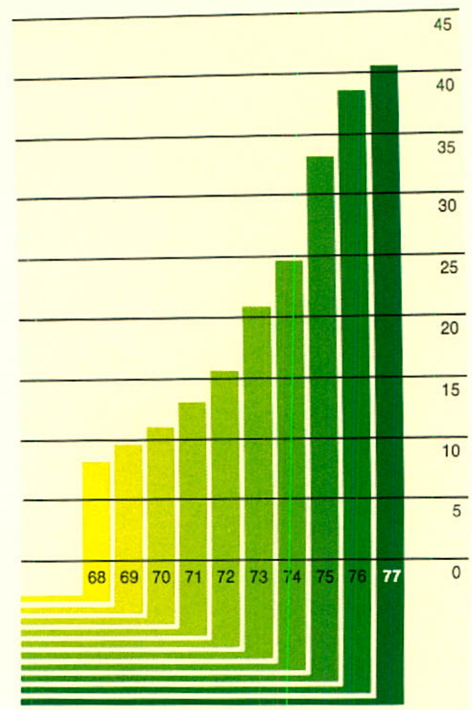
In communications with our members, we frequently refer to that ticklish subject of relations between the farm cooperative movement and the farm unions. Many things have been said on the subject in recent months. We would just like to air our modest viewpoint on the matter once again. We have always said, and we repeat, that this entire question of relations between farm cooperatives and unions demands from both sides an effort to reflect on and clearly define their respective responsibilities. Because, is it not their primary and common role to improve the farmer's working and living conditions?

In our mind, it is unthinkable that it should be impossible to find common grounds for a permanent agreement, each side obviously having to prove its good will. If there are personality conflicts, these must remain only at the level of the individuals involved. They must not be allowed to affect relationships between the two movements that we, as farmers, require. The general interest of the farming community as a whole is at stake.

To conclude, we wish to thank all those responsible for the new successes achieved by Coopérative Fédérée during its last financial year: the members, directors, managers and employees alike. Extremely difficult economic conditions during the past year made their tasks all the more difficult, and we owe each and every one thanks for a job well done.

Roland Pigeon

Roland Pigeon
President



Members' equity ($ in millions)

The acquisition of **P. A. Gouin Limitée** of Trois-Rivières represents another important step in the steady expansion of Coopérative Fédérée's hardware and building products wholesale service. These products will now be delivered from Trois-Rivières.

This relocation of sales activities will enable the Federation to perform its hardware wholesale function more efficiently, while appreciably widening the scope of its commercial operations in rural areas. In view of the increasing number of Quebec farm cooperatives now entering this field of commercial operations, this new and expanded facility gives Coopérative Fédérée the resources needed to meet the ever growing demand for hardware and building products.

Photographs on this page illustrate the supply and service ties between the wholesaler, Coopérative Fédérée and the farm cooperative as a hardware dealer.

The farm cooperative movement offers its members a complete range of supplies, machinery and services needed for efficient farming operations. The Farm Machinery Department is one of the vital links of supply to the farm. Through this Department, Coopérative Fédérée acts as the wholesaler, and the local cooperatives as dealers in getting the equipment from the manufacturer to the farmer.

The Farm Machinery Department transferred its operations to a new location during 1977 to improve its services and better meet the growing needs for farm machinery. At these new, more convenient and functional facilities at 611 Marché Central in Montreal, farm machinery is mounted and parts are delivered in the shortest possible time.

Besides its farm machinery wholesale operations, Coopérative Fédérée offers member cooperatives an efficient source of supplies for petroleum products. The Federation's Petroleum Department has constantly increased its sales volume during the past decade, while working closely with local cooperatives to set up an ever increasing number of point of sales. All along Quebec's highways, SONIC CO-OP gasoline stations like the one shown on the right are gradually appearing everywhere.

Consolidated statement of earnings

For the year ended October 31, 1977

	1977	1976
Sales and other income	**$675 007 559**	$630 775 378
Costs and expenses		
Costs of goods sold	**$595 296 429**	$553 788 730
Wages, salaries and employee benefits	**38 471 245**	32 467 485
Other operating expenses	**10 252 403**	9 232 339
Distribution and selling expenses	**13 813 570**	11 525 716
General administrative expenses	**3 587 149**	3 360 990
Interest on long term debt	**1 951 103**	1 706 374
Other financial expenses	**1 218 753**	1 327 859
Depreciation	**3 502 252**	3 189 293
	$668 092 904	$616 598 786
Earnings from operations before complementary payments, discounts, extraordinary items, patronage returns and income taxes	**$ 6 914 655**	$ 14 176 592
Complementary payments and discounts	**1 146 569**	3 471 677
Earnings before extraordinary items, patronage returns and income taxes	**$ 5 768 086**	$ 10 704 915
Extraordinary items (note 10)	**(28 418)**	338 469
Earnings before patronage returns and income taxes	**$ 5 739 668**	$ 11 043 384

Use of earnings		
Patronage returns (note 9)		
Cash	**$ 1 320 000**	$ 1 311 000
Preferred shares	**1 040 000**	3 604 627
Common shares	**840 000**	1 984 373
	$ 3 200 000	$ 6 900 000
Income taxes	**1 362 044**	1 696 901
Net earnings for the year	**1 177 624**	2 446 483
	$ 5 739 668	$ 11 043 384

Consolidated statement of general reserve

For the year ended October 31, 1977

Balance at beginning of year	**$ 9 141 992**	$ 6 695 509
Net earnings	**1 177 624**	2 446 483
Balance at end of year	**$ 10 319 616**	$ 9 141 992

Coopérative Fédérée de Québec and subsidiaries

Consolidated balance sheet
As at October 31, 1977

ASSETS	**1977**	1976
Current		
Accounts receivable	**$ 60 366 147**	$ 58 296 262
Provision for possible future losses	**2 060 182**	3 510 383
	$ 58 305 965	$ 54 785 879
Inventories	**54 402 208**	38 871 046
Income taxes receivable	**—**	520 931
Prepaid expenses	**2 513 861**	2 153 932
Investments — current portion	**333 450**	206 010
	$115 555 484	$ 96 537 798
Non-current accounts receivable	**$ 473 472**	$ 446 255
Investments (note 2)	**$ 4 534 881**	$ 4 224 349
Fixed assets (note 3)		
Land, buildings, machinery and equipment, automotive equipment, at cost	**$ 49 579 540**	$ 39 756 966
Accumulated depreciation	**22 258 325**	18 683 522
	$ 27 321 215	$ 21 073 444
Other assets (note 4)	**$ 2 405 366**	$ 3 042 835
	$150 290 418	$125 324 681

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

LIABILITIES AND MEMBERS' EQUITY	1977	1976
Current		
Outstanding cheques, less cash	**$ 5 993 807**	$ 5 462 678
Bank loans (note 6)	**1 860 000**	5 882 000
Accounts payable and accrued charges	**34 762 377**	31 580 490
Short term notes	**35 360 000**	19 664 675
Patronage returns	**1 320 000**	1 311 000
Redemption of capital stock (note 9)	**933 040**	1 534 627
Income taxes	**325 447**	—
Current portion of long term debt	**4 545 557**	3 588 370
	$ 85 100 228	$ 69 023 840
Deferred income taxes	**$ 1 529 393**	$ 1 257 559
Long term debt (note 7)	**$ 23 208 806**	$ 16 275 721
Members' equity		
Capital stock (notes 8 and 9)	**$ 30 132 375**	$ 29 625 569
General reserve	**10 319 616**	9 141 992
	$ 40 451 991	$ 38 767 561
	$150 290 418	$125 324 681

Commitments (note 11)

Consolidated statement of changes in financial position
As at October 31, 1977

	1977	1976
Working capital provided by		
Operations		
Net earnings	**$ 1 177 624**	$ 2 446 483
Charges to operations not requiring outlay of funds	**3 776 308**	3 857 683
	$ 4 953 932	$ 6 304 166
Proceeds on sale of investments	**718 393**	412 635
Sale of fixed assets	**461 555**	358 020
Long term debt	**9 637 300**	412 700
Issue of shares	**1 976 375**	5 720 071
	$ 17 747 555	$ 13 207 592
Working capital used for		
Increase in deferred receivables	**$ 27 217**	$ 69 541
Purchase of investments	**1 373 029**	348 069
Additions to fixed assets	**6 973 015**	6 334 743
Decrease in long term debt	**4 434 691**	3 714 616
Redemption of shares	**1 469 569**	2 620 950
Acquisition of subsidiaries, net of working capital (note 5)	**528 736**	1 008 067
	$ 14 806 257	$ 14 095 986
Increase (decrease) in working capital	**$ 2 941 298**	$ (888 394)
Working capital at beginning of year	**27 513 958**	28 402 352
Working capital at end of year	**$ 30 455 256**	$ 27 513 958

Notes to consolidated financial statements

As at October 31, 1977

Note 1 — Accounting policies

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 Coopérative 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
La Ferme Joliette Inc.
P.A. Gouin Limitée
Les Engrais Laprairie Limitée

Coopérative Fédérée de Québec accounts for the acquisition of subsidiaries on a purchase basis and their operations are consolidated from their date of acquisition.

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

Fixed assets — Fixed assets are stated 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 disposed of during the year are depreciated proportionately to the number of months they are used.

Poultry quotas — The poultry quotas are amortized at the rate of 10% under the straight-line method for half of their cost and on the diminishing balance basis for the other half.

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

Note 2 — Investments, at cost

	Current portion	1977	1976
Shares and advances in 50% owned companies (book value: 1977 — $159 808; 1976 — $704 237)	$ —	$ 70 000	$ 454 000
Shares in other companies	—	2 445 079	2 400 428
Mortgages	111 703	695 260	833 136
Other investments	221 747	1 657 992	742 795
	$ 333 450	$ 4 868 331	$ 4 430 359
Current portion		333 450	206 010
		$ 4 534 881	$ 4 224 349

Note 3 — Fixed assets

	1977		1976	
	Cost	Net book value	Cost	Net book value
Land and land improvements	$ 2 241 172	$ 2 172 109	$ 1 361 831	$ 1 323 587
Buildings	19 754 171	13 327 125	15 215 405	10 170 726
Machinery and equipment	20 487 137	8 212 080	17 870 939	6 791 671
Automotive equipment	7 097 060	3 609 901	5 308 791	2 787 460
	$49 579 540	$27 321 215	$39 756 966	$21 073 444

Note 4 — Other assets

	1977	1976
Goodwill	$ 1	$ 1
Poultry quotas, unamortized cost	997 509	1 085 407
Deferred charges	145 088	138 711
Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition	1 262 768	1 818 716
	$ 2 405 366	$ 3 042 835

Note 5 — Acquisition of subsidiaries

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

	1977	1976
Assets		
Investments, at cost	$ —	$ 36 000
Fixed assets — net book value	3 147 094	360 034
Other assets	26 051	540 845
Excess of cost of shares in subsidiaries over net book value at dates of acquisition	(299 119)	270 415
	$ 2 874 026	$ 1 207 294
Liabilities		
Deferred income taxes	$ 14 814	$ —
Long term debt	2 130 476	199 227
	$ 2 145 290	$ 199 227
	$ 728 736	$ 1 008 067
Prior investment	200 000	—
Decrease in working capital	$ 528 736	$ 1 008 067

Note 6 — Bank loans

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

Note 7 — Long term debt

	Current portion	1977	1976
Coopérative Fédérée de Québec			
Debentures, series "B", 8¼%, 1977	$ —	$ —	$ 462 800
Debentures, series "B", 7¾%, 1978	906 400	906 400	1 910 400
Debentures, series "B", 7¾%, 1979	—	695 400	703 400
Debentures, series "B", 9%, 1978-79	739 000	1 663 600	2 670 000
Debentures, series "C", 7½%, 1978-79	81 000	146 000	230 000
Debentures, series "D", 9⅜%, 9⅞%, 1978-85	1 650 000	4 917 600	4 921 300
Debentures, series "F", 10%, 1980-86	—	5 000 000	412 700
Debentures, series "G", 10%, 1979-87	—	4 850 000	—
Other	8 299	211 758	20 057
	$ 3 384 699	$18 390 758	$11 330 657
Eastern Abattoirs Limited			
Bonds, 7½%, 1978-87	$ 75 000	$ 750 000	$ 825 000
Mortgage, 8%, 1978-84	14 500	87 000	101 500
	$ 89 500	$ 837 000	$ 926 500
Edmond Sylvain Limitée 1954			
Mortgage, 7%, 1978-83	$ 27 183	$ 163 274	$ 188 624
Term notes, 6%, 1977	—	—	9 380
	$ 27 183	$ 163 274	$ 198 004
Centre Avicole Inc. and its subsidiaries			
Mortgage, 6¾%, 1978-89	$ 2 011	$ 31 783	$ 33 700
Quebec Poultry Co. Ltd and its subsidiaries			
Bonds, 8⅞%, 9.9%, 11½%, 1978-93	$ 143 400	$ 2 995 500	$ 3 132 900
Debentures, convertible, 6½%, 1984-87 10%,	—	2 000 000	2 000 000
Mortgages, 6% to 10%, 1978-84	76 377	497 251	1 144 064
Term notes, 8% to 11%, 1977-82	485 141	836 568	952 710
Other	27 267	106 461	145 556
	$ 732 185	$ 6 435 780	$ 7 375 230
P.A. Gouin Limitée			
Bonds, 13¼%, 1977-80	$ 76 000	$ 1 218 500	$ —
Mortgage bond, 13%, 1977-80	16 225	233 300	—
Mortgage, 8%, 1978	127 500	127 500	—
Other, 1977-80	60 254	161 468	—
	$ 279 979	$ 1 740 768	$ —
Les Engrais Laprairie Limitée			
Bonds, 7½%, 1978-81	$ 30 000	$ 155 000	$ —
	$ 4 545 557	$27 754 363	$19 864 091
Current portion		4 545 557	3 588 370
		$23 208 806	$16 275 721

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:

1978 — $4 545 557 1980 — $4 666 305 1982 — $1 381 007
1979 — $4 354 995 1981 — $2 848 039

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.

	1977	1976
Preferred shares of $10 each		
1968 series, redeemable at the latest in 1988	$ —	$ 733 400
1969 series, redeemable at the latest in 1989	528 420	529 340
1970 series, redeemable at the latest in 1990	1 286 890	1 292 170
1971 series, redeemable at the latest in 1986	1 317 010	1 322 070
1972 series, redeemable at the latest in 1987	1 898 460	1 928 600
1973 series, redeemable at no set date	7 880	214 820
1974 series, redeemable at the latest in 1984	2 624 320	2 661 870
1975 series, redeemable at the latest in 1985	2 506 230	2 537 200
1976 series, redeemable at the latest in 1986	2 408 420	2 439 700
1977 series, redeemable at the latest in 1987	3 499 740	3 604 620
1978 series, redeemable at the latest in 1988	1 040 000	—
	$17 117 370	$17 263 790
Common shares		
Qualifying shares of $10 or $25 each, convertible in preferred shares	$ 24 725	$ 24 725
Qualifying shares, class "A", of $25 each	1 409 050	1 404 525
Class "C", of $10 each	2 426 310	2 467 200
Class "D", of $25 each	8 434 850	8,042 375
	$12 294 935	$11 938 825
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	$ 35 470	$ 79 929
Poultry growers		
Qualifying common shares, class "A" of $25 each	$ 684 600	$ 343 025
	$30 132 375	$29 625 569

Note 9 — Patronage returns and redemption of shares

Patronage returns — In accordance with the terms of the Act incorporating Coopérative Fédérée de Québec, the Directors, at their meeting held on January 13, 1978, declared, out of earnings from operations of the current year, patronage returns of $3 200 000. They resolved that this patronage be allotted and paid as follows:

	1977	1976
Cash	$ 1 320 000	$ 1 311 000
Preferred shares	1 040 000	3 604 627
Common shares	840 000	1 984 373
	$ 3 200 000	$ 6 900 000

Redemption of shares — At their same meeting, the Directors also resolved to redeem the preferred shares issued in 1968 and 1973, for an aggregate amount of $933 040.

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

Note 10 — Extraordinary items

	1977	1976
Recovery of income taxes arising from the application of prior years' losses	$ 214 338	$ 610 337
Amortization of excess of cost of shares in subsidiaries over the net book value at dates of acquisition	(242 756)	(271 868)
	$ (28 418)	$ 338 469

Note 11 — Commitments

a) Coopérative Fédérée de Québec and some subsidiaries have certain lease agreements for the rental of buildings, installations, equipment and automotive equipment for varying terms up to 1990. The aggregate annual expense of these leases amounts to $925 000 approximately and the balance of the lease agreements for the rental of automotive equipment amounts to $460 000 as at October 31, 1977.

b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately $1 000 000 as at October 31, 1977.

c) Actuarial expertise of the pension plan indicates a liability for past services estimated at $1 882 402. This amount will be amortized over a period not exceeding five 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 which provides 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.

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, 1977 and the consolidated statements of earnings, general reserve and changes in financial position for the year 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 was made in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures 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, 1977, 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.

Boulanger, Fortier, Rondeau & Cie
Chartered Accountants

January 13, 1978

Management report

The 1976-77 financial year was a difficult one to live with, and the financial results reflect the turn of events which affected most of our operations in one way or another. The unfavourable agricultural conditions which seriously reduced profitability during the second half of the preceding financial year subsisted throughout 1977. Notable among the circumstances directly affecting farm markets were the dairy crisis, with its severe economic and psychological consequences, and the poultry imports from the United States. On top of these were the inflationary pressures on various operating costs, and extremely stiff competition in some markets. All these events helped to compress profit margins, already uncomfortably low for several farm products.

Total sales and other income for the year reached $675 million, compared with $630.7 million in 1976, an increase of 7%. This is a slower rate of growth than achieved in the three previous years, and part of the increased volume is attributable to inflation. It is thus rather difficult to evaluate our real overall growth in actual physical terms, since slowdowns in some activities were offset by gains in others. But we can say, however, that Coopérative Fédérée maintained its market positions in its two markets, which are to provide farm supplies and to market farm products. Last year's results reflect more the impossibility of obtaining the desired profit margins in all commercial and industrial activities, than any decrease in business volume.

Earnings from operations, before complementary payments and special discounts, amounted to $6,914,655, compared with $14,176,592 the previous year. Net earnings before income taxes, patronage refunds and extraordinary items were $5,768,086, as against $10,704,915 in the 1975-76 financial year. It should be noted that the considerable difference between earnings from operations and net earnings before income taxes for financial year 1975-76 is due largely to the $2,290,000 in complementary payments made to poultry producers that year. After payment of patronage refunds and income taxes, net earnings in 1977 were equivalent to .84% of total sales, compared with 1.7% the previous year.

Meat packing division

Our two livestock slaughtering and meat packing operations, Legrade Inc. and Turcotte & Turmel Inc., had total sales of $84.6 million in 1977. This is a slight drop from the previous year's sales of $87 million. This was due largely to lower market prices as the volume was up, with 63,435 head slaughtered, an increase of 11.7% over 1976 operations.

The Legrade Division ended its year with a loss as compared to a profit in 1976. Start-up difficulties at the new Joly Street plant in Quebec City, and the lack of suitable margins on cured meats and delicatessen products during a period of at least six months are the main reasons for such results.

The Canadian Livestock Cooperative of Quebec Ltd also fared less well than in the previous year, as consignments dropped off from 42,136 heads to 34,698 in 1977.

However, earnings of Turcotte & Turmel Inc. have improved during this past financial year. Total slaughterings at the Vallée Jonction plant increased by 12.95% compared with the year before, with hog slaughterings up by 13.5%. This operation, which offers a large volume of unbranded pork products, is in a position to take full and rapid advantage of its capacity to supply all markets available particularly the export markets, which are so profitable to Turcotte & Turmel Inc.

Poultry division

Throughout the financial year, the Poultry Division with its plants at Marieville and St-Félix de Valois, as well as those of Quebec Poultry Co. Ltd and its subsidiaries, continued to be strongly affected by the serious difficulties which have disturbed this industry throughout Canada for the last couple of years. The two major factors in this unsettled market situation are: continued massive imports of poultry from the United States at prices lower than canadian costs of production at the farm, of processing and marketing and very heavy inventories of turkeys.

With higher sales than in 1976, the Division consolidated net earnings for 1977 are still far below the previous year's results. When taking into account the complementary payments to producers in 1975-76 and the net earnings for that financial year, 1976-77 earnings fell off by $4.7 million from the previous year. That substantial difference is largely responsible for the overall lower operating results of the last year.

Nevertheless, the poultry plants operated by Coopérative Fédérée and Quebec Poultry Co. Ltd retain their leadership in the Quebec poultry industry, with a market share of about 45% of all poultry processing. Plants operated directly by Coopérative Fédérée show an increase in sales over 1976, but net earnings were lower due to a sharp drop in margins. Comparing 1977 with 1976, the proportion of birds received at the plants from members shows a definite increase: 88% against 84.2% for broiler chickens; 91.4% against 89% for roaster chickens; 91.2% against 90.4% for turkeys. Expressed in liveweight volume increased by 7.25%.

Although Quebec Poultry Co. Ltd 1977 sales increased over the previous year, the net results of operations show a loss. As far as broiler and roaster chickens are concerned, the company's results are similar to those of the Division's two other plants. But since Quebec Poultry allots a much larger share of its production to turkey than do the Marieville and St-Félix operations, the situation is quite different. In fact, the turkey market was depressed from January right through to October 1977, with sale prices ranging almost constantly below costs.

Fruits and vegetables

Considering its relatively small size, the Fruit and Vegetable Department had one of its best twelve months in recent years. Product categories contributing to last year's appreciable increase in net earnings were supplies along with table and seed potatoes. Volume and dollar sales were about the same as in the previous year for this Department, whose operations are primarily centred around the Central Market activities.

Dairy division

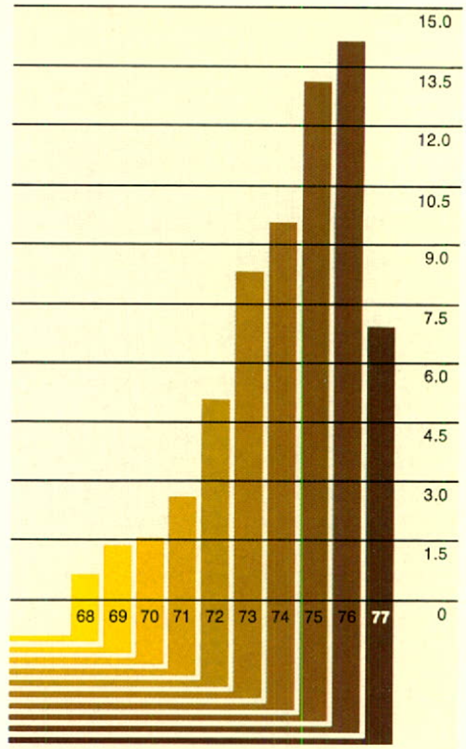
Total Dairy Division sales of $226.8 million were higher than the previous year's $216.2 million, and represent one-third of the Federation's total sales. Butter sales were down from 1976, but skim milk powder and cheese sales were up. Taken as a whole, the Division's sales volume increased by 4.57% over the previous year, and it is worth mentioning that during 1977 this Division exported Canadian dairy products to a dozen countries. Net earnings were down slightly from 1976.

The relatively strong penetration by the Dairy cooperatives into the fluid milk and ice cream markets was the main feature of this past financial year. At present, Quebec's dairy cooperatives hold about 46% of the fluid milk market, a sector from which they were virtually absent just a few years ago. The function of the Council of the Dairy Cooperatives was still the responsibility of the Division's Management. In addition to current negotiations regarding milk pricing and marketing conditions, the Council among other activities has been involved in setting up special committees in the field of information and consultation, in the organization of a central laboratory and in the marketing of dairy products. It also was a liaison with the Quebec Dairy Council and participated with the Dairy cooperatives in the conversion of the industry to the metric system.

Agricultural supplies

There were many problems and disappointments for the three departments of the Agricultural Supplies Division during this past year.

Sales of the Farm Supplies Department were down, and its net earnings was less than one-quarter of those reported in 1975-76. Although sales were higher for dairy equipment, hardware and building products, the reverse was true for farm supplies and automotive products. Several underlying causes can explain these results, if not justify them. Several measures have already been taken, and others are planned, to help correct the situation.



Net earnings from operations ($ in millions)

In keeping with its raison d'être, the entire farm cooperative movement must strive to ensure that Quebec agricultural products can compete effectively on all available markets. The constant goal of the Meat Packing Division, specifically, is to achieve the most possible share of the local markets while making its presence still better known on outside markets.

In relation to the reorganization of its meat packing operations, the Federation, in 1976-77, while completing the expansion of the Turcotte & Turmel abattoir at Vallée Jonction, transferred its meat operations in Quebec City from the Edmond Sylvain Ltée plant on Dorchester Street to the former poultry plant of Quebec Poultry Ltd on Joly Street. Completely renovated and with a large cold storage capacity, this new facility provides the Meat Packing Division with an asset of great importance for the future.

This large scale transfer of operations represents a major first step in the Division's programme for expansion of its processing and product marketing operations, while providing Legrade with the opportunities to recapture a substantial share of the Metropolitan Quebec market.

In addition to the facilities at Vallée Jonction and Quebec City, Coopérative Fédérée has two other slaughtering and meat packing plants, located at Princeville and at Bic.

During this past year Coopérative Fédérée acquired P.A. Gouin Limitée, a wholesaler of hardware and building products. There is no need here to repeat the reasons why it was desirable for the farm cooperative movement to expand its activities in these sectors. But since the Gouin firm found itself in a difficult financial position, it became possible to acquire it on most favourable terms and thereby arrive more rapidly at the planned objectives for expanding the Federation's activities in this sector. It is very difficult to give a precise and objective evaluation of the results of this operation since last August. In fact, it is now in the process of a complete reorganization and it can easily be understood that the major concerns at this time are to correct the weaknesses which led this old established firm into perilous waters.

Farm Implement Department sales were slightly higher in dollar terms than in the previous year. Net earnings for 1977 were only about 50% of those in 1976, after deducting special rebates paid out totalling nearly $500,000. Farm machinery dollar sales were down by 5.75%. It appears that this decrease can be attributed to the past year's uncertain agricultural economy, which made farmers much more cautious in their investment plans. Higher sales of parts, dairy equipment and garden tractors compensated for the drop in machinery sales.

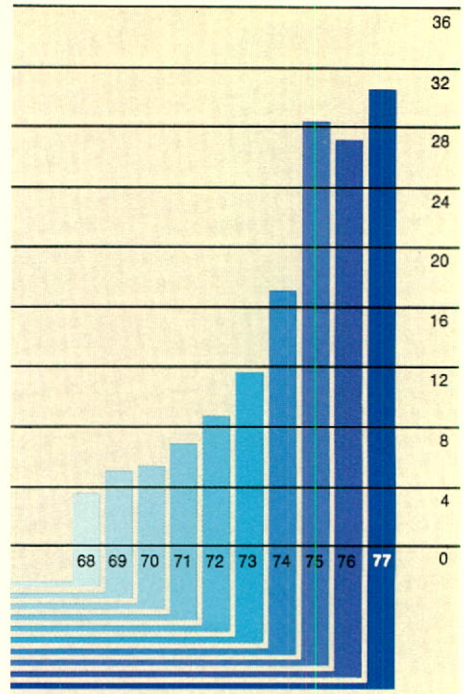
The Petroleum Department, after two interesting profitable years following the 1974 energy crisis, ended its year of operation with a loss. There is only one main explanation for this turnaround: as everyone knows, due to market conditions, special rebates of $850,000 higher than originally budgeted were given to cooperatives. During the financial year the Petroleum Department paid $2,056,000 in rebates to the cooperatives to help them survive price wars raging in most regions. However, its sales volume increased by 11.3% over the previous year. The propane section of the operation reported continued progress and, since price wars are minimal here, profitability remained at a satisfactory level. Expansion is costly in this sector, but we are gradually increasing our share of the market.

Feeds and fertilizers

Sales were definitely higher than in the previous year, with most departments of the Feeds and Fertilizers Division reporting increased physical volumes. However, had it not been for sagging feed grain prices and static fertilizer prices, increase in sales would still have been higher. In view of the year's prevailing agricultural economic situation, the Division did quite well in 1977. This is especially true when you consider that it paid out $628,641 in rebates for bulk feed supplements and an additional $30,329 for broiler chicken, a rebate of ¼ ¢ per bird bought from our hatcheries. After taking these rebates into account, this year's contribution by the Division represents a new high. It should be noted that this year's contribution includes C.F. Industries patronage refund which, however, is decidedly lower than in the two previous years.

Dollar sales of the Grain Department were slightly below the previous year's, but 1.6% higher in volume. Net earnings were lower than in the 1975-76 financial year, since gross margins were unfavourably affected by the constant difficulties encountered in making normal hedge operations on the Winnipeg Exchange. With the Canadian Wheat Board not participating, the Winnipeg Exchange is proving to be less and less valid as a compensatory vehicle in the face of fluctuating grain prices. The result is that Coopérative Fédérée must assume greater risks, and its gross margins are subject to more variations than previously.

Numerous factors have depressed our gross margins, and thus affected net earnings, more than in the past. Among them are: the need to purchase grains from the Canadian Wheat Board at higher prices than those prevailing on the off-quota market; the appearance in recent years of new feed grain shippers who help keep a very keen competition; downward price trends that have induced the cooperatives to make their purchases more on a day-to-day basis.



Working capital ($ in millions)

The 1976-77 financial year of Coopérative Fédérée was one of continued growth for the farm cooperative as a supplier. Highlighting this growth was the acquisition of full ownership of **Les Engrais Laprairie Limitée,** which operates a fertilizer manufacturing plant in the Montreal suburb of Laprairie.

Manufacture and distribution of fertilizers are activities of primary importance to the farm cooperative movement. As sole owner of Les Engrais Laprairie Limitée, the Federation is now one of the largest fertilizer manufacturers in Quebec. Bagged and bulk fertilizers are distributed to the farmer-users by the local farm cooperatives, working closely with the Federation.

In 1977, there were 24 cooperative fertilizer blending plants. All of them have spreading equipment available to farmers. Five of these distribution centres are owned by local cooperatives, while the others are owned and managed directly by Coopérative Fédérée or by a local cooperative operating under an agreement with the Federation.

Full ownership of Les Engrais Laprairie Limitée thus ensures Quebec's farm cooperators of a decisive role in supplying themselves with the fertilizers that are so essential to their agricultural operations.

Sales of feeds were up by a substantial 14.9% over the previous year. Shipments were also at a record level, surpassing the previous high set in 1973-74. All three main categories of feeds showed increases: 20.8% for dairy feeds; 16.8% for hog feeds; 7.6% for poultry feeds. Among the reasons for this increase in volume we might mention: the revision of the dairy policy, the introduction of new supplements for dairy feeds, compensating cost differentials between hog supplements and premixes, increased hog raising contracts by some cooperatives, and the intensified effort to develop the market for poultry feeds in Southwestern Quebec.

Attention should also be drawn to the increased sales of liquid protein supplements (S.P.L.), livestock drug products and chicks from our hatcheries. With the exception of S.P.L., all these activities produced normal profits during the past year. The organization of Les Elevages Cobec Inc. represents a major step in the evolution of the Integrated Production Department in recent years. The department is now in charge of this new move to pool the risks inherent to the hog industry.

Fertilizer Department sales show an increase of 13.8% over the previous year. Due to a rainy Fall and to uncertainty over local grown grain price levels, sales during this period were slack for a second consecutive year. About 34% of total volume is provided by the blender plants built since 1970, as well as by the liquid nitrate storage facilities grafted to these plants for some years now. At present, Quebec's farm cooperative movement have about 30% of the market, compared with 21.3% in 1970.

Higher costs are the main reason for the loss incurred for the second year in a row, costs in a large measure attributable to the ongoing programme of developing and setting up blenders and distribution centres. In last year's Report we pointed out that this programme should be viewed in the long term context. It is quite obvious that the profitability to date of the first distribution centres cannot yet compensate for the increased expenses needed to set up two or three new blenders each year. This is a cost which the cooperative must pay in order to establish a solid foothold in this industry.

Seed Department dollar sales were 20% higher this past year as compared to 1976. Seed grain sales volume increased by 3% and seed corn by 8%, with a drop of 3% for forage seeds. Net earnings, however, fell below the 1976 level. Gross margins in constant dollars increased, but failed to keep pace with increased expenses, a good part of which is attributable to the high cost of money needed to finance an appreciably higher inventory.

Sales of farm chemicals showed an increase of 13% over the previous year, but net earnings were down as expenses increased more rapidly than gross income.

Overall, the Feeds and Fertilizers Division enjoyed one of its best years. In line with the experience of farm supply cooperatives throughout North America, the Division relies on feeds and other generally related activities to provide the largest and basic portion of its business volume. Good year or bad, despite the fluctuating and cyclical nature of agricultural operations, these products make a valuable contribution to our Federation's annual balance sheet. So, once again, the operating results of this Division have contributed substantially to overall earnings.

Administrative services

These services appropriately called administrative as they have no direct or specific responsibilities in the day-to-day commercial or industrial activities, but rather serve a function of resource and control, continue to play their necessary role in our Federation's progress.

Whatever the services requested whether they be corporate, cooperative or technical by nature, the Directors and the Management team can always find, within the Departments of Secretariat, Treasury, Control, Human Resources and Regional Development, resourceful people which are dedicated to achieving the same objectives.

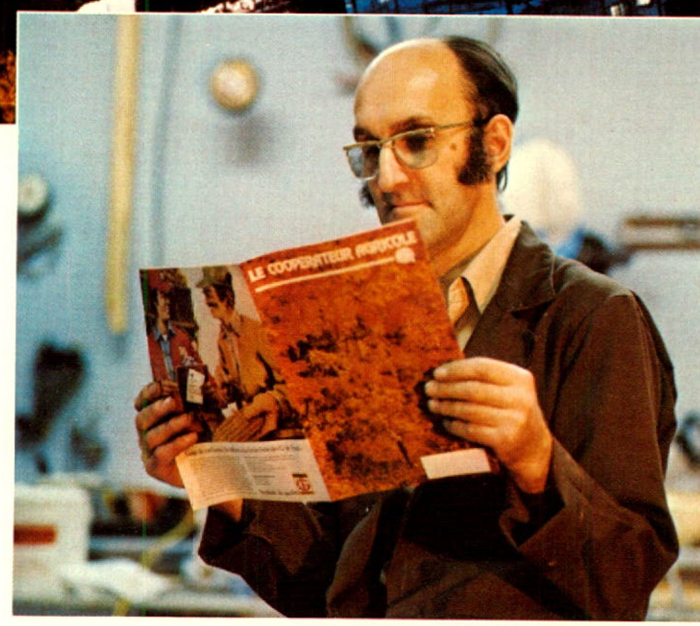
Governments are intervening more and more in the economic life and in the control and development of farm activities. There is a growing need to ensure ever closer ties between the cooperatives themselves, as well as between the cooperatives and their Federation. The farm cooperative movement is diversifying its activities into new and wider fields, while the cooperatives are revamping their structure and activities to better adapt themselves to the more demanding and constantly changing conditions and needs of modern-day agriculture. All these developments impose new tasks on the Directors and Managers of commercial and industrial operations, as well as on the people in administrative services. They must come up with new programmes or policies of an institutional nature, draft and prepare briefs and reports related to their varied activities. This workload takes more and more of their time, while increasing the Federation's expenses to an extent we sometimes tend to forget. We think it is worthwhile to call this to mind in this Report.

A study of the year's results, of margins and expenses in particular, makes one thing obvious. In addition to the special difficulties linked with specific economic conditions, Coopérative Fédérée has also been caught in the inflationary spiral. In most sectors of our activities this is expressed in terms of costs and expenses increasing much more rapidly than gross margins. In other words, this squeeze between production costs and margins is all the more serious since it is subject to the dual pressures of inflation and market forces.

This is a situation which calls for constant vigilance on the part of everyone in management. All must henceforth accept the fact that unless there are profound changes in the broad general trends now characterizing the agri-food economy in North America, the next few years ahead will not be easy ones.

In closing, we wish to extend our thanks to the Directors and all those people, both within Coopérative Fédérée and local cooperatives alike, who have been unstinting in their cooperation.

Louis-Philippe Poulin
General Manager



Since 1972, the Quebec's farm cooperative movement has its own communications and information medium: LE COOPÉRATEUR AGRICOLE. This monthly publication keeps its more than 35,000 readers, most of them farmers, well informed on all phases of cooperative life as well as on a multitude of technical aspects inherent to agriculture. It is a valuable source of news for those who belong to the Federation's member cooperatives, and farmers in general. Well aware of the increasing importance of communications, LE COOPÉRATEUR AGRICOLE steadily seeks new ways to improve its performance and intends to give a better coverage to all levels of the farm cooperative movement.

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