Annual Report
1980

Coopérative
Fédérée
de Québec

# Annual Report 1980

# Coopérative Fédérée de Québec

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## Highlights

| (dollars in thousands) | **1980** | 1979 |
|---|---|---|
| Sales | **$936 086** | $838 520 |
| Wages, salaries and employee benefits | **51 490** | 45 459 |
| Financing costs | **9 396** | 4 925 |
| Earnings from operations | **15 427** | 19 557 |
| Accounts receivable and inventories | **173 350** | 152 315 |
| Current assets | **177 286** | 155 190 |
| Additions to fixed assets | **12 245** | 6 834 |
| Working capital | **39 367** | 38 199 |
| Fixed assets, at cost | **68 209** | 58 565 |
| Fixed assets, net | **36 482** | 29 733 |
| Total assets | **226 736** | 192 762 |
| Long term debt | **24 278** | 19 553 |
| Members' equity | **60 808** | 54 735 |

### Farm operations

*This Annual Report gives you a firsthand look at both the farm supply and the marketing of farm products levels.*


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

# President's report

It is a special pleasure to bring you this report on the year's activities of Coopérative Fédérée de Québec, the first since becoming President. We quite naturally would have liked to underline record achievements, but actually sales only have attained a new peak. Earnings were strongly affected by factors beyond our control, as our Chief Executive Officer will explain in his detailed report.

It will be noted in this report that Coopérative Fédérée, like us farmers, had to struggle against many unfavourable situations during the year. Just as on our farms, and within our member co-operatives, some activities went smoothly while others failed to produce the expected returns, thus causing earnings to drop.

**Our predecessor**

Last February we succeeded Mr. Roland Pigeon as President of Coopérative Fédérée de Québec. Mr. Pigeon had filled this position for the eleven preceding years. It is also worthy of note that he had been a Director without interruption since 1960.

We wish to pay today to Mr. Pigeon a special respect, he richly deserves. Throughout all these years, he has unselfishly devoted his time to the farm co-operative movement, and has spared no effort to spread the co-operative movement's aims to an ever larger group. A single word can sum up all our appreciation for what he has accomplished, and that word, which we offer on behalf of all, is a heartfelt: **thanks, Mr. Pigeon!**

**The Year in Review**

Several major problems were encountered in 1980, particularly by the hog producers. The slack period which began in 1979 extended several months into 1980, and the low prices almost resulted in a tragic situation by the end of Spring. Fortunately for everyone, prices began in mid Summer to improve appreciably.

It would be unfair not to mention here the extremely valuable financial support provided during this crisis by Les Elevages Cobec Inc. This organization, jointly owned by 27 member co-operatives and Coopérative Fédérée, had to invest several million dollars for the sole purpose of protecting the co-operatives, active in hog production, against losses which they would have been unable to support themselves under the conditions prevailing at that time.

This assistance quite literally ensured a great many hog producers to continue earning their living. Les Elevages Cobec Inc., in effect, played the role of an income stabilization board for its co-operative shareholders, while maintaining Quebec hog production at a normal level. Without this unique support of the farm co-operative movement during that crisis, survival of this major Quebec farm production sector would have been seriously in doubt.

The situation was less serious for poultry producers, but problems arose at the processing level, as will be mentioned later by our Chief Executive Officer. Neither was it a good year for beef producers. Elsewhere, production of feed grains and cereals was severely affected by disastrous weather conditions, resulting in poor quality and reduced quantities. Summing up, it can be said that 1980 was quite simply a bad year for farmers and farm organizations.

**Feed Grains**

As it has constantly done, Coopérative Fédérée in concert with the Union des Producteurs Agricoles continued to make representations to the appropriate government authorities to achieve the feed grains policy objective of Quebec farmers. The objectives can be summed up as follows: (a) ensure security of supply; (b) obtain price equity on the Canadian market; and (c) encourage development of local production. Representations were also made in an attempt to solve transportation and storage problems.

**Co-operative Dairy Industry**

The dairy co-operatives continued their efforts to diversify production at their various plants. Highlighting the year's achievements was the opening of the ultra-modern Granby cheese plant of Agropur, coopérative agro-alimentaire. This plant is the most technically advanced of any in Canada's dairy industry. Other co-operatives, including those of the Quebec South Shore and the Lower St. Lawrence have also completed projects, or have them underway, to expand their already impressive dairy processing network.

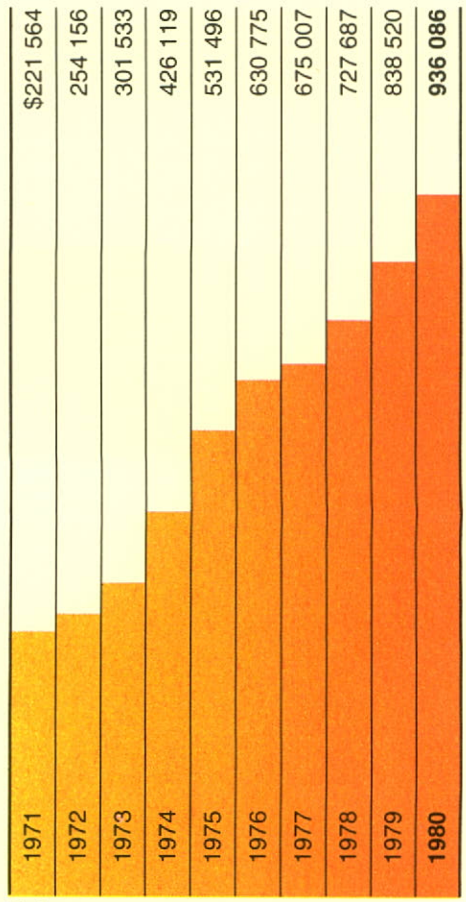
Neither should we forget to praise the excellent work done this past year by the Co-operative Dairy Council, which met seven times. Among other matters, it worked closely with other parties to finalize the agreement signed on December 21, 1979, which aimed at setting up one Milk Marketing Board for Quebec's dairy industry. New agreements were worked out and signed, notably in regard to the Milk Marketing Board and quota regulations.

On October 22, 1980, the Quebec Cabinet approved the establishment of the new Milk Marketing Board (1980). A few days later, on November 6, the Régie des Marchés Agricoles du Québec (Quebec Farm Marketing Board), issued an Order, setting December 3, 1980, as the date when the Milk Marketing Board would come into effect. The "Comité de concertation des associations de producteurs" (The Advisory Committee of the associations of Milk Producers), set up under the Board's November 6th Order, has since held its first meeting. The excellent climate which prevailed on this occasion augurs well for the future.

"Communication" was the theme of the second Co-operative Dairy Industry Congress held in Montreal last October. It was attended by some 200 directors and managers from the dairy co-operatives. Several prominent speakers stressed the need to maintain, and even improve, the legitimate image of co-operatives among member-owners, employees, and the public in general. The success achieved by this laudable initiative for the second year in a row leads us to believe that we shall be attending many more Co-operative Dairy Industry Congresses in the years ahead.

**Socio-economic Conferences**

The President, in our 1979 Annual Report, referred to the participation by the farm co-operative movement in socio-economic conferences on the agri-food industry. These covered such varied topics as the grain industry, beef cattle, and poultry, all of which were dealt with during conferences held in November 1979. The horticultural industry had its turn in February 1980, followed by the dairy industry conference in March. The farm co-operative movement was able to express its views in each case, and we have reason to believe that our suggestions were well received by the government authorities who attended.




**Sales**
($ in thousands)

## *Board of Directors*

The Co-operative Summit Meeting held in February 1980 permitted representatives of all sectors of Quebec's co-operative movement to sit down at the same table for the first time. Following numerous requests from delegates during this Conference, the Government has taken certain required measures. Among those taken, let us mention: the setting up of liaison services for co-operatives in the Departments concerned with economics; procedures aimed at facilitating and speeding up incorporation and startup of new co-operatives; revision of legislation affecting the co-operative movement, including the Co-operative Agricultural Society Act; and a plan for technical support and assistance for training and information programmes, etc...

*L. to r.*
*Top: Michel Lemire, 2nd Vice-President; Jean-Charles Mercier; Paul Massicotte; Alphonse-Roger Pelletier, 1st Vice-President; Paul-Émile St-Pierre, President, all members of the Executive Committee.*

*Centre: Georges Lévesque, Joseph Leblanc, Bruno Beaulieu and Clément Houle. Roger Bilodeau was absent when photo taken.*

*Bottom: Léopold Harvey, Léon Brisebois, Jean-Marie Moreau, Paul Dessureault and Roland Pigeon.*

## *Supplying the farmer's needs*

*During the past financial year the farm supply divisions and departments organized marketing campaigns. Shown below: Farm Implements Department, Feed and Fertilizers Division, Farm Supplies Department and Petroleum Department.*

ACTION '80

gâchète CO-OP

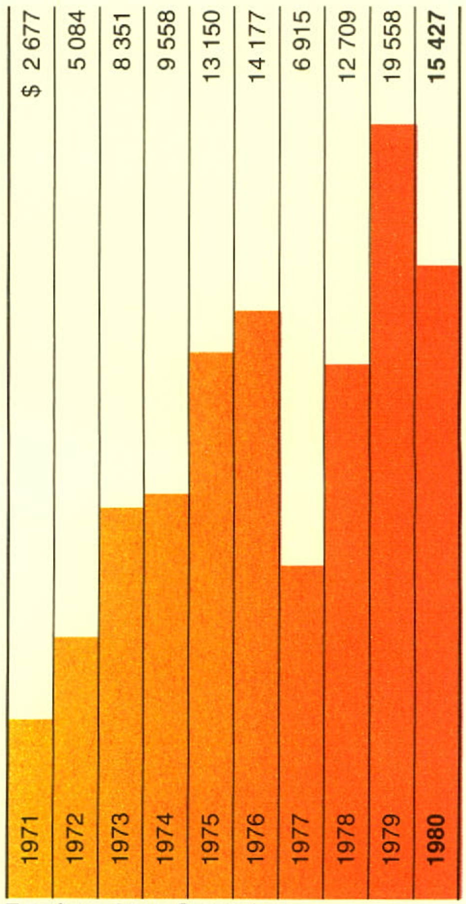
L'IMAGE CO-OP ON S'EN OCCUPE

Sonic CO-OP PREND SOIN DE VOUS

**Two notable events**

Last Fall we were privileged to preside at two events which will have important consequences in the operations of Coopérative Fédérée in the coming years. The first one, on September 24 last, accompanied by the Mayor of Joliette, we turned the first sod marking the start of construction on a new feedmill in that city. Costs estimated at $5.6 million, this plant's primary role will be to serve the retail needs of farmers in the region for complete dairy, hog and poultry feeds. It will also supply sister co-operatives in the region with certain livestock feeds they are unable to produce themselves. Finally, it will wholesale to our 20 member co-operatives of the St.Lawrence North Shore, feed concentrates, premixes, mineral concentrates and livestock health products.

A few weeks later, on October 31, the new Coopérative Fédérée abattoir in Princeville was officially opened. Guests of honour included Quebec's Minister of Agriculture, Fisheries and Food, along with local municipal authorities. Built at a cost of $4.7 million, the new plant expands the already impressive facilities of our Meat Packing Division, which include two livestock slaughtering and packing plants at Vallée Jonction and at Bic; a meat curing and processing plant at Princeville; distribution centres at Quebec City and Ville d'Anjou; and a sales office in Toronto. The opening of our new Princeville abattoir and start of construction on the Joliette feedmill provide tangible proof of Coopérative Fédérée's desire to ensure the co-operative farmers with improved services in these two sectors. Your Federation must constantly build and keep moving ahead, if it is to maintain, and even improve, the position it now occupies in Quebec's agri-food industry.

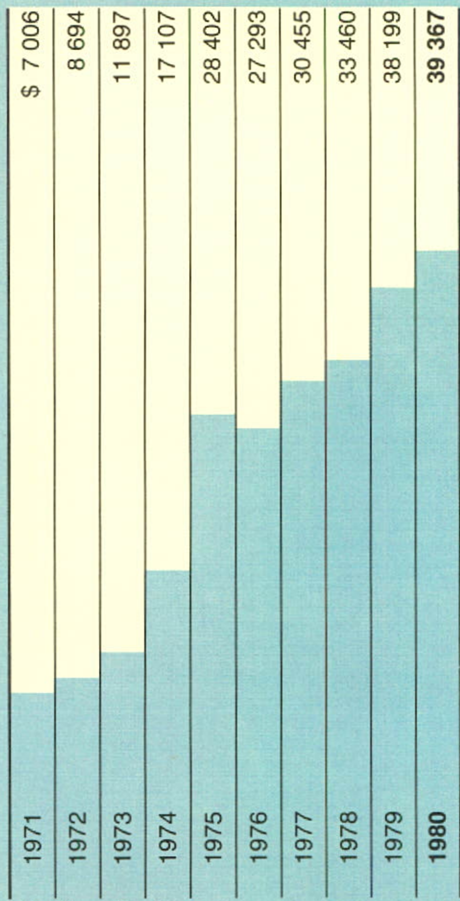



**Earnings from Operations**
($ in thousands)

**Relations with farm union**

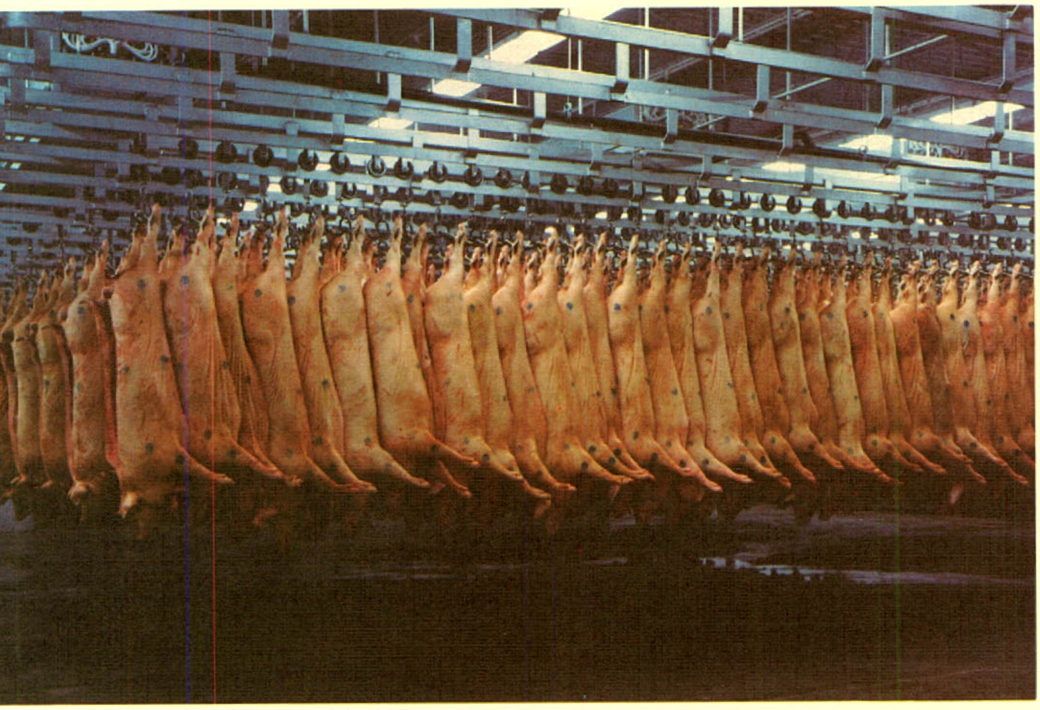
This past year was a fruitful one for meetings between representatives of the co-operative movement and the farm union. As proof, let us recall the discussions and agreements reached in the dairy sector, as well as various other meetings dealing with problems concerning hog production, the feed grains policy, and other matters. The outstanding event, in our mind, was the formation of the "Commission professionnelle de l'Agriculture" (Professional Commission on Agriculture), with the general objective of unifying the actions of the farm union and the farm co-operative movement.

By attacking the problems at their grass-roots, the new Commission should help both sides avoid the confrontations which are always harmful for the farm community. As we stated openly during the year, we have high hopes that the setting up of this joint organization for dialogue, reflexion and research will achieve the desired general aims. Those with the greatest stake in all this, the farmers themselves, will surely concur in that wish.




**Working Capital**
($ in thousands)

*The new abattoir at Princeville.*



*Partial view of the hog carcass chilling room at the new Princeville abattoir.*

**Unquestioned solidarity**

Our member co-operatives have long displayed an exemplary sentiment of solidarity towards Coopérative Fédérée. This solidarity is rarely if ever questioned, least of all in 1980. In this regard, we wish to make special reference to the positive attitude adopted by our co-operatives after the tragic accident at the St-Henri feedmill on January 25, 1980. Although production of concentrates, premixes and minerals was interrupted as a result, our member co-operatives accepted with good grace the inconveniences caused by having to change their supply procedures.

This was certainly not an easy task for them. But it did once again show the strength of our movement, proving that solidarity is never a rare commodity among us. All our member co-operatives deserve our admiration and sincere thanks for the way they handled this situation.

In closing, we wish to thank all our colleagues on the Board of Directors for their excellent work during this past year. Since our last Annual Meeting, your Board met twelve times, while the Executive Committee met on thirteen occasions. We also want to express our warm appreciation to Management and Staff for their loyal support in helping ensure the smooth operation of Coopérative Fédérée and their invaluable contribution in meeting the growing needs of our owner-users.

Paul-Emile St-Pierre
President

## *Meat products*

*Pork in its many varieties is a perennial favourite on consumers' tables.*

## Consolidated Statement of Earnings

for the year ended October 31, 1980

| | 1980 | 1979 |
|---|---|---|
| **Sales** | **$936 086 658** | $838 520 648 |
| **Cost and expenses** | | |
| Cost of goods sold | **$818 624 872** | $730 775 460 |
| Wages, salaries and employee benefits | **51 490 108** | 45 459 545 |
| Other operating expenses | **13 330 455** | 12 077 793 |
| Distribution and selling expenses | **18 790 918** | 16 835 504 |
| General administrative expenses | **4 405 738** | 4 392 214 |
| Interest on long term debt | **2 420 750** | 2 428 061 |
| Other financial expenses | **6 975 277** | 2 496 743 |
| Depreciation | **4 621 363** | 4 497 820 |
| | **$920 659 481** | $818 963 140 |
| **Earnings from operations** before complementary payments, discounts, extraordinary items, patronage refunds and income taxes | **$ 15 427 177** | $ 19 557 508 |
| Complementary payments and discounts | **3 285 293** | 4 691 808 |
| **Earnings** before extraordinary items, patronage refunds and income taxes | **$ 12 141 884** | $ 14 865 700 |
| Extraordinary items (note 10) | **396 577** | 2 059 840 |
| **Earnings** before patronage refunds and income taxes | **$ 12 538 461** | $ 16 925 540 |
| **Use of earnings** | | |
| Patronage refunds (note 9) | | |
| Cash | **$ 2 400 000** | $ 3 031 600 |
| Preferred shares | **1 878 600** | 2 411 000 |
| Common shares | **1 721 400** | 1 985 400 |
| | **$ 6 000 000** | $ 7 428 000 |
| Income taxes | **1 764 158** | 2 681 672 |
| Net earnings for the year | **4 774 303** | 6 815 868 |
| | **$ 12 538 461** | $ 16 925 540 |

## Consolidated Statement of General Reserve

for the year ended October 31, 1980

| | | |
|---|---|---|
| **Balance at beginning of year** | **$ 19 983 332** | $ 13 167 464 |
| Net earnings | **4 774 303** | 6 815 868 |
| **Balance at end of year** | **$ 24 757 635** | $ 19 983 332 |

## Consolidated Balance Sheet
as at October 31, 1980

| **Assets** | **1980** | 1979 |
|---|---|---|
| **Current** | | |
| Accounts receivable | **$ 96 084 946** | $ 93 775 332 |
| Inventories | **77 265 846** | 58 539 619 |
| Prepaid expenses | **3 570 839** | 2 643 147 |
| Investments — current portion | **364 470** | 231 937 |
| | **$177 286 101** | $155 190 035 |
| **Deferred accounts receivable** | **$ 684 752** | $ 715 192 |
| **Investments** (note 3) | **$ 10 243 683** | $ 4 967 227 |
| **Fixed assets** (note 4) | | |
| Land, buildings, machinery and equipment, automotive equipment, at cost | **$ 68 208 738** | $ 58 565 595 |
| Accumulated depreciation | **31 727 577** | 28 832 709 |
| | **$ 36 481 161** | $ 29 732 886 |
| **Other assets** (note 5) | **$ 2 040 293** | $ 2 156 790 |
| | **$226 735 990** | $192 762 130 |

Approved by the Board

Paul-Emile St-Pierre, Director
Alphonse-Roger Pelletier, Director

Montreal, January 21, 1981.

| Liabilities and members' equity | 1980 | 1979 |
|---|---|---|
| **Current** | | |
| Outstanding cheques, less cash | **$ 4 879 386** | $ 5 548 828 |
| Bank loans (note 6) | **24 842 000** | 9 636 000 |
| Accounts payable and accrued liabilities | **55 499 712** | 46 029 063 |
| Short term notes | **44 545 200** | 44 260 566 |
| Patronage refunds (note 9) | **2 400 000** | 3 031 600 |
| Redemption of capital stock (note 9) | **1 534 058** | 1 262 426 |
| Income taxes | **1 498 995** | 2 634 804 |
| Current portion of long term debt | **2 719 968** | 4 587 347 |
| | **$137 919 319** | $116 990 634 |
| **Deferred income taxes** | **$ 3 730 344** | $ 1 482 893 |
| **Long term debt** (note 7) | **$ 24 277 923** | $ 19 553 227 |
| **Members' equity** | | |
| Capital stock (notes 8 and 9) | **$ 36 050 769** | $ 34 752 044 |
| General reserve | **24 757 635** | 19 983 332 |
| | **$ 60 808 404** | $ 54 735 376 |
| | **$226 735 990** | $192 762 130 |

**Commitments** (note 11)

## Consolidated Statement of Changes in Financial Position
as at October 31, 1980

| | 1980 | 1979 |
|---|---|---|
| **Source of funds** | | |
| Funds derived from operations | | |
| Net earnings | **$ 4 774 303** | $ 6 815 868 |
| Charges to operations not affecting working capital | **5 321 720** | 3 383 898 |
| | **$ 10 096 023** | $ 10 199 766 |
| Decrease (increase) in deferred accounts receivable | **30 440** | (354 229) |
| Redemption of investments | **605 539** | 464 202 |
| Proceeds on disposal of fixed assets | **3 569 253** | 2 678 852 |
| Long term debt | **8 071 664** | 2 029 406 |
| Issue of shares | **3 755 387** | 4 517 316 |
| | **$ 26 128 306** | $ 19 535 313 |
| **Application of funds** | | |
| Purchase of investments | **$ 5 881 995** | $ 1 105 945 |
| Additions to fixed assets | **12 245 310** | 6 834 545 |
| Production licenses and rights | **1 029 990** | 128 728 |
| Reduction of long term debt | **3 346 968** | 5 044 200 |
| Redemption of shares | **2 456 662** | 1 683 472 |
| | **$ 24 960 925** | $ 14 796 890 |
| **Increase in working capital** | **$ 1 167 381** | $ 4 738 423 |
| **Working capital at beginning of year** | **38 199 401** | 33 460 978 |
| **Working capital at end of year** | **$ 39 366 782** | $ 38 199 401 |

# Notes to Consolidated Financial Statements

as at October 31, 1980

## 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
- 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.

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 lower of cost or net realizable value.

**Investments** — All investments are accounted for at cost.

**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.

**Production licenses and rights** — The production licenses and rights 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.

**Deferred income taxes** — The deferment of income taxes results mainly from timing differences between the recognition of depreciation for tax and for accounting purposes.

## Note 2 — Change in accounting policy

In prior years, the excess of the cost of shares in subsidiaries over the net book value at dates of acquisition was amortized on a straight-line basis over a period of ten years. In the year ended on October 31, 1980, the unamortized balance of $868 728 was charged to operations. If this change had not occurred and the amortization had been taken as in prior years, the net earnings for the year and the general reserve would have been higher by $610 889.

## Note 3 — Investments, at cost

| | Current portion | 1980 | 1979 |
|---|---|---|---|
| Corporate shares | $ — | **$ 7 943 395** | $ 2 722 966 |
| Mortgages | 59 012 | **474 563** | 214 516 |
| Term notes | 305 458 | **2 190 195** | 2 261 682 |
| | $ 364 470 | **$10 608 153** | $ 5 199 164 |
| Current portion | | **364 470** | 231 937 |
| | | **$10 243 683** | $ 4 967 227 |

## Note 4 — Fixed assets

| | 1980 | | 1979 | |
|---|---|---|---|---|
| | **Cost** | **Net book value** | Cost | Net book value |
| Land and land improvements | **$ 2 873 590** | **$ 2 740 980** | $ 2 616 657 | $ 2 508 131 |
| Buildings | **25 314 587** | **17 024 055** | 21 812 792 | 13 867 645 |
| Machinery and equipment | **29 820 394** | **12 518 826** | 24 866 184 | 9 330 022 |
| Automotive equipment | **10 200 167** | **4 197 300** | 9 269 962 | 4 027 088 |
| | **$68 208 738** | **$36 481 161** | $58 565 595 | $29 732 886 |

## Note 5 — Other assets

| | 1980 | 1979 |
|---|---|---|
| Goodwill | **$ 1** | $ 1 |
| Production licenses and rights, unamortized cost | **1 940 395** | 1 167 301 |
| Deferred expenses | **99 897** | 120 760 |
| Unamortized excess of cost of shares in subsidiaries over net book value at dates of acquisition | **—** | 868 728 |
| | **$ 2 040 293** | $ 2 156 790 |

## Note 6 — Bank loans

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

## Note 7 — Long term debt

| | Current portion | 1980 | 1979 |
|---|---|---|---|
| **Coopérative Fédérée de Québec** | | | |
| Debentures, series "D", 9⅜%, 9⅞%, 1981-85 | $ 345 300 | **$ 1 345 300** | $ 2 256 700 |
| Debentures, series "F", 10%, 1981-86 | 1 000 000 | **2 898 300** | 4 979 300 |
| Debentures, series "G", 10%, 1981-87 | 937 800 | **3 530 800** | 3 771 000 |
| Debentures, series "H", 9½%, 10%, 1983-88 | — | **3 669 000** | 3 927 400 |
| Debentures, series "J", 10¾%, 1983-89 | — | **1 963 500** | 1 999 500 |
| Debentures, series "K", floating rate, 1989 | — | **3 000 000** | — |
| Bonds, 9.9%, 11½%, 1981 | 41 400 | **48 300** | 92 700 |
| Bonds, 13%, 13¼%, 1980 | — | **—** | 1 252 475 |
| Bonds, 7½%, 1981-82 | 30 000 | **65 000** | — |
| Term notes, floating rate, 1986 | — | **5 000 000** | — |
| Other | 44 059 | **277 986** | 283 235 |
| | $ 2 398 559 | **$21 798 186** | $18 562 310 |
| **Eastern Abattoirs Limited** | | | |
| Bonds, 7½%, 1981-87 | $ 75 000 | **$ 525 000** | $ 600 000 |
| **Bexel (1979) Inc. and its subsidiaries** | | | |
| Bonds, 8⅞%, 1981-93 | $ 111 000 | **$ 2 505 000** | $ 2 607 000 |
| Debentures, 9%, 1984-85 | — | **1 800 000** | 1 800 000 |
| Mortgages, 6% to 10%, 1981-84 | 44 167 | **169 005** | 222 892 |
| Term notes, 8% and 9%, 1981-82 | 59 700 | **116 700** | 176 400 |
| Other | 31 542 | **84 000** | 76 972 |
| | $ 246 409 | **$ 4 674 705** | $ 4 883 264 |
| **Les Engrais Laprairie Limitée** | | | |
| Bonds, 7½%, 1980-82 | $ — | **$ —** | $ 95 000 |
| | $ 2 719 968 | **$26 997 891** | $24 140 574 |
| Current portion | | **2 719 968** | 4 587 347 |
| | | **$24 277 923** | $19 553 227 |

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:

1981 — $2 719 968; 1983 — $4 357 946; 1985 — $2 169 646.
1982 — $1 696 367; 1984 — $2 183 542;

## 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 inasmuch as the provisions of the trust deeds are complied with. They may be reissued.

| | 1980 | 1979 |
|---|---|---|
| **Preferred shares of $10 each** | | |
| 1971 series, redeemable at the latest in 1986 | **$ —** | $ 1 290 820 |
| 1972 series, redeemable at the latest in 1987 | **1 781 110** | 1 847 180 |
| 1973 series, redeemable at no set date | **7 880** | 7 880 |
| 1974 series, redeemable at the latest in 1984 | **2 409 750** | 2 489 630 |
| 1975 series, redeemable at the latest in 1985 | **2 423 420** | 2 487 190 |
| 1976 series, redeemable at the latest in 1986 | **2 030 800** | 2 375 430 |
| 1977 series, redeemable at the latest in 1987 | **3 357 080** | 3 455 850 |
| 1978 series, redeemable at the latest in 1988 | **1 030 230** | 1 052 830 |
| 1979 series, redeemable at the latest in 1989 | **1 294 120** | 1 315 050 |
| 1980 series, redeemable at the latest in 1990 | **2 393 710** | 2 411 000 |
| 1981 series, redeemable at the latest in 1991 | **1 878 600** | — |
| | **$18 606 700** | $18 732 860 |
| **Common shares** | | |
| Qualifying shares of $10 or $25 each, convertible in preferred shares | **$ 24 695** | $ 24 705 |
| Qualifying shares, class "A", of $25 each | **1 666 150** | 1 592 975 |
| Class "C", of $10 each | **2 271 820** | 2 359 400 |
| Class "D", of $25 each | **13 435 750** | 11 999 600 |
| | **$17 398 415** | $15 976 680 |
| **Partially paid** | | |
| A balance resulting from the allocation of non-assessable preferred and common shares in payment of patronage refunds remains credited to members as the individual amounts allocated do not equal the par value of these shares | **$ 45 654** | $ 42 504 |
| | **$36 050 769** | $34 752 044 |

## 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 21, 1981, declared, out of earnings from operations of the current year, patronage refunds of $6 000 000. They resolved that this refund be allocated and paid as follows:

| | 1980 | 1979 |
|---|---|---|
| Cash | **$ 2 400 000** | $ 3 031 600 |
| Preferred shares | **1 878 600** | 2 411 000 |
| Common shares | **1 721 400** | 1 985 400 |
| | **$ 6 000 000** | $ 7 428 000 |

**Redemption of shares** — At the same meeting, the Directors also resolved to redeem preferred shares for an amount of $1 534 058.

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

## Note 10 — Extraordinary items

| | 1980 | 1979 |
|---|---|---|
| Reduction of income taxes arising from the application of prior years' losses | **$ —** | $ 1 327 620 |
| Gain on indemnities on properties destroyed | **1 265 305** | 1 065 531 |
| Amortization of the excess of cost of shares in subsidiaries over the net book value at dates of acquisition (note 2) | **(868 728)** | (333 311) |
| | **$ 396 577** | $ 2 059 840 |

## 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 $650 000.

b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately $7 000 000 as at October 31, 1980.

c) Actuarial expertise, following modifications to the pension plan during the year, indicates an unfunded past service pension liability estimated at $2 800 446 as at October 31, 1980. This amount will be charged off to earnings over a period not exceeding eight years.

## Auditors' Report

To the members of Coopérative Fédérée de Québec,

We have examined the consolidated balance sheet of Coopérative Fédérée de Québec and its subsidiaries as at October 31, 1980 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, 1980, 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, except for the change mentioned in note 2.

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

Montreal, January 21, 1981.

# The management report

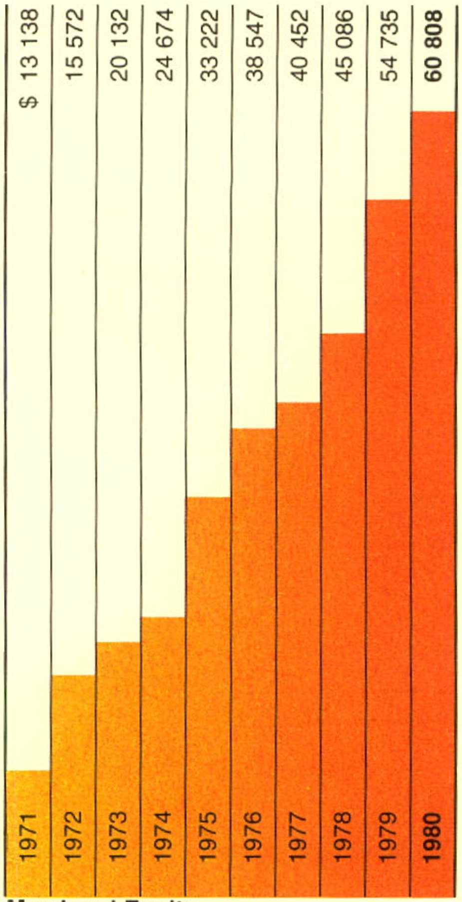
The 1979-80 financial year results reflect agricultural economic conditions and the financing cost situation that prevailed. Earnings were seriously affected by problems in the meat industry, higher interest rates increasing operating expenses and a major accident at the Montreal feedmill. Results in some sectors partially offsetted these negative factors, but not enough to make this year as profitable as the previous one.

Sales reached $936.1 million, compared with $838.5 million in 1978-79, an increase of $97.6 million, or 11.6%. This slight increase shows the effect of strong competition in the procurement of hog and poultry as well as in sales of various farm inputs.

Gross earnings were 9% higher than a year ago, but down slightly in relation to sales, from 12.8% to 12.6%. This is due to lower profit margins in some major sectors, notably in the red and white meats sectors. Total expenses rose by 16% during the year. Operating, distribution, administrative and depreciation costs increased at rates varying from 9.1% to 11%. This seems reasonable in view of inflation, but financing costs leaped by a spectacular 90.4%.

Earnings from operations totalled $15.4 million, a drop of $4.2 million or 21.4% from last year's $19.6 million. They represent 1.63% of sales, against 2.34% in 1978-79. Out of these earnings, member co-operatives received $3.3 million in complementary payments and special discounts.

Earnings before income taxes and extraordinary items at $12.1 million represent 1.28% of sales, in comparison with $14.9 million, or 1.78% of sales, in 1978-79, a decline of $2.8 million or 18.9%. When you consider that financing costs were $4.5 million higher than in the previous year, the strong impact of high interest rates on profitability can easily be realized.




**Members' Equity**
($ in thousands)

## *Management*

*L. to r.*
*Top: Richard Newberry, Treasurer; Émile Cordeau, Manager, Poultry Division; Gérard Turcotte, Manager, Meat Packing Division; Louis-Philippe Poulin, Chief Executive Officer.*

*Bottom: Philippe Pariseault, Manager, Dairy Division; Maurice Lavallée, Manager, Feeds and Fertilizers Division; Marcel Gingras, Secretary; Jean-Paul Cadieux, Manager, Human Resources.*

**Meat Packing Division**

The Meat Packing Division comprises three departments: Legrade, Turcotte & Turmel, and the Canadian Livestock Co-operative of Quebec. It operates three livestock slaughtering and packing plants located at Princeville, Vallée-Jonction and Bic. The Canadian Livestock Co-operative acts as a commission agent.

Hog prices began dropping around mid-June 1979, The repercussions were soon felt on gross margins. Combined with steadily rising costs, these lower prices seriously affected the profitability of the Meat Packing Division.

As a result, while volume rose by 21.1%, sales in dollar terms were down by 0.5% at $151.9 million for the year. Volume of cured and packaged products was 10.2% higher and exports were up by about 20% over last year, as the Division continued its efforts to diversify export markets.

Livestock receipts at the three plants passed the one million mark for the first time in our history. They rose from 879,000 to 1,061,000 heads during the year. There was a continuation of the trend noted over the past few years as cattle receipts were down by 4.9% and receipts of calves by 11.9% at all three plants. Hog receipts rose from 863,000 to 1,050,000 heads, corresponding closely to the increase in hog production in Quebec.

The new slaughtering and packing plant at Princeville was officially opened on October 31, considerably increasing the Co-operative's production capacity. We are now able to handle an additional 10,000 hogs weekly, for an optimal total slaughtering and processing capacity of 1.5 million hogs annually.

Even though Turcotte & Turmel and Canadian Livestock Co-operative showed savings, losses at Legrade resulted in negative operating results for the Division as a whole. The integration of the meat packing operations is being carried out rapidly to help improve the profitability of the various plants. Although conditions in the industry were unfavourable during the year just ended, we should not minimize the real difficulties experienced in the Princeville plant. The new abattoir is a first step in solving the problem. The second phase, reorganization of the curing and processing operations, is now underway.

The Meat Packing Division has just come through the most difficult twelve months in the past four years. It is hoped that the upturn will be sufficiently dynamic to re-establish a suitable level of profitability.

**Poultry Division**

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

Sales for the twelve months totalled $116 million, down by 2.2% from last year's $118.6 million, but volume was appreciably higher. After two previous good years, the Division ended the year with a loss.

The Division had its most difficult twelve months in the past five years. The first clouds appeared on the horizon at the beginning of Summer 1979, and persisted until last August. The two main causes for this market deterioration were the general price structure for meats, along with excessively high production of birds.

Product demand is holding up well, however. DIND-O-JUS turkey is becoming increasingly popular, and we are confident that before long this product will occupy the top market position it deserves. The Division's major marketing initiative during the year was the introduction of a new product: individually wrapped, deep-frozen poultry parts. Consumer reception was good, which augurs well for the future.

**Fruits and Vegetables**

This was a better year for the Fruit and Vegetable Department than the previous one. Sales were lower, but so were expenses. Its net earnings were quite satisfactory in relation to the size of the operation.

**Dairy Division**

Dairy Division sales totalled $276.7 million, up by 16% over the previous year's $238.5 million. This was the largest annual increase for the Division in recent years, as a result of a greater diversification, higher volume, and expanded markets.

The Dairy co-operatives began diversifying their production three or four years ago, when they established new market orientations. Added emphasis was placed on the manufacturing of evaporated milk, whole milk powder and cheese, with the aim of establishing a better balance between butter and skim milk powder production and other dairy products. This relatively recent orientation encourages the opening up of new markets, hones up the dairy co-operative's marketing tools, and eases the burden of price supports for surplus dairy products.

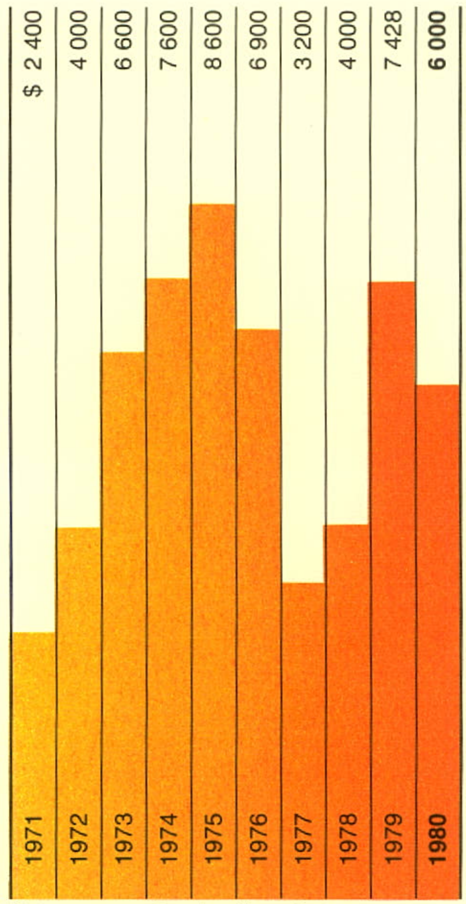
Three new dairy processing plants have been opened by the co-operative movement in the past two years, with the financial assistance of the federal and provincial governments. The Canadian Dairy Commission has provided invaluable aid on both levels of manufacturing and marketing.

Sales of dairy equipment, supplies and packaging materials increased by almost 30% over last year, resulting in a positive contribution. Storage operations contributed in about the same measure as during the previous year.

The Division's overall contribution reached a new high, in line with the year's record sales. Furthermore, if we analyze the annual net earnings over the last five-year period we note a steady and substantial growth year after year.

Management and staff devote considerable effort to their important tasks of establishing dairy policies and representing the dairy co-operatives and their members. The Co-operative Dairy Council continues to play a vigorous role in drawing up and co-ordinating policies for the dairy co-operative movement.

At the beginning of the financial year, the Division worked with the dairy co-operatives to set up a new Technical Department, into which was integrated the previous mechanical and construction advisory service. Its purpose is to study and solve problems arising during manufacture and storage of products. The numerous requests already received and acted on prove that this Department is filling a real need.




**Patronage refunds allocated**
($ in thousands)

**Dairy products**
*Cheeses of every variety manufactured by our co-operatives are becoming ever more popular.*

The steady growth and the concerted actions taken demonstrate the unity of purpose that can bring tangible results to all producer-members of the co-operatives. From the programme launched some twenty years ago, and still going strong, that seems the best achievement of all.

**Feeds and Fertilizers**

As always, the various activities carried out by the Feeds and Fertilizers Division have produced excellent results during the year. Sales reached $188.5 million, which was 20.2% better than the previous year's figure. Although there were volume increases for some products, such as feed concentrates, the higher dollar value this year was due to generally inflated prices, especially the steep rise in prices of grains and fertilizers.

Net earnings were below last year's record level, but if it had not been for the St-Henri accident, the Division would certainly have surpassed that record this year.

Grain Department sales rose by 25%, due mainly to price increases of more than 15%. As a result of the very stiff competition encountered in the first half of the financial year, net earnings dropped below last year's, despite a satisfactory increase in physical volume.

Livestock feeds continue to represent one of the basic business activities of the farm supply co-operatives. Feed sales totalled $57.2 million for the year, an increase of 13% over 1978-79. Much of this came from increased sales of hog feeds and better penetration of the dairy feeds market. Poultry feed sales were up only slightly overall, even though a strong gain in sales of feeds for laying hens was registered. Once again, dairy feeds account for the improved market share.

Some major improvements were made to the St-Henri and St-Romuald feedmills during the 1978-79 financial year. The subsequent explosion at the St-Henri plant in Montreal taxed the capacity of the St-Romuald mill to the limit. An agreement was reached with Coopérative Agricole de la Côte Sud for the use of its St-Philippe-de-Néri mill. Thanks to that arrangement, to the determined efforts of the Department's personnel and St-Romuald employees and to the collaboration of the co-operatives, we were able to increase production sufficiently to meet our needs. With the exception of mineral concentrates and micro-premixes, the necessary volume of concentrates and feeds was manufactured within the co-operative organizations.

Under the extremely difficult circumstances it had to face, it is more than reassuring to note that the farm co-operative movement through concerted action at both levels, more than maintained its strong share of the livestock and poultry feed markets.

The accident at St-Henri had a serious impact on the Feed Department's net earnings, which were the lowest since 1976. It should be pointed out, however, that the co-operatives received $1,950,000 in rebates for bulk feed concentrates. The year before they had received $1,577,000.

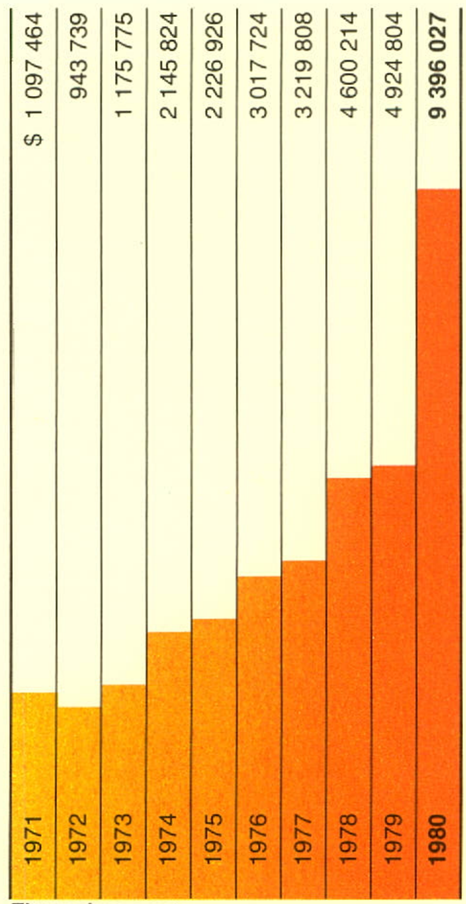
Sales of livestock health products were up by 36.8% in dollar terms, while physical volume rose by 26%.

Hatchery Department sales remained at about the same level as last year. Independent poultry producers feeding Co-op now provide 99.4% of our needs in eggs for broiler chicks. This year's Hatchery Department contribution to the Division's earnings is the best in its history.

Fertilizer Department sales totalled $26.8 million, a 23% increase over the previous year, although physical volume was lower. But, as this drop in volume was less than the general decline in fertilizer usage in Quebec during the same period, our market share improved slightly.

Blending plants and liquid nitrate facilities continue to provide an ever increasing proportion of total volume. Four new blending plants were built during the year, bringing the total to 32, of which six are owned by member co-operatives.

After a few difficult years, the Fertilizer Department has shown earnings these last two years. This swing to profitability must be attributed more to patronage refunds paid by C.F. Industries Inc., than to income from product distribution. The Department must maintain large inventories of basic ingredients over the off-season, to eliminate supply uncertainties.




**Financing costs**
($ in thousands)

**Poultry products**

*Oven roasted turkey breast will not take long to catch on with consumers.*

The Farm Chemicals Department continues to grow at an interesting pace. Difficult weather conditions during the year failed to hamper sales, which were up by 30% to a new record, with volume increasing by about 10%.

Although Seeds Department sales rose by about 12%, results were the poorest in the past five years. The increase is due mainly to inflated prices. While grain and corn seed sales increased, those of forage crop seeds showed a marked drop. This has been an especially difficult year for the Seeds Department, as reflected in its earnings.

**Agricultural Supplies**

The Agricultural Supplies Division comprises three separate operating departments: Farm Supplies, Farm Implements, Petroleum. The Division reported record results this year, with Farm Implements making a contribution equal to last year's, Petroleum showing a substantial increase in earnings while Farm Supplies almost reached the break-even point.

Farm Supplies sales totalled $35.2 million, for an increase of almost 17% over last year, resulting from both higher volume and higher prices. Sales increases were reported for dairy equipment, farm supplies, building materials, automotive and plumbing supplies. There were sales declines in hardware and electrical supplies.

Last year, we reported that corrective measures taken to improve this Department's profitability had begun to show good results. After several difficult years, the Farm Supplies Department now seems to have reached its turning point.

Today, the Department is able to offer the co-operatives an almost complete range of good brand named merchandise in hardware, building materials, farm supplies and other lines. This improved service has undoubtedly contributed in a large measure to the continued sales increase. Now that the Department has a rate of service of about 80%, we have no doubt that the co-operatives will provide their indispensable support. Finally, it's worth noting that at the end of the year, the Department granted volume discounts totalling slightly more than $500,000, compared with $400,000 last year.

Sales of farm machinery and implements climbed to $36.1 million, an increase of 17.2% over last year. The Farm Implements Department sold almost the same total number of units as in the previous year, but there were marked variations in different categories. For example, sales increases were reported for combines, dairy equipment, and silos of all types. The most substantial sales decline were for tractors, harvest and tillage equipment.

About 9.5% of gross farm income is normally spent on mechanization, but this proportion seems to have decreased over the past two years. Sales volume has dropped almost everywhere, and the problems being encountered by the major farm equipment manufacturers demonstrate the difficult situation the entire industry is confronted with.

Despite these market difficulties and considerably increased costs for financing inventory and sales, the Farm Implements Department contribution was about equal to 1978-79 results. The last two financial years have been among the best in the farm implements sector.

This has been a tumultuous and prosperous year for the Petroleum Department. Gross profit margins were satisfactory, and not unduly reduced by the price wars which regularly shook the industry. The industry has had to face difficulties of supply and changes in government policies.

Total sales at $102 million show a 21.5% increase over last year. Considering the general decline in demand for petroleum products in Quebec, the total volume pumped is more than satisfactory, since it represents a 1.7% increase for fuel oils and 1.9% for gasoline.

The situation in the industry generally is reflected in the considerably improved profitability of this Department, which registered the best year in its history, even after providing the co-operatives with price adjustments totalling $600,000 during the financial year.

**Financial Situation**

Working capital increased by $1.17 million during the past twelve months, totalling $39.3 million at financial year-end. Accounts receivable, at $96.1 million, were up by $2.3 million in comparison with the 1978-79 financial year. They represent 10.3% of sales, compared with 9.7% for the previous twelve months. In relation to sales, there were slight increases in overdue accounts receivable, and of bad debts. The rise in overdue accounts is due essentially to the more difficult financial situation of some co-operatives.

Inventories were 32% higher than at the previous financial year-end, and almost triple the 11.6% sales increase. Higher inventories are general in all sectors. While this situation can be attributed in a large measure to higher prices, there were also other reasons. In some cases, it was necessary to maintain high inventories of raw materials or merchandise due to the relative uncertainty of supplies. In others, it was due to changes in the marketing policies in certain departments.

Improving the level of the general reserve in relation to total members' equity is a foremost objective of the Board of Directors. This year's balance sheet shows a general reserve of $24.8 million, an increase of $4.8 million.

Members' equity increased by $6.1 million and currently stands at $60.8 million. The general reserve now represents 40.7% of members' equity, compared with 36.5% the year before.

**Administrative Departments**

Those in charge of our commercial and manufacturing operations, as well as Members of the Board and the Executive Committee, can always count on the close cooperation of the personnel in the administrative departments. The value of their roles cannot be measured in balance sheet figures, but the support they provide through their professional and technical functions is indispensable.

These administrative departments consist of the following: Secretariat, Treasury, Human Resources, Regional Development, and Solicitor. It is of great satisfaction to notice that our member co-operatives increasingly call upon the services of the various specialists within these departments.

Regardless of its legal form, particular operating procedures and specific objectives, every enterprise works within a general economic context which often determines its success or failure. In addition to general economic conditions, an organization as diversified as Coopérative Fédérée is also affected by the positive or negative impacts of conditions within its various sectors. While reviewing the results of one operation or another, we always notice the volatility that mark each sector. Still, the constraints that our degree of diversification imposes on us can be better accepted since in themselves they are often the guarantee of the profitability we desire.

The North American economy is entering a period where high cost of capital will be a notable feature. This situation will increase the financial burden of every enterprise within our movement, and exert a decisive influence on a great many administrative decisions. There is no question in our mind that every one, at every administrative and management level of Coopérative Fédérée and its member co-operatives, is convinced that the dynamic spirit which has sustained the growth of our movement over the years must be maintained at all costs. And one of the vital mainspring of this dynamic spirit is the sound financial health of all our enterprises.

In closing, we wish to thank all those, whatever their role may be in Coopérative Fédérée and in member co-operatives, who are working together to achieve our common goal. Members, Directors, Managers, they have all a share of the merit. And as we extend special thanks to those who participate more directly in the general management of Coopérative Fédérée, we also speak on their behalf in sincerely thanking each and every one of you.

Louis-Philippe Poulin
Chief Executive Officer