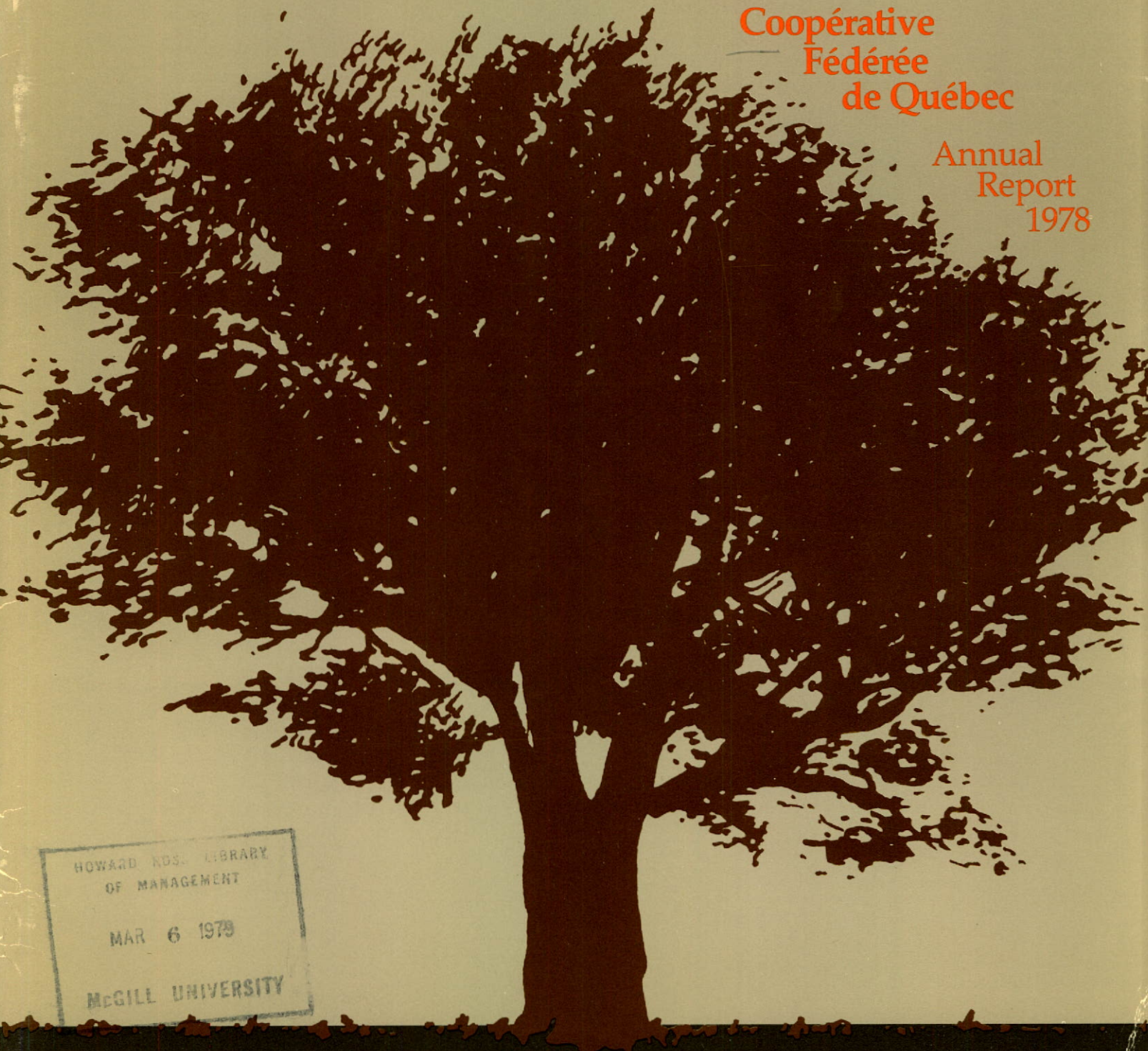




Coopérative  
Fédérée  
de Québec

Annual  
Report  
1978



HOWARD ROSS LIBRARY  
OF MANAGEMENT  
MAR 6 1979  
MCGILL UNIVERSITY

## Table of contents

---

Highlights	1
President's Report	2
Board of Directors	6
The Management	7
Co-operative Dairy Industry	8
Consolidated Statement of Earnings	9
Consolidated Statement of General Reserve	9
Consolidated Balance Sheet	10
Consolidated Statement of Changes in Financial Position	12
Notes to Consolidated Financial Statements	13
Auditors' Report	16
Management Report	17
The Petroleum Department: 1958-1978	23
Three Steps Forward...	24

---

### **About our cover...**

Like a tree, the Quebec farm co-operative movement has grown, projecting its roots into every corner of Quebec, branching out across Canada and the world, to serve its members' economic needs. Sturdier than even, it keeps on expanding.



**Coopérative  
Fédérée  
de Québec**  
and subsidiaries

## Annual Report 1978

### Highlights

(dollars in thousands)	1978	1977
Sales	<b>\$727 687</b>	\$675 007
Wages, salaries and employee benefits	<b>40 698</b>	38 471
Depreciation	<b>4 027</b>	38 471
Earnings from operations	<b>12 709</b>	6 915
Accounts receivable and inventories	<b>120 875</b>	112 708
Current assets	<b>124 460</b>	115 555
Current liabilities	<b>89 390</b>	85 100
Working capital	<b>35 070</b>	30 455
Fixed assets, at cost	<b>54 176</b>	49 580
Fixed assets, net	<b>28 544</b>	27 321
Total assets	<b>159 978</b>	150 290
Long term debt	<b>22 568</b>	23 209
Members' equity	<b>46 566</b>	40 452

**ERRATUM:**

Page one — in highlights, depreciation for 1977 should read \$3,502 instead of \$38,471.

## President's Report

---

Improved agricultural conditions during 1978 have contributed to the general good progress made by Coopérative Fédérée de Québec this past year. Overall sales reached another record high, despite special problems encountered in some sectors. In addition, net earnings were appreciably higher than in the previous year, as explained by our General Manager in his detailed report.

### **Death of Mr. Albert Gingras**

During this past year we were saddened by the death of Mr. Albert Gingras, President of Coopérative Fédérée de Québec from 1963 to 1969 and a member of the Board of Directors for 25 years. Constantly active in agricultural, religious, co-operative and municipal affairs, Mr. Gingras was a dynamic man whose sincerity, excellent judgment and keen interest were appreciated by all. We will always remember such a dedicated man.



## Sales

(\$ in thousands)

69	197 693
70	199 770
71	221 564
72	254 156
73	301 533
74	426 119
75	531 496
76	630 775
77	675 007
78	727 687

### Year in review

On the whole, despite a lack of rain in some scattered areas, 1978 can be rated as a good year for the farm industry. Quebec farmers in general are pleased with the outcome of these past twelve months, even if there were some constraints, particularly in the dairy industry. Beef prices returned to normal after several disastrous years which discouraged some cattle producers. Prices for calves and feeder steers reached record highs during the fall.

Looking at these improved prices, along with quota problems now facing many milk producers, it is easy to foresee a marked increase in the raising of beef cattle by Quebec farmers in the near future. This prospect is even more likely, since Quebec recently extended its income stabilization insurance programme to this sector.

Hog prices also remained at a high level during the year, despite pessimistic forecasts made by economists earlier in the year. However, it should be remembered that the weak Canadian dollar contributed to increase exports of dressed pork. In turn, higher red meat prices prompted an increased demand for poultry and consequently prices moved up.

We are truly happy to witness a year where so many factors affected positively the gross income of farm producers.

### Co-operative Dairy Industry

Among the many achievements of the Co-operative Dairy Industry in 1978, one in particular draws our attention. That was the major breakthrough made into the specialty cheese market. A number of co-operatives devoted a great deal of effort, during the year, into diversifying their production. As a result, several new brands of cheese have reached the market, to the great satisfaction of consumers whose demand for these special cheeses was, to say the least, insistant. These efforts resulted in a reduction of the frequently encountered surplus stocks of milk powder and butter. This has been the most positive response to those detractors who have at random accused the co-operatives of being the cause of the "mountains of powder" which the Canadian Dairy Commission had in storage.

While the dairy co-operatives were extremely active in their field of business in 1978, they were equally tireless in affirming and defending their rights. Coopérative Fédérée de Québec and co-operatives, members of its Co-operative Dairy Board, provided sufficient evidence of that by participating to numerous hearings held by the Régie des Marchés Agricoles du Québec (Quebec Farm Marketing Board).

The main session, which involved many days of hearings, was convened by the Régie to determine whether or not it should suspend the administration of the various dairy marketing boards. The decision delivered on October 18 considered at least in part, the points made by the dairy co-operative representatives all through the hearings. Complete text of that decision was published in the November 1978 edition of the magazine, LE COOPÉRATEUR AGRICOLE.

Management and members of the Boards of Directors of the dairy co-operatives deserve sincere praise for all the work and effort they contributed. However, it should be recognized that it is not in the best interests of farmers as a whole to engage in struggles brought about by groups which seemingly wish to stall the progress being made by co-operatives in the dairy industry. Such diversions are costly and undermine the energies which could be directed to far more concrete and positive tasks.

### **Other divisions**

The Management Report spells out the various factors which affected operations of the following sectors: meat packing, poultry, fruits and vegetables, dairy products, farm supplies, feeds and fertilizers. Except for the Farm Supply Division which did not live up to expectations due particularly to uncertain economic conditions, the other sectors experienced quite favourable conditions, which also helped increase the gross income of farmers. It should be pointed out that recent technological improvements at the meat packing and poultry processing plants have helped to improve the earnings from these operations.

Summing up, it can be said that the farm co-operative movement as a whole made further progress during 1978. Quite obviously, each and every sector cannot do equally well in such a diversified enterprise. As usual, your Board of Directors was regularly informed of the problems encountered in certain weak sectors and of steps taken to correct the situation.

### **Relations with farm unions**

As you already understood from our comments on the Co-operative Dairy Industry, relations between the co-operatives and the farm unions were not the most cordial during the last twelve months. As a matter of fact, nothing could contribute more to deteriorating relations than the ongoing conflict.

At the risk of repeating what we already said on this subject in our 1977 Annual Report, we nevertheless find it necessary to restate that this entire question of relations between the co-operatives and the farm unions requires that both make the effort to define clearly their respective responsibilities. But in order to achieve any worthwhile success in such an endeavour, an immediate end must be put to the campaign initiated several months ago by the farm union movement in the dairy sector, aimed at restraining the growth and success of dairy co-operatives. That campaign is definitely not the way to improve relations between the two groups.

### **Visit to Europe**

Between September 23 and October 7, delegates from the U.P.A., the federations of producers and Coopérative Fédérée de Québec visited France, Belgium and Holland to study the roles played so effectively by their farm unions, the co-operatives and the various farm products marketing organizations. From the report on the tour, accepted by all the participants, it is worth noting the following:

In the countries visited, the unions and co-operatives as a rule do not interfere in each other's field. The unions are involved primarily in representing their members' demands and in the training and education of farmers. The co-operatives devote themselves mainly to the production, farm supply and marketing of agricultural products. Another interesting point is that, with few exceptions, individuals have complete freedom in joining a farm union and the same prevails for their membership in a co-operative. Furthermore, the unions are generally active propagandists for the co-operative cause.

### **Visit to Ontario**

Last August, members of your Board of Directors, along with a few executives, accepted an invitation from the President of United Co-Operatives of Ontario to visit a few of their plants and facilities of member co-operatives located in South-Western Ontario. This well organized tour gave visitors and their hosts an opportunity to trade information very useful to the directors and Management of both organizations.

### **Agri-food industry summit meeting**

The farm co-operative movement also participated to an agri-food industry summit meeting last April, organized by the Quebec government. An official paper was presented, which described the current situation in the agri-food industry. It outlined the prime objectives to be pursued so that the farmer can obtain a suitable return for his work, while utilizing the true potential of our land resources.

Achievement of these objectives must be related, among other things, to the establishing of a commercial, industrial and distribution infrastructure designed to bring the farmer maximum value for his production. The paper concluded by assuring the government that the co-operative movement is always available to improve the conditions of the agricultural community and the farmers, and also to take any necessary action to ensure the dynamic development of other sectors of our agri-food industry.

## Members' Equity

(\$ in thousands)

69	9 700
70	11 010
71	13 138
72	15 572
73	20 312
74	24 674
75	33 222
76	38 547
77	40 452
78	46 566

### Education of Directors

During recent years much has been said about the need to provide an appropriate educational programme for the Directors of our member co-operatives. Some bashful steps have been taken from time to time in this direction, but no real programme was ever set up. That situation has now changed. Our Human Resources Department recently drew up a formula whereby interested co-operatives can benefit from intensive training courses prepared especially for their needs. Several co-operatives have already taken advantage of this new service and we hope that all the others will follow their lead in the near future. We will never place too much emphasis on the need for Directors of co-operatives to acquire the wide range of knowledge necessary to fulfill their roles properly in this ever-changing society.

### The place of young people

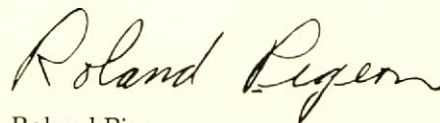
Dynamic organizations like the farm co-operative movement cannot afford growing old and stale. The only way to avoid that, is to convince our young people to play a direct and active role in the life of their co-operative. They obviously cannot share the trailblazing zeal of their elders, the founders, but they can carry on the original ideals, given the opportunity. We should therefore not only welcome them with open arms, but also participate in their education, as co-operators, so that, when the opportunity comes, they will be prepared to take on their important responsibilities.

As described, our main preoccupations are directed to proper training, for both our Directors and our young farmer-members. We also must keep in mind the need to keep all our members well informed specially on the activities of their own co-operative, and then on those of the Quebec farm co-operative movement in general. By doing so, we will create close bonds between all segments of the movement bringing about a better service to both the farmer-members and their co-operatives.

### The scope of our co-operatives

During recent years, Coopérative Fédérée de Québec and several of its member co-operatives have expanded at such a pace that they now are the envy of competitors. They have also become the targets of some people who apparently have a phobia of growing and successful organizations. Such a reaction is all the more surprising since those people are generally the ones who also deplore the power exercised by the multi-nationals or other industrial giants, to the detriment of our local enterprises. Instead of disparaging our successful co-operatives, they should be applauding and welcoming their success. They should hope that our co-operatives will make deeper inroads into the sectors, until now dominated by non-co-operative enterprises, often having their roots outside Quebec.

Members, Directors, Management and Staff have all contributed directly to the successful year of Coopérative Fédérée de Québec. We wish to thank them sincerely for their teamwork, convinced that they will continue to give us their full support.



Roland Pigeon  
President

## Board of Directors

From left to right:

Paul-Émile St-Pierre\*, 1st Vice-president,  
Laurierville

Léopold Harvey,  
Delisle

Paul Dessureault,  
Dupuy

Jean-Marie Moreau,  
Verchères

Bruno Beaulieu,  
Val Brilliant

Jean-Charles Mercier,  
St-Roch de l'Achigan

Roger Bilodeau,  
Bromptonville

Georges Lévesque,  
St-Simon

Jean-Paul Dinel\*, 2nd Vice-president,  
Chénéville

François Champagne,  
St-Côme Linière

Clément Houle,  
Victoriaville

Michel Lemire\*,  
St-Zéphirin

Roland Pigeon\*, President and Chairman of the Board  
Verchères

Paul Massicotte,  
Champlain

A.-Roger Pelletier\*,  
La Pocatière

\*Members of the Executive Committee





## The Management

From left to right:

Richard Newberry, Treasurer

Jean-Paul Cadieux, Manager,  
Human Resources

Liguori Bois, Manager,  
Regional Development

René Jean, Manager,  
Poultry division

Louis-Philippe Poulin, General Manager

Maurice Lavallée, Manager,  
Feeds and Fertilizers division

Philippe Pariseault, Manager,  
Dairy division

Gérard Turcotte, Manager,  
Meat Packing division

Marcel Gingras, Secretary



## Co-operative Dairy Industry

The Co-operative Dairy Industry represents one of the basic operations of the Quebec farm co-operative movement. The important step taken during 1978 was the revision of the status and powers of the Co-operative Dairy Board, an integrated body whose main objective focus on dairy policies and relations with government and other producers' organizations.

Attention should also be drawn to the major break-through by regional dairy co-operatives into the specialty cheese market. This is another step in diversifying dairy plant production to ensure better profitability to the benefit of the member producers.

### The Co-operative Dairy Board

*From left to right:*

**Philippe Pariseault**, Coopérative Fédérée;  
**Roméo Girard**, Côte Sud; **Marcel Gingras**, Secretary;  
**Michel Lemire**, 2nd Vice-president, Granby; **Léonard Morin**,  
Sud de Québec; **Napoléon Théberge**, 1st Vice-president,  
Bas St-Laurent; **Roland Pigeon**, Coopérative Fédérée;  
**Jean-Charles Chénard**, Côte Sud; **Denis Cassista**,  
Bas St-Laurent; **Réjean Quevillon**, President, Papineau;  
**Hubert Doré**, Saguenay-Lac St-Jean.



## Consolidated Statement of Earnings

For the year ended October 31, 1978

	1978	1977
<b>Sales and other income</b>	<b>\$727 687 686</b>	<b>\$675 007 559</b>
<b>Costs and expenses</b>		
Costs of goods sold	\$634 647 682	\$595 296 429
Wages, salaries and employee benefits	40 698 685	38 471 245
Other operating expenses	10 632 781	10 252 403
Distribution and selling expenses	14 838 730	13 813 570
General administrative expenses	5 477 895	3 587 149
Interest on long term debt	2 439 106	1 951 103
Other financial expenses	2 216 108	1 218 753
Depreciation	4 027 555	3 502 252
	<b>\$714 978 542</b>	<b>\$668 092 904</b>
<b>Earnings from operations</b> before complementary payments, discounts, extraordinary items, patronage refunds and income taxes	<b>\$ 12 709 144</b>	<b>\$ 6 914 655</b>
Complementary payments and discounts	2 599 320	1 146 569
<b>Earnings</b> before extraordinary items, patronage refunds and income taxes	<b>\$ 10 109 824</b>	<b>\$ 5 768 086</b>
Extraordinary items (note 10)	862 887	(28 418)
<b>Earnings</b> before patronage refunds and income taxes	<b>\$ 10 972 711</b>	<b>\$ 5 739 668</b>
<b>Use of earnings</b>		
Patronage refunds (note 9)		
Cash	\$ 1 659 500	\$ 1 320 000
Preferred shares	1 340 000	1 040 000
Common shares	1 000 500	840 000
	<b>\$ 4 000 000</b>	<b>\$ 3 200 000</b>
Income taxes	2 644 097	1 362 044
Net earnings for the year	4 328 614	1 177 624
	<b>\$ 10 972 711</b>	<b>\$ 5 739 668</b>

## Consolidated Statement of General Reserve

For the year ended October 31, 1978

<b>Balance at beginning of year</b>	<b>\$ 10 319 616</b>	<b>\$ 9 141 992</b>
Net earnings	4 328 614	1 177 624
<b>Balance at end of year</b>	<b>\$ 14 648 230</b>	<b>\$ 10 319 616</b>

# Consolidated Balance Sheet

As at October 31, 1978

<b>Assets</b>	1978	1977
<b>Current</b>		
Accounts receivable	\$ 74 311 049	\$ 60 366 147
Provision for possible future losses	2 626 748	2 060 182
	<b>\$ 71 684 301</b>	<b>\$ 58 305 965</b>
Inventories	49 190 531	54 402 208
Prepaid expenses	3 379 165	2 513 861
Investments — current portion	206 868	333 450
	<b>\$124 460 865</b>	<b>\$115 555 484</b>
<b>Non-current accounts receivable</b>	<b>\$ 360 963</b>	<b>\$ 473 472</b>
<b>Investments (note 2)</b>	<b>\$ 4 315 483</b>	<b>\$ 4 534 881</b>
<b>Fixed assets (note 3)</b>		
Land, buildings, machinery and equipment, automotive equipment, at cost	\$ 54 176 610	\$ 49 579 540
Accumulated depreciation	25 632 738	22 258 325
	<b>\$ 28 543 872</b>	<b>\$ 27 321 215</b>
<b>Other assets (note 4)</b>	<b>\$ 2 296 737</b>	<b>\$ 2 405 366</b>
	<b>\$159 977 920</b>	<b>\$150 290 418</b>

On behalf of the Board  
 Roland Pigeon, Director  
 Paul-Émile St-Pierre, Director

Montréal, January 24, 1979.

<b>Liabilities and members' equity</b>	1978	1977
<b>Current</b>		
Outstanding cheques, less cash	\$ 9 160 918	\$ 5 993 807
Bank loans (note 6)	556 000	1 860 000
Accounts payable and accrued expenses	32 064 976	34 762 377
Short term notes	40 462 000	35 360 000
Patronage refunds (note 9)	1 659 500	1 320 000
Redemption of capital stock (note 9)	605 923	933 040
Income taxes	639 405	325 447
Current portion of long term debt	4 241 751	4 545 557
	<b>\$89 390 473</b>	<b>\$ 85 100 228</b>
<b>Deferred income taxes</b>	<b>\$ 1 452 996</b>	<b>\$ 1 529 393</b>
<b>Long term debt (note 7)</b>	<b>\$ 22 568 021</b>	<b>\$23 208 806</b>
<b>Members' equity</b>		
Capital stock (notes 8 and 9)	\$ 31 918 200	\$ 30 132 375
General reserve	14 648 230	10 319 616
	<b>\$46 566 430</b>	<b>\$ 40 451 991</b>
	<b>\$159 977 920</b>	<b>\$150 290 418</b>

**Commitments (note 11)**

# Consolidated Statement of Changes in Financial Position

As at October 31, 1978

	1978	1977
<b>Working capital provided from</b>		
Operations		
Net earnings	\$ 4 328 614	\$ 1 177 624
Charges to operations not involving outlay of working capital	4 263 257	3 776 308
	<b>\$ 8 591 871</b>	<b>\$ 4 953 932</b>
Decrease (increase) of deferred receivables	112 509	(27 217)
Proceeds on sale of investments	515 368	718 393
Sale of fixed assets	500 514	461 555
Long term debt	3 963 000	9 637 300
Issue of shares	2 479 839	1 976 375
	<b>\$16 163 101</b>	<b>\$17 720 338</b>
<b>Working capital required for</b>		
Purchase of investments	\$ 350 970	\$ 1 373 029
Additions to fixed assets	5 647 069	6 973 015
Acquisition of poultry quotas	215 127	—
Reduction of long term debt	4 640 785	4 434 691
Redemption of shares	694 014	1 469 569
Acquisition of subsidiaries, net of working capital (note 5)	—	528 736
	<b>\$11 547 965</b>	<b>\$14 779 040</b>
<b>Increase in working capital</b>	<b>\$ 4 615 136</b>	<b>\$ 2 941 298</b>
<b>Working capital at beginning of year</b>	<b>30 455 256</b>	<b>27 513 958</b>
<b>Working capital at end of year</b>	<b>\$35 070 392</b>	<b>\$30 455 256</b>

# Notes to Consolidated Financial Statements

As at October 31, 1978

## Note 1 — Accounting policies

**Consolidation** — The consolidated statements include the accounts of Coopérative Fédérée de Québec and all 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
- Turcotte & Turmel Inc.

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 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 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 are calculated on the excess of capital cost allowances claimed for income tax purposes over amounts of depreciation charged to operations. These income taxes will become payable in the years when depreciation will exceed capital cost allowances.

<b>Note 2 — Investments, at cost</b>	Current portion	1978	1977
Shares and advances in 50% owned company (book value: 1978 — \$198 573; 1977 — \$159 808)	\$ —	\$ 70 000	\$ 70 000
Corporate shares	—	2 728 175	2 445 079
Mortgages	16 541	231 057	695 260
Other investments	190 327	1 493 119	1 657 992
	<u>\$206 868</u>	<u>\$4 522 351</u>	<u>\$4 868 331</u>
Current portion		<u>206 868</u>	<u>333 450</u>
		<u>\$4 315 483</u>	<u>\$4 534 881</u>

<b>Note 3 — Fixed assets</b>	1978		1977	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 2 350 101	\$ 2 262 725	\$ 2 241 172	\$ 2 172 109
Buildings	21 157 820	13 871 946	19 754 171	13 327 125
Machinery and equipment	22 603 378	8 680 332	20 487 137	8 212 080
Automotive equipment	8 065 311	3 728 869	7 097 060	3 609 901
	<u>\$54 176 610</u>	<u>\$28 543 872</u>	<u>\$49 579 540</u>	<u>\$27 321 215</u>

<b>Note 4 — Other assets</b>	1978	1977
Goodwill	\$ 1	\$ 1
Poultry quotas, unamortized cost	1 141 648	997 509
Deferred expenses	148 701	145 088
Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition	<u>1 006 387</u>	<u>1 262 768</u>
	<u>\$2 296 737</u>	<u>\$2 405 366</u>

**Note 5 — Acquisition of subsidiaries**

Non-fund assets and liabilities arising from acquisition of subsidiaries, in 1977, are as follows:

**Assets**

Fixed assets — net book value	\$3 147 094
Other assets	26 051
Excess of cost of shares in subsidiaries over net book value at dates of acquisition	(299 119)
	\$2 874 026

**Liabilities**

Deferred income taxes	\$ 14 814
Long term debt	2 130 476
	\$ 728 736
Prior investment	200 000
Decrease in working capital	\$ 528 736

**Note 6 — Bank loans**

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

**Note 7 — Long term debt**

	Current portion	1978	1977
<b>Coopérative fédérée de Québec</b>			
Debentures, series "B", 7¾%, 1978	\$ —	\$ —	\$ 906 400
Debentures, series "B", 7¾%, 1979	691 400	691 400	695 400
Debentures, series "B", 9%, 1979	904 600	904 600	1 663 600
Debentures, series "C", 7½%, 1979	65 000	65 000	146 000
Debentures, series "D", 9¾%, 9¾%, 1979-85	999 500	3 262 100	4 917 600
Debentures, series "F", 10%, 1980-86	—	5 000 000	5 000 000
Debentures, series "G", 10%, 1979-87	1 000 000	4 848 300	4 850 000
Debentures, series "H", 9½%, 10%, 1983-88	—	4 000 000	—
Other	—	203 458	211 758
	\$3 660 500	\$18 974 858	\$18 390 758
<b>Eastern abattoirs limited</b>			
Bonds, 7¾%, 1979-87	\$ 75 000	\$ 675 000	\$ 750 000
Mortgage, 8%, 1978-84	—	—	87 000
	\$ 75 000	\$ 675 000	\$ 837 000
<b>Edmond Sylvain limitée 1954</b>			
Mortgage, 7%, 1978-83	\$ —	\$ —	\$ 163 274
<b>Centre avicole inc. and its subsidiaries</b>			
Mortgage, 6¾%, 1979-89	\$ 2 123	\$ 29 772	\$ 31 783
<b>Quebec poultry co. ltd. and its subsidiaries</b>			
Bonds, 8¾%, 1979-93	\$ 93 000	\$ 2 700 000	\$ 2 784 000
Debentures, convertible, 6½%, 1984-87	—	2 000 000	2 000 000
Mortgages, 6% to 10%, 1979-84	58 477	312 762	371 251
Term notes, 8% to 11%, 1979-82	62 417	244 253	818 568
Other	17 798	84 256	106 461
	\$ 231 692	\$ 5 341 271	\$ 6 080 280
<b>Turcotte &amp; Turmel Inc.</b>			
Bonds, 9.9%, 11½%, 1979-81	\$ 59 400	\$ 155 550	\$ 211 500
Mortgage, 10%, 1979-84	9 000	54 000	126 000
Term note, 10%, 1978	—	—	18 000
	\$ 68 400	\$ 209 550	\$ 355 500
<b>P. A. Gouin limitée</b>			
Mortgage bond, 13¾%, 1979-80	\$ 90 000	\$ 1 142 500	\$ 1 218 500
Mortgage bond, 13%, 1979-80	17 100	217 075	233 300
Mortgage, 8%, 1978	—	—	127 500
Other, 1979-80	66 936	94 746	161 468
	\$ 174 036	\$ 1 454 321	\$ 1 740 768
<b>Les engrais Laprairie Limitée</b>			
Bonds, 7½%, 1979-81	\$ 30 000	\$ 125 000	\$ 155 000
	\$4 241 751	\$26 809 772	\$27 754 363
Current portion		4 241 751	4 545 557
		\$22 568 021	\$23 208 806



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

1979 — \$4 241 751    1981 — \$2 750 300    1983 — \$4 288 937  
 1980 — \$4 575 043    1982 — \$1 330 020

### 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.

	1978	1977
<b>Preferred shares of \$10 each</b>		
1969 series, redeemable at the latest in 1989	\$ —	\$ 528 420
1970 series, redeemable at the latest in 1990	1 282 800	1 286 890
1971 series, redeemable at the latest in 1986	1 313 820	1 317 010
1972 series, redeemable at the latest in 1987	1 897 780	1 898 460
1973 series, redeemable at no set date	7 880	7 880
1974 series, redeemable at the latest in 1984	2 534 950	2 624 320
1975 series, redeemable at the latest in 1985	2 505 670	2 506 230
1976 series, redeemable at the latest in 1986	2 398 150	2 408 420
1977 series, redeemable at the latest in 1987	3 493 970	3 499 740
1978 series, redeemable at the latest in 1988	1 055 880	1 040 000
1979 series, redeemable at the latest in 1989	1 340 000	—
	<b>\$17 830 900</b>	<b>\$17 117 370</b>
<b>Common shares</b>		
Qualifying shares of \$10 or \$25 each, convertible in preferred shares	\$ 24 705	\$ 24 725
Qualifying shares, class "A", of \$25 each	1 485 275	1 409 050
Class "C", of \$10 each	2 425 760	2 426 310
Class "D", of \$25 each	10 118 825	9 119 450
	<b>\$14 054 565</b>	<b>\$12 979 535</b>
<b>Partially paid</b>		
A balance resulting from the allocation of non-assessable preferred and common shares in payment of patronage refunds remains credited to members as the individual amounts allocated do not equal the par value of these shares	\$ 32 735	\$ 35 470
	<b>\$31 918 200</b>	<b>\$30 132 375</b>

### 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 24, 1979, declared, out of earnings from operations of the current year, patronage refunds of \$4 000 000. They resolved that this refund be allocated and paid as follows:

	1978	1977
Cash	\$ 1 659 500	\$ 1 320 000
Preferred shares	1 340 000	1 040 000
Common shares	1 000 500	840 000
	<b>\$ 4 000 000</b>	<b>\$ 3 200 000</b>

**Redemption of shares** — At their same meeting, the Directors also resolved to redeem preferred shares issued in 1969 and 1974, for an aggregate amount of \$605 923.

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

### Note 10 — Extraordinary items

	1978	1977
Recovery of income taxes arising from the application of prior years' losses	\$ 1 119 268	\$ 214 338
Amortization of excess of cost of shares in subsidiaries over the net book value at dates of acquisition	(256 381)	(242 756)
	<b>\$ 862 887</b>	<b>\$ (28 418)</b>

### 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 approximately \$865 000 and the balance of the lease agreements for the rental of automotive equipment amounts to \$117 000 as at October 31, 1978.
- b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately \$2 582 000 as at October 31, 1978.
- c) Actuarial expertise of the pension indicates a liability for past services estimated at \$500 016. This amount will be amortized over a period not exceeding four 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.

---

## 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, 1978 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, 1978, 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.

Mallette, Benoît, Boulanger, Rondeau & Associés  
Chartered Accountants.

January 24, 1979.

## Management Report

---

For Coopérative Fédérée, the 1977-78 financial results were better than those of the previous twelve months. An upswing in the farm economy helped to improve both prices and profit margins in most agricultural sectors. Total sales reached \$727.6 million, up \$52.6 million or 7.8% over the year-ago figure of \$675 million. Growth rate was above that of 1976-77 in both dollar volume and percentage terms. Viewing operations as a whole, Coopérative Fédérée maintained its position in providing farm supplies and in marketing farm products.

Earnings from operations, before complementary payments and special discounts, amounted to \$12.7 million or 1.75% of total sales, compared with \$6.9 million or 1.01% the previous year. Although complementary payments and special discounts more than doubled, from \$1.15 million to \$2.6 million this past year, this still left \$10.1 million in earnings before patronage refunds, income taxes, and extraordinary items, against \$5.7 million reported for 1976-77.

Earnings before patronage refunds and income taxes were equivalent to 1.38% of total sales, against 0.84% the previous year. Although losses were reported in some areas, the

gains made by other sectors brought our profitability — in relation to sales — to a more acceptable level. More so than a year ago, diversification in our operations was a factor that contributed to the results.

### Meat Packing Division

This Division's total sales reached an all time high of \$118.6 million, reflecting higher prices and increased livestock receipts. Cattle producers enjoyed an excellent year from higher prices for beef which, in turn, was responsible for better prices for meats in general and for a stronger demand for pork on both the domestic and export markets.

Coopérative Fédérée meat packing operations are carried out by three subsidiaries: Legrade Inc., Turcotte & Turmel Inc. and the Canadian Livestock Co-operative of Quebec Limited. Our three livestock slaughtering and packing plants are located at Vallée Jonction, Princeville and Bic. Canadian Livestock Co-operative acts as a commission agent on the Montreal Public Livestock Yards. Since last autumn, its operations are at the West-End Market, following the closing of the livestock yards in Eastern Montreal.



## Earnings from Operations

(\$ in thousands)

69	1 417
70	1 567
71	2 677
72	5 084
73	8 351
74	9 558
75	13 150
76	14 177
77	6 915
78	12 709

Overall receipts of cattle and calves dropped at all our slaughtering and packing plants, while Canadian Livestock Co-operative reported a slight increase in cattle and a small reduction in calves. Fortunately, the lesser receipts of cattle and calves were more than offset by a substantially higher volume of hogs received: up by 25% at Vallée Jonction, 20.6% at Princeville and 11.5% at Bic. The increase at the Vallée Jonction and Princeville plants exceeded the actual percentage growth of the Quebec hog production, while the opposite was noticed at Bic. A total volume of 740 601 heads of livestock were slaughtered in the three plants, an increase of 17.4% over last year's 630 983 heads. The Canadian Livestock Co-operative handled a total of 34 996 heads, relatively the same as the 1976-77 figure of 34 698.

During the year, all our operations of meat packing have been consolidated within a newly structured Meat Packing Division. The objective of such a consolidation is to obtain a more effective use of human and material resources and to co-ordinate all operating policies, particularly marketing strategies. Distribution facilities are also being upgraded. A new distribution centre will soon be in operation in Montreal to better serve our clientele with the complete range of products offered by Turcotte & Turmel Inc. and Legrade Inc.

Legrade Inc. results reflect the generally improved conditions in the industry. While the previous year's operations showed a deficit, the 1977-78 financial year was a profitable one. Turcotte & Turmel Inc. results show a noticeable improvement in the operating efficiency of this subsidiary's plant at Vallée Jonction due mainly to increased volume and favourable conditions of the export market.



### Poultry Division

In April 1978, a Poultry Division was set up to place under one management authority all poultry operations. The objectives are to maximize the efficiency of human resources and physical facilities, to operate more efficiently the four plants by gradually specializing their operations and to better unify the marketing of poultry products.

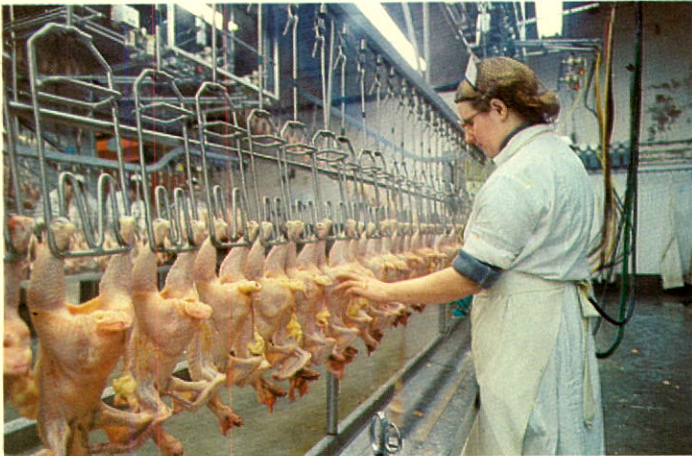
The Poultry Division operates four poultry abattoirs, a processing facility, a distribution centre, a hatchery, an egg breaking plant and several poultry farms. Sales, at \$108.3 million, are higher than those of the last year. Even after complementary payments of \$1.3 million to producers, the Division showed earnings which help us forget the previous year's set-back. All subsidiaries, to the exception of one, reported positive results that are, in addition, greater than last year.

The egg breaking plant of Ferme La Poule Blanche Ltée continues to face serious difficulties, both in attempting to improve margins and to secure adequate supplies of eggs for processing. Management responsible is closely studying the still unresolved problems of this operation.

Volume of birds received during the year rose to 165.5 million pounds, against 163.6 million pounds the year before.

The Federal government recently announced that a National Chicken Marketing Agency was instituted. It will obviously take some time before we can appreciate the benefits of such an agency, because no one can tell

in advance how long the negotiations with the United States will take. Nevertheless, despite unavoidable delays, we believe it should provide our broiler industry with some protection and give it a stability greater than that experienced until now. Faced with all the restrictions imposed on producers and marketing organizations alike, the industry cannot progress and maintain its dynamic stance indefinitely under the constant strain of very short cycles of ups and downs in profitability. Along with the producers, we certainly hope that this situation has come to an end.



### **Fruits and vegetables**

Although sales were up, this past financial year was less profitable than the previous one for our Fruit and Vegetable Department. A quick study of operations shows that profit margins were lower than in 1976-77 while expenses were considerably higher, due largely to increased rental costs in Quebec City and Montreal.

### **Dairy Division**

Dairy Division sales at \$233.8 million in 1977-78, were slightly higher than those of the preceding financial year. Since dairy products account for almost all of these sales, it is quite clear that the Division's performance is closely linked with the volume of milk received by the dairy co-operatives, and out of this volume, the quantities of products the Division markets. Last year, the co-operatives received a total volume of 3.0 billion pounds of milk, a decrease of 4% from a year ago, and 6% from 1975-76. This downward trend is largely attributable to the effect of the national dairy policy objectives. The lower volume was more than offset by higher prices, but net earnings were lower than in 1976-77.

Comparing sales, product by product, with those recorded in 1976-77, the following trends emerge: butter down 12.3%; skim milk powder down 1.97%; cheese up 9.8%; evaporated milk up 2.35%; fluid milk down slightly by 0.85%. These trends are expected to continue for the immediate future. On the export markets, particularly in the case of evaporated milk, the co-operation between the Division and the Canadian Dairy Commission has helped to reduce the volume of skim milk powder produced in Canada. It should in the future, to a greater degree, bring the entire industry on a healthier basis, and eventually improve conditions for the producers.

The Division is increasing its efforts in export markets. This is a normal goal for the Federation. It completes and adds to the marketing efforts of its member co-operatives. During this past year, the Dairy Division exported 25.8 million kilograms of dairy products, a 109.8% increase over the previous year's volume of 12.3 million kilograms. Evaporated milk, skim milk powder and a small quantity of cheese were, in order of importance, the products exported.

Sales of dairy equipment and supplies to the various plants totalled \$1.1 million. As far as the storage activities are concerned, stocks of cheese and skim milk powder have been transferred from the metropolitan refrigerated warehouse to occupy a major part of the head office warehouse.

While summarizing the year's activities in the dairy sector, we should not ignore the part played by Management in policy matters, in government interventions and in the relations with the various milk producers' organizations. LE COOPÉRATEUR AGRICOLE regularly reports on the role played in all areas by the dairy co-operatives, in association with Coopérative Fédérée. In this regard, it should be pointed out that a new structure has been set up to ensure concerted planning and action within the movement, through a revision of the powers of the Co-operative Dairy Board and mutual agreements between its member co-operatives. This Board, which concerns itself primarily with dairy policy matters and relations with governments and other producers' organizations, is made up of farmers representing Coopérative Fédérée and dairy co-operatives.

## Working Capital

(\$ in thousands)

69	5 148
70	5 349
71	7 006
72	8 694
73	11 897
74	17 107
75	28 402
76	27 293
77	30 455
78	35 070

It is quite evident that the two major causes of the year's losses were sales volume, lower than expected, and low margins. In the case of farm supplies of the traditional type, the co-operatives' willingness prevented too sharp a drop in sales, down by just 1% from the preceding year. Measured in dollars, the Department reported gains in dairy equipment, hardware, building products and automotive products. Sales of farm supplies, the largest share of the total sales volume, were down substantially, due mainly to a much lower demand for generators, farm fencing and baler twine.

The Farm Implement Department reported sales of \$22.6 million, down from the preceding period. We must go back to 1974 to find a sales figure as low as the one in 1977-78. Considering that sales prices were higher last year, this represents a drastic drop in actual units sold and, needless to say, net earnings were much lower. We estimate that decrease to be in the neighbourhood of 18.5%, compared with 1977. These results clearly illustrate the difficult period this industry is going through.

The Petroleum Department recorded a small deficit for the second year in a row. Sales at \$68.2 million were higher than those reported last year. This increase was not attributed to an increase in physical volume of business since there was a slight decrease.

The Department had a poor year because margins are still abnormally low. Production overruns at the refineries and surplus stocks have helped to create a stiff competition to the benefit of customers. This situation has tightened the squeeze on margins for distributors. The Department's operating costs were also affected this past year, by the continuation of its programme to up-grade storage facilities to meet government requirements.

### Feeds and Fertilizers

Feeds and Fertilizers Division sales of \$126.7 million were slightly higher than in the previous year. But the division's earnings were the highest of its history, after rebates of \$822 587 to members for bulk feed supplements, and \$33 884 for chicks bought from our hatcheries.



### Agricultural supplies

The results of the Agricultural Supplies Division clearly illustrate the difficulties facing its three operating sectors, the Farm Supplies Department in particular. Since they operate in their own fields, it is only by studying each department's activities that we can bring to light the various problems which affect the overall results of the Division.

The Farm Supplies Department was the greatest disappointment of the year. Although sales of \$26.0 million showed an increase over the previous year, margins were definitely not sufficient to cover substantially higher expenses. Many of these expenses are non-recurring, since they stem from the consolidation of the Farm Supplies Department with those of the P. A. Gouin Limited hardware firm. However, for 1977-78, they are a heavy burden on the overall results. Added to the deficit of its current operations, other losses were incurred from stock devaluations due to the discontinuance or obsolescence of some product lines. Additional inventory writedowns were another factor for the year's negative results. Furthermore, operating and administrative expenses were increased considerably by the difficulties encountered in integrating and reorganizing the two operations. Strong measures have been taken to correct the situation as rapidly as possible, but some time is required before their effect can be noticeable.

Sales of the Grain Department reached \$58.3 million, a decrease compared with the year before, even if there was a 3.8% increase in physical volume. On the other hand, net earnings were appreciably higher than in the previous year but not yet at the levels reached in 1974, 1975 and 1976. Margins deteriorated during the second half of the financial year, due to a stronger competition during the navigation season as greater storage facilities were available. During this period, we wish to recall that deliveries on the off-quota market provided 85% of domestic needs.



In North America, the livestock feeds business generally represents a prominent contributor to both the volume and profitability of farm supply co-operatives. That phenomenon equally applies to the Quebec farm co-operative movement. Feed sales during the year totalled \$39.2 million, an improvement over 1977. Actual volume increased by 11.5% to reach a new all-time high. Most of this increase was in hog feeds, with a 25% increase over last year. This strong upswing is especially interesting since it is higher than the actual percentage increase in Quebec's hog production during the same period.

The volume of dairy feeds dropped by 7%, but this was more than offset by the increase in hog feeds we have just mentioned and a 5.4% increase in poultry feeds. Along with an excellent cost control, this higher volume produced a significant contribution to the results of the Division and Coopérative Fédérée.

Distribution of liquid protein supplements (S.P.L.) was discontinued during the year, as volume continued to decline. Sales of livestock health products are still improving, due mainly to increased production of hogs and poultry. Competition in this area remains very active.

Sales of the Hatchery Department compares with 1977 figures, but are still lower than those of the three previous financial years. Nevertheless, 1978 net earnings nearly doubled those of 1977. Sales of chicks increased for all categories of birds except for turkey poults.

**Patronage refunds allocated**

(\$ in thousands)

69	1 400
70	1 425
71	2 400
72	4 000
73	6 600
74	7 600
75	8 600
76	6 900
77	3 200
78	4 000

The Fertilizer Department operated at a loss for a third successive year. Although total sales were higher in both dollar and volume terms, the Department did not regain its former rank as a profitable member of the Division. It should be noted that the blender plants and liquid nitrate facilities account for an increasing proportion of total volume.

A number of factors affect the profitability of the Fertilizer Department: the impact on margins of the almost chronic price war over the past few years, especially since 1975; start-up expenses for blender plants and liquid nitrate facilities, and more recently, the necessity to stockpile considerable quantities of raw materials — such as potash — which involves additional financing charges and risks.

The Farm Chemicals Department improved its previous performance with sales increasing in almost all product lines. Substantial gains were achieved in weed and rat killers and lawn and garden products. Despite higher expenses involved in setting up the new Longueuil warehouse, the Department, due respect to its size, made a valuable contribution to the overall results of the Division.

Sales of the Seeds Department were slightly higher than in 1977 as a result of higher prices, but actual volume decreased as less acreage was seeded and supply problems were encountered. Net earnings were also higher than in the preceding year.

The Napierville grain dryer failed to break even for the fifth year in a row. It reported a lower volume of operations due to the warm and dry summer where grain was produced with a lower degree of humidity, thus reducing the need for drying operations, and to government assistance programmes for drying and storing farm grains.

#### **Financial review**

Working capital increased by \$4.6 million during the financial year, compared to \$2.9 million a year ago. It now totals \$35.1 million. This increase is a good indication of the difference in bottom-line results of the past two years. Even if sales increased by 7.8%, inventories decreased by 10.8%. Higher prices and financing costs prompted managers to increase control over their inventories.

Accounts receivable are substantially higher than last year. One of the reasons is that the postal strike coincided with the year end and delayed payments considerably. However, this situation straightened itself out during the following weeks. The other important reason worth mentioning is the higher proportion of export sales, meat products in particular, which are not collected before fourteen to eighteen days, about twice the time needed to collect domestic sales.

Improving the level of the general reserve in comparison to total equity is a foremost objective of the Board of Directors. This year's balance sheet shows a general reserve of \$14.6 million, an increase of \$4.3 million.

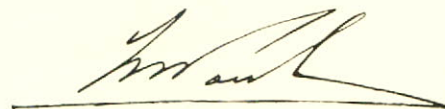
Members' equity increased by \$6.1 million and now stands at \$46.5 million. Return on equity, before patronage refunds and taxes payable by Coopérative Fédérée alone, was substantially higher at 17.5%, compared with 12.6% last year.

The administrative departments serve a function of resource and control to all our commercial and industrial operations. These consist of the following departments: Secretariat, Treasury, Human Resources, Regional Development and Solicitor. During this past financial year, all functions involving corporate financing, property protection, risk management and accounting were grouped under the Treasury Department to better co-ordinate all activities of the financial field.

Despite the "soft" sectors and disappointments, Coopérative Fédérée had, in general, a good average year. The results of the past twelve months once again confirm the unquestioned benefits of a diversified enterprise. However, management becomes more difficult, not to say more delicate, at both levels of the Quebec farm co-operative movement. The restrictions are becoming more numerous and demanding. Competition also becomes more intense as the co-operatives and their Federation grow ever more dynamic and aggressive. Yet nobody is prepared to back away from competition and those who wish to conquer must react vigorously.

Just as in any business organization, the co-operative movement draws up its competitive strategies by using several basic elements. In a co-operative organization, solidarity is the one vital element, which in the long run is the most powerful of all. When we encounter difficulties, that basic element comes to the fore. We witnessed proof of that once again, just recently. May the solidarity of the co-operatives, their members and employees withstand the tests of time. A sincere ever-alert solidarity of interests remains our best assurance of greater productivity in everything we do, the key to the quality of our presence in the agri-food industry.

In closing, we wish to extend our sincere thanks to all those who helped make this year a success and easier, our often difficult task. These thanks are addressed to the Members, Directors, Managers and, more particularly, to those who have worked the closest with Management.



Louis-Philippe Poulin  
General Manager



## The Petroleum Department: 1958 - 1978

---

Ever since its inception in 1958, responding to the needs arising from increased mechanization of farms, the Coopérative Fédérée Petroleum Department has proved its usefulness to its farmer-users. Over the past 20 years, the Federation, working closely with its member co-operatives, has built up a distribution network to supply with various fuels a high proportion of Quebec farms. It also supplies heating oil to many rural and semi-rural homes and, increasingly in recent years, to those in urban areas as well. This department is also involved, to a lesser degree, in propane gas distribution.

The scope of this operation and the business volume it generates place the Quebec farm co-operative movement at the top rank of the independent petroleum products distributors.

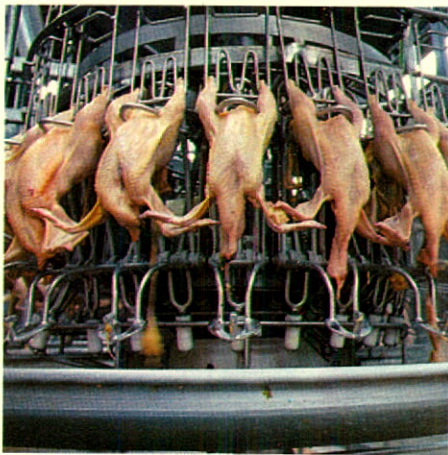


## Three Steps Forward...

---



Following relocation of the Dairy Division offices and warehouse at 1055, du Marché Central Street in Montreal, the Farm Chemicals Department moved into a new warehouse in Longueuil. Modern and functional, this chemical products distribution centre will serve all regions of Quebec.



In order to increase its productivity, and thus become more competitive, the Canadian poultry industry must be fully up-to-date on technical changes. Here in Quebec, Coopérative Fédérée's Poultry Division is moving forward by bringing to its poultry plants the latest technical improvements.



Canada is now one of the major exporters of pork to Japan. Coopérative Fédérée, through its Turcotte & Turmel Inc. subsidiary, benefits from this new market opportunity, and is now shipping a large volume of custom pork cuts prepared to meet the specifications of Japanese customers. Packed in containers at the processing plant, these products are moved by truck to New York for loading aboard freighters with destination the Land of the Rising Sun.



