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Annual Report 1979

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 17 1980
McGILL UNIVERSITY

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A salute to Quebec agriculture

We wish to pay tribute in this Annual Report to all those craftsmen of the Quebec agriculture by reproducing a few typical scenes of its many and varied operations.

Coopérative Fédérée de Québec

and subsidiaries

Annual Report 1979

Highlights

(dollars in thousands)	1979	1978
Sales	\$838 520	\$727 687
Wages, salaries and employee benefits	45 459	40 698
Depreciation	4 497	4 027
Earnings from operations	19 557	12 709
Accounts receivable and inventories	152 315	120 875
Current assets	155 190	124 460
Current liabilities	116 991	91 000
Working Capital	38 199	33 460
Fixed assets, at cost	58 565	54 176
Fixed assets, net	29 733	28 544
Total assets	192 762	159 978
Long term debt	19 553	22 568
Members' equity	54 735	45 085

Co-operative Principles

1 Open and Voluntary Membership

Membership in a co-operative should be voluntary and available without artificial restriction or any social, political or religious discrimination to all persons who can make use of its services and who are willing to accept the responsibilities of membership.

2 Democratic Control

Co-operatives are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary co-operatives should enjoy equal rights of voting (one member — one vote) and participation in decisions affecting their organizations. In other than primary co-operatives, the administration should be conducted on a democratic basis in a suitable form.

3 Limited Interest on Shares

Share capital should only receive a strictly limited rate of interest, if any.

4 Return of Surplus to Members

Surplus or savings, if any, arising out of the operations of a co-operative belong to members and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:

- by provision for development of the business of the co-operative;
- by provision of common services, or
- by distribution among the members in proportion to their transactions with the co-operative.

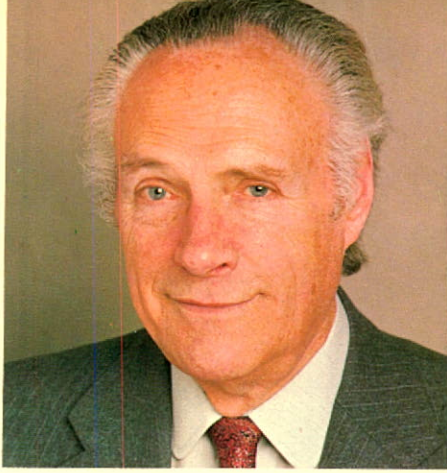
5 Co-operative Education

All co-operatives should make provision for education of their members, officers and employees, and of the general public in the principles and techniques of co-operatives, both economic and democratic.

6 Co-operation Among Co-operatives

All co-operatives, in order to best serve the interests of their members and their communities, should actively collaborate in every practical way with other co-operatives at local, national and international levels.

(Principles laid down by the International Co-operative Alliance)



President's Report

It is extremely gratifying to tell you that Coopérative Fédérée de Québec once again attained new record levels in both sales and earnings during the past year. In his detailed report on the events and trends of these interesting twelve months, our Chief Executive Officer gives us a great deal of insight into the operations and results of our various sectors.

Throughout the year, your Board of Directors was provided with all the information necessary for the important and enlightened decisions it was called on to make in meeting each situation as it arose. The Board met thirteen times since last year's Annual General Meeting, and the Executive Committee met on seventeen occasions.

The Year in Review

While there were a number of problems encountered in recent months, 1979 was a good year for the farm industry. Forage crop and grain production were both excellent, and dairy production was also very satisfactory. The first few months of the year were most successful for the Poultry Division, but the situation worsened at the beginning of the second half. The market weakened because of overproduction and continued heavy imports of poultry from the United States.

Beef cattle prices remained at a high level, but the same was not true for hog prices. A slack period in this highly cyclical industry had an immediate impact on both producers and processors. It is hoped that this situation will soon correct itself, to the benefit of all. Costs of inputs, especially livestock feeds, also increased. Feed prices were affected to a certain extent by the prolonged strike by the grain handlers at the Port of Montreal.

The 1970's

The Quebec farm co-operative movement experienced a period of marked growth during the past decade. Coopérative Fédérée sales more than quadrupled in ten years, from the 1970 total of \$200 million. Assets and members' equity grew at the same pace. Almost identical overall progress was made by the Quebec co-operative movement. When complete results are known, sales by all Quebec farm co-operatives should reach almost \$2 billion. This is a truly worthwhile contribution to the Canadian and Quebec economies. It proves that the farm cooperative movement is definitely not in jeopardy, but is playing an increasingly important role in the economy.

Feed Grains

Coopérative Fédérée, in concert with the Quebec Department of Agriculture and the Union des Producteurs Agricoles, vigorously protested the changes made last August 1st in the Canadian Feed Grains Policy in effect since August 1, 1974. We stressed in our representations to the government that the 1974 policy and regulations had resulted in an acceptable degree of equity between the interests of Canada's two major agricultural regions. We now consider it a backward step to see quotas imposed on formerly off-quota deliveries of feed grains to primary elevators by Western Canada grain producers.

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
79	838 520

Sales
(\$ in thousands)

Co-operative Dairy Industry

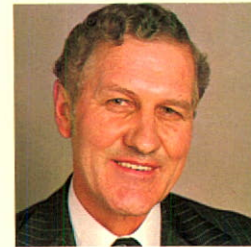
This was another very active year for the Co-operative Dairy Industry. The co-operatives took numerous initiatives to diversify production. This new orientation resulted in reduced production of butter and milk powders, and was of great help in opening up markets the industry had previously not been able to serve. As a result, there was a worthwhile increase of Quebec dairy product exports to several countries.

Linked with the marketing efforts of our Dairy Division, this diversification of production cannot do otherwise than bring new financial benefits to producers. As an important side benefit, the development of these new markets should also help to increase production quotas.

"Interco-operation" was the theme of the first Co-operative Dairy Industry Congress held last October. The Congress was attended by leading spokesmen for the Quebec dairy industry, along with the Directors and Managers of our member dairy co-operatives. Well known guest speakers delivered talks on various aspects of the Conference theme. This event provided renewed proof that this type of concerted action is as valuable here in Quebec as in other countries where the co-operatives form an important part of their respective economies.

The members of our co-operatives are justifiably proud of what they have already built together, but they know that they can do even more. They can accomplish much more if they constantly continue to unite their efforts, while always keeping in mind that each new success will directly benefit each producer-member.

Board of Directors

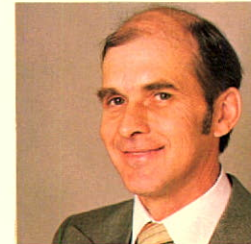


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Paul-Émile St-Pierre*
1st Vice-president
Laurierville

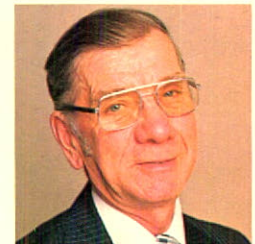


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3
Alphonse-Roger Pelletier*
2nd Vice-president
La Pocatière

6
Bruno Beaulieu
Val Brilliant

8
François Champagne
St-Côme Linière



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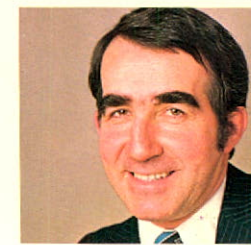
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Roger Bilodeau
Bromptonville

11
Jean-Marie Moreau
Verchères



13

13
Paul Massicotte
Champlain



1
Roland Pigeon*
 President and
 Chairman of the Board
 Verchères



4
Michel Lemire*
 St-Zéphirin

5
Jean-Charles Mercier*
 St-Roch de l'Achigan



7
Georges Lévesque
 St-Simon



9
Clément Houle
 Victoriaville



12
Léon Brisebois
 Mont-Laurier

14
Paul Dessureault
 Dupuy

15
Léopold Harvey
 Delisle



12

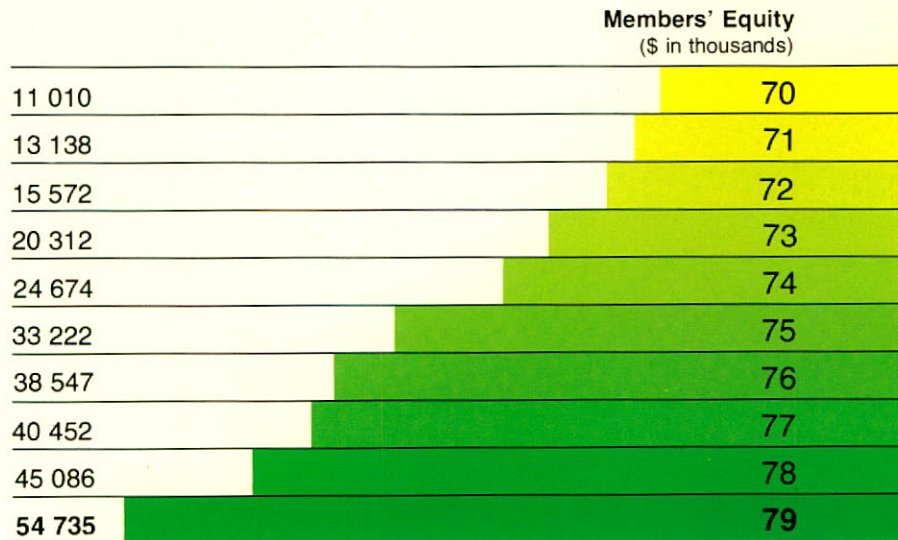
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*Members of the Executive Committee





Another equally memorable event for the Quebec Dairy industry occurred in 1979. Last December 21st, a document titled "Agreement Concerning Milk Marketing in Quebec" was signed before officials of the Régie des Marchés Agricoles du Québec (Quebec Farm Marketing Board). Signatories to this important document were: Coopérative Fédérée, Union des Producteurs Agricoles, Fédération des Producteurs de Lait du Québec, Fédération des Producteurs de Lait Industriel du Québec and the six member co-operatives of the Co-operative Dairy Council. This agreement was the result of lengthy negotiations conducted by Mr. Marcel Trudeau, Q.C. Its objective is to seek a better understanding of the roles that the co-operatives and the farm unions must play in the milk marketing process. It is hoped that both sides will succeed in showing unity of purpose in the various steps still to be taken in this joint effort.

Socio-economic conferences on the agri-food industry

Since last fall, the farm co-operative movement has taken part in a series of socio-economic conferences or mini-summit meetings. These were organized at the request of the Quebec Minister of Agriculture. They have given the farm co-operative movement the opportunity to make its voice heard on such varied topics as: the grain industry, beef cattle, poultry, fruits and vegetables. The last but not the least mini-summit meeting on the dairy industry will be held within the next few weeks and here again the co-operative movement will be represented.

Co-operative Summit Meeting

Less than three weeks ago, the Co-operative Summit Meeting was held in Montreal. It was attended by representatives of all sectors of the co-operative movement, as well as those from the Quebec government and other socio-economic organizations. The goal of this conference was to set in motion various forms of action designed to accentuate the role played by co-operative enterprises in Quebec's economic development. This was a significant initiative, and we sincerely hope that it will have some tangible benefits for our movement.

Co-operative Training

During our annual meeting last February, a number of delegates asked Coopération Fédérée to make its Education of Directors Programme available to all members as rapidly as possible. This programme deals among other subjects of the status, role and responsibilities of directors. This request was quickly acted on, and during the year about 150 directors from fifteen co-operatives attended these intensive educational sessions given by our Human Resources Department. It is most encouraging to observe that the requests for these courses are becoming more and more frequent. Some co-operatives have even expressed the desire to take part in a second session, where they will have time to go more deeply into subjects covered during the initial session. Others have asked that similar courses be made available to Managers.

Without minimizing in any way the importance of our educational programme for co-operative Directors, we think we should call attention to another priority: the training of our young co-operators. They have not had to follow the long road of their elders in the co-operative movement over the years and they find themselves part of a movement which they did not have the opportunity to help build and develop.

As a result, our young members need a special type of education quite different from that which the previous generation received. In our view, the best way to achieve this is to provide them with a training and information programme attuned to today's economic realities. A programme which will prepare these young people to play their full roles as co-operators, and ready them to assume the leadership of our movement when the time comes.

Relations with farm unions

Relations between the unions and the co-operatives have not always been the most cordial this past year. There have been numerous legal battles initiated by one side or the other, especially in the dairy sector. Nevertheless, we can say quite positively that even during the most trying months neither side has ever closed the door on any possible avenues of agreement.

In fact, as they have so often done in the past, both organizations, on many occasions, have joined their efforts to promote the interests of Quebec's farmers with various government authorities.



Existing tensions were considerably eased by the milk marketing agreement signed at the end of the year, as we mentioned previously. This opened the door to new discussions between Coopérative Fédérée and the Union des Producteurs Agricoles. The Executive Committees of both organizations have agreed to hold a series of meetings to find ways to solve problems that could otherwise result in conflicting situations. During these meetings, they will also search for ways to clearly define their respective responsibilities.

Some noted visitors

Last August, Coopérative Fédérée welcomed the twelve members of the Board of Directors and three top management officials from United Co-operatives of Ontario (U.C.O.). A tour of several Coopérative Fédérée facilities was organized, and some member co-operatives in different parts of the province were also visited. We were extremely pleased to be able to return the hospitality which our visitors had extended to us last year when we made a similar tour of Ontario co-operatives.

Several other groups also visited us during 1979, notably a management delegation from Japan's Union of Consumer Co-operatives. They came here to explore some of our co-operative marketing facilities, primarily those for pork, dairy and maple syrup products.



Co-operative Principles

As you leaf through this Annual Report, you will note that we have devoted a page to the co-operative principles established in 1966 by the International Co-operative Alliance. Some of us are already well acquainted with these principles, but they have not been too widely promoted during recent years. As a result, many of our co-operators and others interested in the co-operative movement may not be too well aware of them. We thought this was a good opportunity to recall them.

In closing, we wish to thank all those responsible in any way for the successful results achieved by Coopérative Fédérée during this past financial year. The support given us by the Members, Directors, Management and Staff has been mostly valuable. As the farm co-operative movement constantly grows and diversifies, the task of each becomes ever more difficult and we wish to acknowledge the excellent work done by all.

Roland Pigeon,
President

Consolidated Statement of Earnings

for the year ended October 31, 1979

	1979	1978
Sales and other income	\$838 520 648	\$727 687 686
Cost and expenses		
Cost of goods sold	\$730 775 460	\$634 647 682
Wages, salaries and employee benefits	45 459 545	40 698 685
Other operating expenses	12 077 793	10 632 781
Distribution and selling expenses	16 835 504	14 838 730
General administrative expenses	4 392 214	5 477 895
Interest on long term debt	2 428 061	2 439 106
Other financial expenses	2 496 743	2 216 108
Depreciation	4 497 820	4 027 555
	\$818 963 140	\$714 978 542
Earnings from operations before complementary payments, discounts, extraordinary items, patronage refunds and income taxes	\$ 19 557 508	\$ 12 709 144
Complementary payments and discounts	4 691 808	2 599 320
Earnings before extraordinary items, patronage refunds and income taxes	\$ 14 865 700	\$ 10 109 824
Extraordinary items (note 9)	2 059 840	44 371
Earnings before patronage refunds and income taxes	\$ 16 925 540	\$ 10 154 195
Use of earnings		
Patronage refunds (note 8)		
Cash	\$ 3 031 600	\$ 1 659 500
Preferred shares	2 411 000	1 340 000
Common shares	1 985 400	1 000 500
	\$ 7 428 000	\$ 4 000 000
Income taxes	2 681 672	2 493 586
Net earnings for the year	6 815 868	3 660 609
	\$ 16 925 540	\$ 10 154 195

Consolidated Statement of General Reserve

for the year ended October 31, 1979

Balance at beginning of year		
As previously reported	\$ 14 648 230	\$ 10 319 616
Rectification resulting from reassessments and adjustments of income taxes for the years 1973 to 1978	1 480 766	812 761
As restated	\$ 13 167 464	\$ 9 506 855
Net earnings	6 815 868	3 660 609
Balance at end of year	\$ 19 983 332	\$ 13 167 464

Consolidated Balance Sheet

as at October 31, 1979

Assets	1979	1978
Current		
Accounts receivable	\$ 93 775 332	\$ 71 684 301
Inventories	58 539 619	49 190 531
Prepaid expenses	2 643 147	3 379 165
Investments — current portion	231 937	206 868
	\$155 190 035	\$124 460 865
Non-current accounts receivable	\$ 715 192	\$ 360 963
Investments (note 2)	\$ 4 967 227	\$ 4 315 483
Fixed assets (note 3)		
Land, buildings, machinery and equipment automotive equipment, at cost	\$ 58 565 595	\$ 54 176 610
Accumulated depreciation	28 832 709	25 632 738
	\$ 29 732 886	\$ 28 543 872
Other assets (note 4)	\$ 2 156 790	\$ 2 296 737
	\$192 762 130	\$159 977 920

On behalf of the Board

Roland Pigeon, Director
Paul-Emile St-Pierre, Director

Montreal, January 23, 1980.

Liabilities and members' equity	1979	1978
Current		
Outstanding cheques, less cash	\$ 5 548 828	\$ 9 160 918
Bank loans (note 5)	9 636 000	556 000
Accounts payable and accrued expenses	46 029 063	32 064 976
Short term notes	44 260 566	40 462 000
Patronage refunds (note 8)	3 031 600	1 659 500
Redemption of capital stock (note 8)	1 262 426	605 923
Income taxes	2 634 804	2 248 819
Current portion of long term debt	4 587 347	4 241 751
	\$116 990 634	\$ 90 999 887
Deferred income taxes	\$ 1 482 893	\$ 1 324 348
Long term debt (note 6)	\$ 19 553 227	\$ 22 568 021
Members' equity		
Capital stock (notes 7 and 8)	\$ 34 752 044	\$ 31 918 200
General reserve	19 983 332	13 167 464
	\$ 54 735 376	\$ 45 085 664
	\$192 762 130	\$159 977 920

Commitments (note 10)

Consolidated Statement of Changes in Financial Position
as at October 31, 1979

	1979	1978
Funds provided from		
Operations		
Net earnings	\$ 6 815 868	\$ 3 660 609
Charges to operations not affecting working capital	3 383 898	4 759 792
	\$ 10 199 766	\$ 8 420 401
Redemption of investments	464 202	515 368
Proceeds on disposal of fixed assets	2 678 852	500 514
Long term debt	2 029 406	3 963 000
Issue of shares	4 517 316	2 479 839
	\$ 19 889 542	\$ 15 879 122
Funds used for		
Increase (decrease) in deferred receivables	\$ 354 229	\$ (112 509)
Purchase of investments	1 105 945	350 970
Additions to fixed assets	6 834 545	5 647 069
Acquisition of poultry quotas	128 728	215 127
Reduction of long term debt	5 044 200	4 640 785
Redemption of shares	1 683 472	694 014
	\$ 15 151 119	\$ 11 435 456
Increase in working capital	\$ 4 738 423	\$ 4 443 666
Working capital at beginning of year	33 460 978	29 017 312
Working capital at end of year	\$ 38 199 401	\$ 33 460 978

Notes to Consolidated Financial Statements

As at October 31, 1979

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 Cooperative of Quebec Limited
- Mont-Joli Products Ltd.
- Quebec Seed Ltd.
- Edmond Sylvain Limitée 1954
- Bexel (1979) Inc. and its subsidiaries
- Abbotsford Poultry Farm Inc.
- P.A. Gouin (1979) Ltée
- Centre Avicole Inc. and its subsidiaries
- La Ferme Joliette Inc.
- 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 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 mainly on the excess of capital cost allowances claimed for income tax purposes over amounts of depreciation charged to operations.

Note 2 — Investments, at cost	Current portion	1979	1978
Shares and advances in 50% owned company (book value: 1979 — \$232 580; 1978 — \$198 573)	\$ —	\$ 70 000	\$ 70 000
Corporate shares	—	2 652 966	2 728 175
Mortgages	17 450	214 516	231 057
Term notes	214 487	2 261 682	1 493 119
	\$ 231 937	\$ 5 199 164	\$ 4 522 351
Current portion		231 937	206 868
		\$ 4 967 227	\$ 4 315 483

Note 3 — Fixed assets	1979		1978	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 2 616 657	\$ 2 508 131	\$ 2 350 101	\$ 2 262 725
Buildings	21 812 792	13 867 645	21 157 820	13 871 946
Machinery and equipment	24 866 184	9 330 021	22 603 378	8 680 332
Automotive equipment	9 269 962	4 027 089	8 065 311	3 728 869
	\$58 565 595	\$29 732 886	\$54 176 610	\$28 543 872

Note 4 — Other assets	1979	1978
Goodwill	\$ 1	\$ 1
Poultry quotas, unamortized cost	1 167 301	1 141 648
Deferred expenses	120 760	148 701
Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition	868 728	1 006 387
	\$ 2 156 790	\$ 2 296 737

Note 5 — Bank loans

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

Note 6 — Long term debt	Current portion	1979	1978
Coopérative Fédérée de Québec			
Debentures, series "B", 7 $\frac{3}{4}$ %, 9%, 1979	\$ —	\$ —	\$ 1 596 000
Debentures, series "C", 7 $\frac{1}{2}$ %, 1979	—	—	65 000
Debentures, series "D", 9 $\frac{3}{8}$ %, 9 $\frac{7}{8}$ %, 1980-85	900 000	2 256 700	3 262 100
Debentures, series "F", 10%, 1980-86	2 000 000	4 979 300	5 000 000
Debentures, series "G", 10%, 1981-87	—	3 771 000	4 848 300
Debentures, series "H", 9 $\frac{1}{2}$ %, 10%, 1983-88	—	3 927 400	4 000 000
Debentures, series "J", 10 $\frac{3}{4}$ %, 1983-89	—	1 999 500	—
Bonds, 9.9%, 11 $\frac{1}{2}$ %, 1980-81	44 400	92 700	—
Bonds, 13 $\frac{1}{4}$ %, 1980	1 052 500	1 052 500	—
Bonds, 13%, 1980	199 975	199 975	—
Other	47 843	263 843	203 458
	\$ 4 244 718	\$18 542 918	\$18 974 858
Eastern Abattoirs Limited			
Bonds, 7 $\frac{1}{2}$ %, 1980-87	\$ 75 000	\$ 600 000	\$ 675 000
Centre Avicole Inc. and its subsidiaries			
Mortgage, 6 $\frac{3}{4}$ %, 1979-89	\$ —	\$ —	\$ 29 772
Bexel (1979) Inc. and its subsidiaries			
Bonds, 8 $\frac{7}{8}$ %, 1980-93	\$ 102 000	\$ 2 607 000	\$ 2 700 000
Debentures, 9%, 1984-85	—	1 800 000	2 000 000
Mortgages, 6% to 10%, 1980-84	54 901	242 284	312 762
Term notes, 8% to 11%, 1980-82	59 700	176 400	244 253
Other	21 028	76 972	84 256
	\$ 237 629	\$ 4 902 656	\$ 5 341 271
Turcotte & Turmel Inc.			
Bonds, 9.9%, 11 $\frac{1}{2}$ %, 1979-81	\$ —	\$ —	\$ 155 550
Mortgage, 10%, 1979-84	—	—	54 000
	\$ —	\$ —	\$ 209 550
P.A. Gouin Limitée			
Mortgage bond, 13 $\frac{1}{4}$ %, 1979-80	\$ —	\$ —	\$ 1 142 500
Mortgage bond, 13%, 1979-80	—	—	217 075
Other	—	—	94 746
	\$ —	\$ —	\$ 1 454 321
Les Engrais Laprairie Limitée			
Bonds, 7 $\frac{1}{2}$ %, 1980-81	\$ 30 000	\$ 95 000	\$ 125 000
	\$ 4 587 347	\$24 140 574	\$26 809 772
Current portion		4 587 347	4 241 751
		\$19 553 227	\$22 568 021

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:

1980 — \$4 587 347; 1981 — \$1 758 572; 1982 — \$2 313 027;
1983 — \$4 665 046; 1984 — \$2 183 542

Note 7 — Capital stock

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

	1979	1978
Preferred shares of \$10 each		
1970 series, redeemable at the latest in 1990	\$ —	\$ 1 282 800
1971 series, redeemable at the latest in 1986	1 290 820	1 313 820
1972 series, redeemable at the latest in 1987	1 847 180	1 897 780
1973 series, redeemable at no set date	7 880	7 880
1974 series, redeemable at the latest in 1984	2 489 630	2 534 950
1975 series, redeemable at the latest in 1985	2 487 190	2 505 670
1976 series, redeemable at the latest in 1986	2 375 430	2 398 150
1977 series, redeemable at the latest in 1987	3 455 850	3 493 970
1978 series, redeemable at the latest in 1988	1 052 830	1 055 880
1979 series, redeemable at the latest in 1989	1 315 050	1 340 000
1980 series, redeemable at the latest in 1990	2 411 000	—
	\$18 732 860	\$17 830 900
Common shares		
Qualifying shares of \$10 or \$25 each, convertible in preferred shares	\$ 24 705	\$ 24 705
Qualifying shares, class "A", of \$25 each	1 592 975	1 485 275
Class "C", of \$10 each	2 359 400	2 425 760
Class "D", of \$25 each	11 999 600	10 118 825
	\$15 976 680	\$14 054 565
Partially paid		
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	\$ 42 504	\$ 32 735
	\$34 752 044	\$31 918 200

Note 8 — 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 23, 1980, declared, out of earnings from operations of the current year, patronage refunds of \$7 428 000. They resolved that this refund be allocated and paid as follows:

	1979	1978
Cash	\$ 3 031 600	\$ 1 659 500
Preferred shares	2 411 000	1 340 000
Common shares	1 985 400	1 000 500
	\$ 7 428 000	\$ 4 000 000

Redemption of shares — At their same meeting, the Directors also resolved to redeem preferred shares issued in 1970, for an amount of \$1 262 426.

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

	1979	1978
Note 9 — Extraordinary items		
Reduction of income taxes arising from the application of prior years' losses	\$ 1 327 620	\$ 300 752
Gain on property alienated by fire	1 065 531	—
Amortization of the excess of cost of shares in subsidiaries over the net book value at dates of acquisition	(333 311)	(256 381)
	\$ 2 059 840	\$ 44 371

Note 10 — Commitments

- 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 \$900 000.
- The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately \$6 000 000 as at October 31, 1979.

Auditors' Report

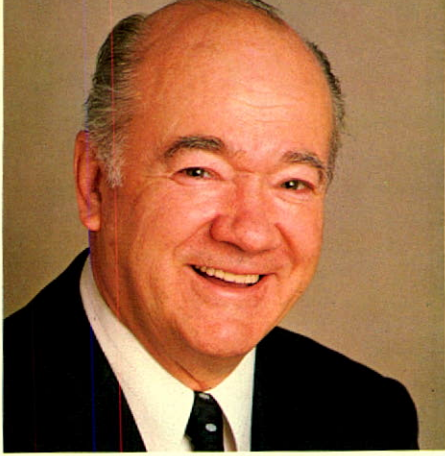
To the members of Coopérative Fédérée de Québec,

We have examined the consolidated balance sheet of Coopérative Fédérée de Québec and its subsidiaries as at October 31, 1979 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, 1979, 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.

Montréal, January 23, 1980.



The Management Report

General conditions in the Canadian farm economy proved quite favourable for several activities of Coopérative Fédérée during the greater part of the 1978-79 financial year. Although prices of some farm products, such as chickens and hogs, began to decline at the beginning of the second half, the good results of the first six months helped to minimize the effects of these deteriorating markets. Corrective action taken promptly in affected sectors also contributed to make this the best year in our Coopérative's history.

Sales totalled \$838.5 million, compared with \$727.6 million the previous year, for an increase of \$110 million, or 15.2%. This is a very satisfactory growth rate, even after taking inflation into account. It allows us to say confidently that Coopérative Fédérée more than held its own in most sectors of its activities.

During the year, gross earnings were better and expenses were held within reasonable limits. As a result, earnings from operations, before complementary payments and special discounts, rose to \$19.5 million from the previous year's \$12.7 million, for a 55% year-to-year increase. Earnings from operations represented 2.34% of sales in 1979, compared with 1.74% the year before.

Although complementary payments and special discounts totalled \$4.7 million, against \$2.6 million in 1977-78, earnings before patronage refunds, income taxes and extraordinary items amounted to \$14.8 million, or 1.7% of sales. This represents a 48.5% increase over the previous year's \$10.1 million, or 1.3% of sales.

Meat Packing Division

Coopérative Fédérée meat packing division comprises three departments: Legrade, Turcotte & Turmel and the Canadian Livestock Co-operative of Quebec and operates three livestock slaughtering and packing plants located at Vallée Jonction, Princeville and Bic. The Canadian Livestock Co-operative acts as a commission agent on the Montreal Public Livestock Yards at the West-End Market.

Sales, at \$152.7 million, were up by 28.8% during the year, but earnings were slightly lower than last year's. Contribution factors were shrinking gross profit margins, along with difficulties encountered at the Princeville plant and the Quebec City operation.

Overall livestock receipts at the three plants increased by 25%, from last year's 706 000 heads to this year's 879 000 heads. Canadian Livestock Co-operative handled 44 000 heads on consignment this year, a 26.8% increase over the 1977-78 total of 35 000. Cattle receipts were down considerably at the Princeville and Vallée Jonction plants, up slightly at the Bic abattoir, but higher by almost 80% at Canadian Livestock Co-operative. Receipts of calves followed the same patterns. This reflects the growing trend, noted over the past few years, of cattle and calves being marketed through auction sales. Fortunately, hog receipts were up by 28%, compensating for the drop in cattle and calves.

Consolidation of all our activities linked with the meat packing industry is being carried out as planned. Decisions are taken at opportune moments to ensure that our human and material resources are used in the most efficient ways possible. We are also co-ordinating policies governing our various operations, particularly marketing.



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
79	19 558

Earnings from Operations
(\$ in thousands)

In contrast with the previous year, the Legrade operations showed a loss this year. The Coopérative has taken two major decisions to correct the causes of these marginal operations. First, a completely new use was found for the Quebec City plant, which has become a distribution centre, complementing the Anjou centre which has been in operation for about a year. Next, the Princeville plant operations will be completely reorganized and streamlined by adding and integrating to this facility a new slaughtering and cutting plant. As well as increasing the total capacity of the Princeville plant, this will also permit a better rationalization of the cutting, curing and packaging operations.

The Turcotte & Turmel plant reported results comparable to those of the previous year. Its lower gross margins were compensated for by a higher volume resulting from the plant's increased capacity. It can now handle 15 000 hogs weekly.

Both Legrade and Turcotte & Turmel are continuing to export to the United States, Japan and other countries. The United States has now become the top foreign market, replacing Japan for the first time in several years. We believe that further efforts aimed at greater diversification of export markets are essential to ensure the continued success of this particular business of the Meat Packing Division.

Poultry Division

The Poultry Division operates four poultry abattoirs at St-Jean-Baptiste, Marieville, Berthierville and St-Félix-de-Valois, a processing facility at Ste-Rosalie, several poultry farms in different regions of Quebec, an egg breaking plant at Upton and a poultry products wholesale operation.

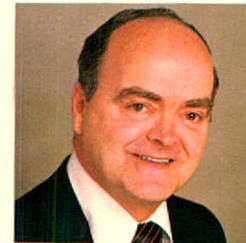
Total sales this year were \$118.6 million, an increase of 9.6% over the previous year's \$108.3 million. Dressed poultry volume was 131.2 million pounds, compared with 131.0 million pounds in 1977-78. Volume would have been considerably higher this year if labour problems had not forced the Division to sell quantities of live poultry to other processors. Even after complementary payments of \$2 041 000 to producers, the Division's earnings were comparable

The Management

16
Louis-Philippe Poulin
Chief Executive Officer



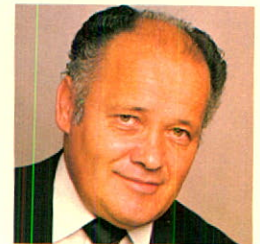
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18
Marcel Gingras
Secretary

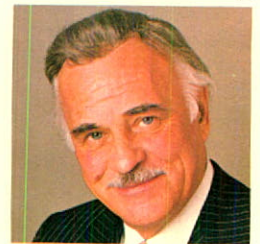
18

20
Gérard Turcotte
Manager
Meat Packing Division



20

22
Philippe Pariseault
Manager
Dairy Division



22



17
Richard Newberry
Treasurer



19
Jean-Paul Cadieux
Manager
Human Resources

21
Émile Cordeau
Manager
Poultry Division



21



23
Maurice Lavallée
Manager
Feeds and Fertilizers
Division

23

with those of the previous year. All subsidiaries reported positive results, with the sole exception of the egg breaking plant which is still experiencing difficulty in obtaining adequate supplies.

Results during the first six months reflected the generally good conditions prevailing in the industry. However, the situation rapidly deteriorated in the Spring, due to an overproduction of broilers in Ontario along with increased imports from the United States. These two factors resulted in the Quebec market being flooded with surplus chickens at prices lower than our production costs. Losses would have been more substantial during the second half except for the strength of the turkey market, which made it possible to achieve final results comparable with those of the preceding financial year.

Fruits and vegetables

This was a less profitable year for the Fruit and Vegetable Department. Dollar sales were down by about 12% and volume lower by some 16.5%. This decreased volume is the result of changes in transportation methods and commercial conditions at Montreal's Central Market. Although its contribution is lower this year, the Department remains profitable and continues to serve producers who believe its facilities are of real use to them.

Dairy Division

The Dairy Division had its best year ever in 1978-79. Total sales of \$238.5 million were just 2% higher, but earnings almost doubled those of the previous year.

During the financial year just ended there were some important changes in the manufacturing of various dairy products, since new market orientations were taken by the dairy co-operatives. Responding to changing export market needs, the Division played a decisive role in directing dairy production into concentrated whole milk products such as evaporated, condensed and powdered. This trend to more diversified manufacturing, undertaken in co-operation with the Canadian Dairy Commission and the regional co-operatives, tend to decrease the output of butter and skim milk powder.

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	33 460
79	38 200

Working Capital
(\$ in thousands)

Coopérative Fédérée this year took an important step designed to strengthen its market presence abroad, to have access to more sources of information and to make export trade agreements under the best possible conditions. To this end, the Coopérative became a shareholder in FRANCEXPA of France, a firm which specializes in marketing food products internationally, and which has connections in most countries around the world. The Division's exports climbed by 85% during the financial year, to reach 47.6 million kilograms, compared with 25.8 million kilograms the previous year. Total sales volume for the Division reached 186.7 million kilograms, for a year-to-year increase of 27%.

Comparing sales, product by product, with those recorded in 1977-78, the following trends emerge: butter sales down 30%; skim milk powder down 17.7%; cheese sales up 47.8%; evaporated milk up 161%; and fluid milk up 173%. Total sales of dairy equipment and supplies were about the same as in the previous year, but earnings were higher. Warehousing operations also produced positive results.

We also wish to emphasize the important role the Division plays in helping to establish dairy policies, by representing the dairy co-operatives in dealings with government agencies and boards, as well as in other sectors of the industry. In these efforts, the Division prepares numerous studies and briefs explaining the problems, objectives and needs of the dairy co-operatives. As always, the Co-operative Dairy Council continues to provide a common meeting ground and springboard for concerted action by the regional dairy co-operatives.

The Co-operative Dairy Council has the extremely important responsibility for drawing up policies advocated by the co-operatives, and for defining the attitudes they will assume within the industry.

Another important step taken by the Division during the year in its efforts to ensure the best possible concerted action among members was the development of an Institutional Relations and Information Department. A further accomplishment was the holding of a Dairy Co-operatives Congress on the theme of close co-operation between all sectors and units.

Agricultural Supplies

The Agricultural Supplies Division comprises three separate and quite different operating departments: Farm Supplies, Farm Implements, Petroleum. Each sector has to be studied individually to fully appreciate how each affects the overall results of the Division. This was definitely a much better year for the Division as a whole, since it moved from a deficit position in 1977-78 to a profit in 1978-79.

Corrective measures taken to set the Farm Supplies Department on the road to recovery, including the reorganization of its operations in a new location, are beginning to take effect. Looking at the improvement this year, we believe that the turnaround has been accomplished and that the situation will continue to improve gradually.

Sales this year totalled \$30.2 million, a 15.8% increase over 1977-78. Sales were higher in all lines carried, except dairy equipment. There was an increase of 25.6% in hardware sales, and a substantial 60.5% increase in the farm supplies section. However, the Department ended the year in a loss position, on a strictly commercial accounting basis, due to various losses and additional costs. These include destruction of inventory by a fire at the Department's largest retail outlet, inventory writedowns on merchandise which will eventually be dropped from regular selling lines, and the implementation of a new volume discount policy.





The Department also continued to contend with serious problems arising from the move to a new location and the rapid expansion of its product lines. There are still some difficulties to overcome and improvements to be made, but on the whole we believe that service to the co-operatives has been greatly improved and that this trend will become even more pronounced.

The Farm Implement Department is extremely sensitive to swings in the farm economy. Its sales depend upon the farmers' perceptions of changing conditions and, as a result, their increased capacity to invest in new farm machinery. While 1978 was not a very good year in that respect, the situation was much different during the year just ended. As a result, farm implement sales increased by 37%, going from \$22.6 million to \$30.8 million.

Sales of all types of farm implements were higher, despite extremely stiff competition. Due to sluggish sales the year before, most dealers were overstocked and had to reduce inventories to more reasonable levels. The Farm Implement Department had to be as competitive as possible, adopting special policies allowing its dealers to win an adequate share of the market. As a result, the Department had a profitable year, substantially better than its performance in the previous twelve months. In fact, it was the best year since 1975-76.

Following two years of deficits, the Petroleum Department returned to a more reassuring earnings level. Supplies were very difficult to obtain throughout the entire year, a situation the public was well aware of through statements by government and industry officials, and widespread news coverage. However, this situation improved gross profit margins for the Department by strengthening retail prices and virtually putting an end to the formerly widespread price wars.

Sales totalled \$83.4 million, an increase of 21.3% over the preceding year. A large part of this dollar growth came mainly from higher prices since volume increased only by 8.3%. Nevertheless, it is worth mentioning that this increased volume came in a year when Quebec as a whole reported a slight decrease of almost 1% in total gasoline and oil consumption.

Finally, it should be noted that the Department was able to report these satisfactory earnings after granting its dealers at year end a price adjustment totalling more than \$200 000.

Feeds and Fertilizers

Once again, all the various activities carried out by the Feeds and Fertilizers Division produced excellent results for the year. Sales increased to \$156.8 million, which was 23.8% better than in the previous year. Net earnings reached a new record high, even after rebates of \$1 577 000 for bulk feed supplements, and \$38 000 for chicks bought from our hatcheries. This Division has grown steadily during the past five years, at both levels of volume and earnings.

Grain Department sales climbed, to a total of \$71.1 million, for a 21.8% increase over 1977-78. Physical volume remained almost the same, however. Sales to co-operatives increased by almost 5%. Grain sales are quite definitely influenced by the quality and quantity of local crops, and during the latest financial year good crops limited the volume growth of grain sales. Nevertheless, net earnings for the year exceeded those of the three previous years, and were much better than last year's.

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
79	7 428

Patronage refunds allocated
(\$ in thousands)

Livestock feeds continue to represent one of the basic business activities of the farm supply co-operatives. During 1978-79, feed volume handled by the Department increased by 14% over the previous year, setting a new record high. Increased hog production and better penetration of the poultry feeds market accounted for most of this growth. Feed sales totalled \$50.6 million for the year, up by 29.3% over 1977-78. Hog feeds provided most of the tonnage increase, but significant increases were also shown in other types of livestock feeds. It should be underlined that the farm co-operative movement has once again improved its market share of dairy feeds, despite the fact that dairy feed sales in Quebec have remained relatively stable during the past four years.

Several improvements were made to the St-Henri and St-Romuald feed mills during the financial year. New and more powerful equipment was installed and warehouse space expanded. These were two important factors in achieving greater efficiency in manufacturing, while improving the textures of livestock feeds produced. Feed Department earnings aptly reflect its steady and dynamic growth, and contribute substantially to the results of the Division and Coopérative Fédérée as a whole.

Sales of livestock health products were up by 45%. This substantial improvement is due to rising hog and poultry production, which increased the use of farm medications. Hatchery Department sales increased by about 26% over the previous year. Broiler chicks sales, which account for about 85% of this increase, were 15% better than last year's. Overall, the Department's results were clearly better this year. Equipment at the two hatcheries was modernized during the year, with a substantial increase in production capacity.

Following three years of losses, the Fertilizer Department moved into a profit position this year. Sales increased by almost 25%, to a total of \$21.8 million, while volume was up by 7.7%. Blender plants and liquid nitrate facilities continue to provide an ever increasing proportion of total tonnage, as they have for the past few years.

Three new blender plants were built during the year, bringing to 24 their number owned by Coopérative Fédérée.

Development of liquid nitrate storage facilities also continued. We are now witnessing a turnaround in fertilizer operations from the situation prevailing over the past few years. This turnaround is all the more interesting since the results do not include any C.F. Industries Inc. patronage refund earned, but not yet received, following a change in that company's financial year end.

The Farm Chemicals Department also had a good year. Sales climbed from \$3.5 million to \$4.6 million, an increase of 32.6% over the previous year. Good weather conditions which prompted wider use of farm chemicals were responsible for much of this increase, along with the opening of distribution centres at Princeville, Chicoutimi and Bic. Higher prices were another important factor. As a result, this Department's contribution was correspondingly higher than in the previous year.

The Seeds Department net results were virtually unchanged from the previous year, although sales increased by 12% to a total of \$5.6 million. This increase is due mainly to a 17% and 10% increase respectively in forage crop and lawn seed sales. While net earnings were about the same as in 1977-78, they were better than those for the three previous years.

While the Napierville grain dryer is still operating at a loss, this year's loss was much lower than that of previous years. Variations in weather conditions have a substantial impact on this plant's operations, and it is also faced with very strong competition.

Financial Situation

Working capital increased by \$4.73 million during the financial year, totalling \$38.2 million at year end. Accounts receivable also increased over the previous year's figure. After deducting advances of some \$15 million to COBEC INC. and COPA INC., receivables represented 9.7% of sales, compared with 9.4% the previous year. However, there were substantial decreases in the ratios of overdue accounts to accounts receivable, and of bad debts to sales. The accounts receivable situation is relatively good, and the reduction of bad debts is the result of vigilant work by our sales and credit people.

While sales were up by 15.2%, inventories increased by 19%. The only departments where inventories decreased during the year were Farm Supplies and Farm Implements. Higher inventory levels were due to special conditions in each individual department or division: the need to maintain ample supplies of raw materials; slow movement of stock as a result of more difficult market conditions; the necessity for a higher than usual inventory of dairy products to ensure delivery at the appropriate time in conformity with schedules agreed upon with purchasers; and so on.

Improving the level of the general reserve in relation to total equity is a foremost objective of the Board of Directors. This year's balance sheet shows a general reserve of \$19.9 million, an increase of \$6.8 million.

Members' equity increased by \$9.7 million and now stands at \$54.7 million. The general reserve now represents 36.5% of total members' equity, compared with 29.2% the year before.

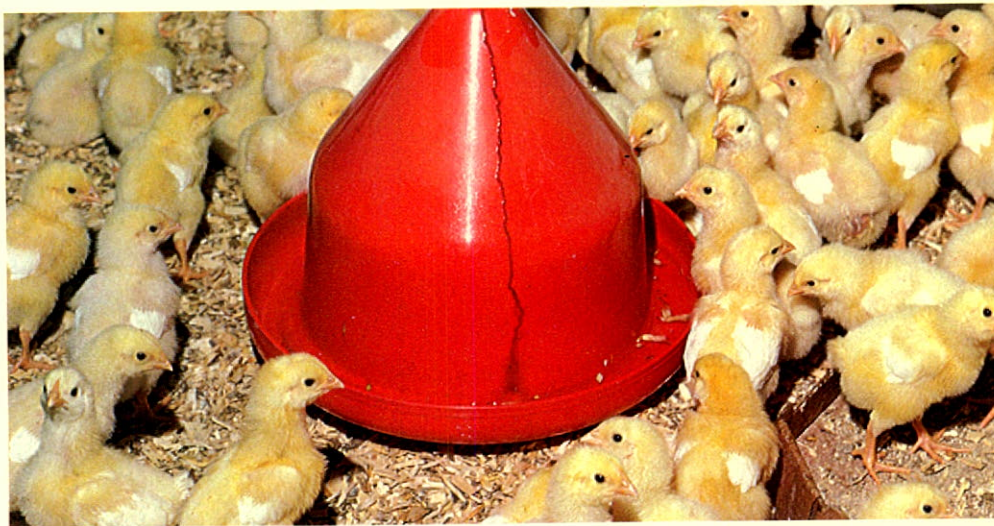


Administrative Departments

The administrative departments provide unfailing support and co-operation for all those in charge of our commercial and industrial operations, as well as for the Board and Executive Committee of Coopérative Fédérée. Their technical and professional functions are not so easily measured as other activities where the results are spelled out in figures. But they are nonetheless vital for the proper functioning and good control of all strictly economic activities.

These administrative departments consist of the following: Secretariat, Treasury, Human Resources, Regional Development and Solicitor. Activities of most of these administrative departments extend beyond the framework of Coopérative Fédérée itself and out to the basic co-operatives. The fact that the co-operatives so regularly avail themselves of our technical services is a source of pride and pleasure for us. It is a measure of greater unity and closer bonds between the two levels of our co-operative movement.

Coopérative Fédérée has just completed a good year, whose results will definitely contribute to its growth and its ability to act with strength in the two great markets it serves: the consumer market and the agricultural supplies market.





Quite obviously all sectors were not as profitable as Management and the Board would have liked. But the overall results lend support to both groups in their constant pursuit of the farm co-operative movement's objectives.

The more than satisfactory profitability of these past twelve months once again proves the value of Coopérative Fédérée's policy of diversification. Certainly, some sectors were unable to achieve the desired profitability level needed to make a positive contribution due to conditions that were not right and, despite the efforts of all management concerned and the earliest possible adoption of measures designed to correct an already bad or deteriorating situation. But other generally more stable or momentarily more favoured sectors compensated for the weaknesses and benefited the entire organization.

Once again, we believe it useful to underline that an analysis of Coopérative Fédérée operations shows how closely the farm co-operative movement depends on changing economic conditions in the agri-food industry sectors in which it is involved, and particularly on the economic situation of agriculture. The perception that farmers have of the short term situation is also keenly felt in our operations.

The ever increasing trend towards government intervention in agriculture and other areas of the agri-food industry, favouring or penalizing one or several sectors of the farm co-operative movement, is another disturbing factor. It complicates planning and forecasting because it is often difficult, if not impossible, to foresee with any accuracy just when and how extensive the impact of any such intervention will be.

Both levels of our movement are deeply involved in this context. Each member co-operative certainly finds itself immersed in the same problems Coopérative Fédérée faces. But it's through the concerted action of Coopérative Fédérée and its members that the farm co-operative movement acquires its special dimension. Together, we have gone far beyond the idea of a solitary enterprise, working just for itself, to achieve the far broader dimension of an economic organization embracing an entire vocation or profession — farming.

By developing this understanding of the necessity for a powerful economic organization, we will certainly succeed in ensuring the farmer a better return for his efforts, and in making the most of all the resources the co-operative movement makes available to him to support his professional activities.

In closing, let's remember that we are all working together towards one common goal, each contributing his or her own individual talents. We wish to extend our sincere thanks to all: the Members, Directors and Managers of the member co-operatives and Coopérative Fédérée alike. Each deserves a share of the praise for this year's excellent results.

Louis-Philippe Poulin,
Chief Executive Officer

