



Coopérative Fédérée de Québec



Annual Report 1981

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Annual Report 1981

Coopérative Fédérée de Québec

Highlights

(amounts in thousands)	1981	1980
Sales	\$ 1 075 873	\$ 936 086
Wages, salaries and employee benefits	55 731	51 490
Financing costs	14 725	9 396
Savings before extraordinary items, patronage refunds and income taxes	9 739	12 142
Accounts receivable and inventories	204 564	173 350
Current assets	208 402	177 286
Additions to fixed assets	9 642	12 245
Working capital	50 166	39 367
Fixed assets, at cost	76 646	68 209
Fixed assets, net	40 091	36 482
Total assets	265 143	226 736
Long-term debt	38 379	24 278
Members' equity	65 123	61 208

President's Report



It is indeed a pleasure to submit to you our report on the fifty-ninth year of operations of Coopérative Fédérée de Québec. Results were especially gratifying from the viewpoint of business volume, because our Cooperative became a member of the "Billionaires Club" this past year. Savings, however, did not match the levels attained in recent years.

As our Chief Executive Officer will give you a detailed analysis of operations of our varied activities, we will not linger further on the results of Coopérative Fédérée 1981 financial year. Instead, we will take an overall look at the principal factors during the period covered by our report which left their mark on the farm and co-operative situation.

As we said at the outset, Coopérative Fédérée business volume has now passed the billion dollars mark. That is an impressive figure, which demonstrates the steady progress of our enterprise. Since Coopérative Fédérée is collectively the property of some 150 co-operatives owned by 35,000 member-farmers, we wish to share with them the feeling of pride that must stir in them following such success.

We would also like to stress on what has been accomplished since our Federation was founded in 1922, to achieve the dimension that we know today. Because a co-operative is above all an association of people, it needed member-farmers loyal to their local or regional co-operatives, and these in turn had to be equally loyal to their federation.

At both levels, it needed enlightened directors willing to forget their personal concerns and think of the common good. It also needed competent managers and well trained personnel. As for the physical organization, we were able to depend on well equipped plants to meet the needs of users. Finally, an adequate financial structure and satisfactory overall results allowed us to obtain the capital needed for the smooth running of the growing needs of the enterprise.

If Coopérative Fédérée is a "billionaire" organization today, it must be recognized that this peak was not attained in a day and that it took many people (members, directors, managers and employees) to bring about this constant progress. We want to pay a special tribute to all these people, and thank them sincerely for all their work during these past fifty-nine years.

The Year in Review

We shall always remember the 1981 agricultural year as one of the worst we have experienced. Although it was quite satisfying for milk and poultry producers, that was far from the case for those farmers depending on hog, cattle and grain production.

Hog producers were especially hard hit. We have gone through, and, as this report is written, we are still faced with a situation that can easily be described as tragic. Numerous producers had to stop raising hogs because the situation had become untenable. How can anyone hope to produce profitably when costs constantly exceed market prices? Such a situation can be acceptable for a short period when it can logically be hoped that the market will recover rapidly enough. But as this is not the case, it has created the crisis which hog producers are currently undergoing.

The farm co-operative movement, sometimes by itself and sometimes in association with the farmers' union and other interested parties, has made many approaches to government authorities to obtain financial aid that would allow Quebec hog producers and the industry to survive until better days return.

We believe it important to stress the substantial support provided by the farm co-operative movement to keep the hog production structure at normal. The millions of dollars our movement has invested in this sector have prevented many bankruptcies and made it possible to maintain an industry of such great importance to the Quebec economy.

We wish to underline the particular role played by Les Elevages Cobec Inc. Owned by the Federation and a group of co-operatives, it has protected to a great extent the revenues of its shareholder co-operatives.

Our governments have a very heavy responsibility to assume in the hog industry, and we want to take advantage of this podium to launch an S.O.S. Lacking a coherent assistance policy for hog producers, we will soon be faced with a staggering industry and a large group of producers in an extremely serious financial situation, if not in bankruptcy.

We have spoken at length about hogs, but we should not disregard the problems of cattle raisers and grain growers. Both sectors are now going through an extremely difficult period. We can only hope that conditions will improve rapidly so that these producers can obtain a decent income in 1982 for their investments of money and work.

Co-operative Hog Industry Council

In view of the hog industry's importance to the Quebec farm economy and the major problems now facing this industry, the Board of Directors of Coopérative Fédérée recently established a Co-operative Hog Industry Council. This is an advisory council of nine members, the majority of whom must be bona fide hog producers. It has a rather broad mandate as it will draw up official hog industry policies for the farm co-operative movement and establish procedures to be adopted in dealings with the federal and provincial Departments of Agriculture and other intervening bodies. We are aware of the heavy load this Council will have to carry but we believe that this work will provide our Board of Directors with an invaluable amount of support.

The Co-operative Scene

The farm co-operative scene was an especially busy one during 1981, which we believe is an excellent sign of our movement's vitality. During recent months we attended numerous anniversary celebrations to mark the founding of farm co-operatives. At each one we could sense a real feeling of pride among the founding members of these co-operatives, which is quite normal under the circumstances. It was easy to see their satisfaction in what they had accomplished, as well as their confidence in the future of the movement which they have helped to build. We know that the present members, directors and managers of our co-operatives are well prepared to face the challenges of the 80's.

Life on the co-operative scene also takes on other forms, such as last November's two important events: the 18th Congress of the Feedmill Co-operatives and the 3rd Congress of the Co-operative Dairy Industry. The first gathering, with the theme of "Efficiency-Profitability", was attended by several hundred directors and managers from most of the farm supply co-operatives. This annual Congress, which has always been an undisputed success, is a valuable training school for all taking part. It is a real mine of information and advice on animal and crops production.

Sales
(\$ in thousands)

1972	254 156
1973	301 533
1974	422 127
1975	531 496
1976	630 775
1977	675 007
1978	727 687
1979	838 520
1980	936 086
1981	1 075 873

The Co-operative Dairy Industry Congress brought together some two hundred directors and managers of our dairy co-operatives, whose discussions centred around the theme, "Marketing in the Dairy Co-operative Organization". Of particular interest were the methods developed to put the overall objectives of the Congress into action.

Perhaps the most pleasing aspect of the events we just mentioned, and others held during the past year, was the more and more active participation of the attendants. We see in this an increased desire to obtain more knowledge and to better succeed. It is exactly this kind of vitality that our movement now needs.

Communications

Our magazine, LE COOPERATEUR AGRICOLE, is now ten years old. This medium of information which our movement gave itself in 1972 meets a real need. We believe without any false modesty that it played a more than fitting role in the lives of our member co-operatives during that entire period. It can also become a really important management tool if it is used advisedly.

As the official spokesman of the movement, the magazine carries a host of information of interest not only to our members, but to the entire agricultural community. It has already become an excellent member relations instrument, even helping to bring in new members to those co-operatives that make the effort to get in addition to their own members, all farmers in their area to sign up as subscribers.

AGRI-COOP, the newsletter for directors of the various co-operatives, is another important communications medium. During 1981 this publication dealt mainly with burning issues of the day such as cash flow budgeting, the co-operative movement's new financial requirements, analysis of financial statements and the costs of external auditing. Directors and the senior management people are particularly invited to read each issue of this newsletter carefully and then keep it for future reference. We think that this will help to improve our knowledge of administrative and management matters and that we can all profit from it.

Participation spells success for our co-operative enterprises.



Professional Commission on Agriculture

The Professional Commission on Agriculture held four meetings during its first year of existence. This Commission made up of six representatives of the farm co-operative movement and six representatives of the farmers' union, studied during the year many matters, but mainly those relative to the problems of the hog industry, the national feed grains policy, agricultural research and the marketing of farm products. Discussions at each meeting were extremely positive, leading us to believe in the success of this form of dialogue.

During its second year of existence this Commission must pay particular attention to a practical definition of the role to be played by each of the two main agricultural sectors: the co-operative movement and the farmers' union. We believe this to be the Commission's most important mandate at this time. Our fondest hope will be to see these two sectors come to an agreement and we assure you that we will work fervently to achieve that goal.



Farmers appreciate the service provided by the Petroleum Department, especially in those long, cold winter months.

Our message would certainly not be complete without stressing the enormous amount of work done by the members of our Board of Directors this past year. Because of the prevailing economic situation, heavy demands have been made on their time and services, and we want to express our deepest appreciation for their accomplishment. It's worth noting that the Board met a total of twelve times during the year, and the Executive Committee held fifteen meetings. We also want to express our appreciation to all management people and staff for the wholehearted co-operation they gave us at all times. With their loyal support we can be sure that our enterprise will continue to grow and serve the needs of our member-farmers in Quebec. Finally, we say a sincere THANK YOU to our member co-operatives and our member-farmers for their loyal and sustained efforts during the year, and assure them of our most devoted support.

Paul-Emile St-Pierre
President

Rural Youth

Some months ago the Rural Youth Association of Quebec was formed by young rural people and representatives of certain organizations who considered it important that these young people have their place in the sun. Coopérative Fédérée is one of these organizations, and has a representative as a member on this provincial association's Board of Directors. It has also agreed to help finance the group's activities during 1982.

This action by Coopérative Fédérée is directly linked with its desire to play a part in preparing these young people for their future roles, as farmers and co-operative member-users. Not only Coopérative Fédérée must be involved in this programme, but also all its member co-operatives. We feel sure that these latter understand the importance of becoming involved locally or regionally in the activities of our youth. It is this new generation which must assume the responsibility for running our co-operatives later on. They need and deserve our support and encouragement.

More united than ever

The prevailing economic climate stirred up a storm of problems in all sectors of the economy during 1981, and still does. Agriculture was not exempted from these problems, which have affected both the farmers and our member co-operatives. Although we are now experiencing a difficult situation, we feel sure that the close link forged between the member-farmers, the co-operatives which they jointly own, and Coopérative Fédérée, will allow us to weather fairly well this gloomy period which will long be etched in our memories. Now is the time for us to demonstrate eloquently all the advantages such an association can bring to us. To do so, we must remain more united than ever.

Savings**

(\$ in thousands)

1972	5 084
1973	8 351
1974	9 558
1975	12 453
1976	10 705
1977	5 768
1978	10 110
1979	14 866
1980	12 142
1981	9 739

** before extraordinary items, patronage refunds and income taxes

Board of Directors



1
Paul-Emile St-Pierre *
President
Laurierville



2
Michel Lemire *
2nd Vice-President
St-Zéphirin



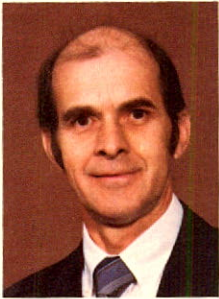
3
Alphonse-Roger Pelletier *
1st Vice-President
La Pocatière



4
Jean-Charles Mercier *
St-Roch de l'Achigan



5
Paul Massicotte *
Champlain



6
Bruno Beaulieu
Val Brilliant



7
Georges Lévesque
St-Simon



8
Joseph Leblanc
St-Anselme



9
Clément Houle
Victoriaville



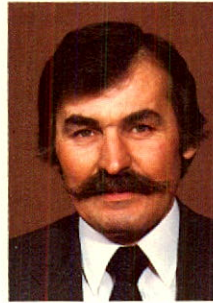
10
Roger Bilodeau
Bromptonville



11
Léon Désautels
Ste-Rosalie



12
Gilles Bissonnette
St-Polycarpe



13
Lloyd Meyer
Namur



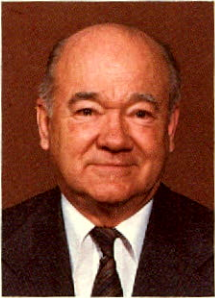
14
Paul Dessureault
Dupuy



15
Léopold Harvey
Delisle

* Members of the Executive Committee

The Management



1
Louis-Philippe Poulin
Chief Executive Officer



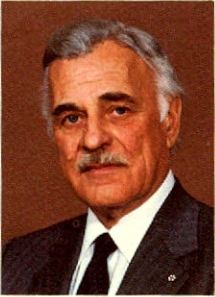
2
Richard Newberry
Treasurer



3
Marcel Gingras
Secretary



4
Maurice Lavallée
Manager
Feeds and
Fertilizers Division



5
Philippe Pariseault
Manager
Dairy Division



6
Jean-Paul Cadieux
Manager
Human Resources



7
Emile Cordeau
Manager
Poultry Division



8
Gérard Turcotte
Manager
Meat Packing Division

A new modern central laboratory provides dairy co-operatives with latest scientific testing facilities.



Consolidated Statement of Operations

for the year ended October 31, 1981

	1981	1980
Sales	\$ 1 075 873 085	\$ 936 086 658
Cost of goods sold	948 530 634	821 910 165
Gross savings	\$ 127 342 451	\$ 114 176 493
Expenses		
Wages, salaries and employee benefits	\$ 55 730 787	\$ 51 490 108
Other operating expenses	14 185 493	13 330 455
Distribution and selling expenses	21 227 746	18 790 918
General administrative expenses	6 108 273	4 405 738
Interest on long-term debt	3 749 675	2 420 750
Other financial expenses	10 975 043	6 975 277
Depreciation	5 626 829	4 621 363
	\$ 117 603 846	\$ 102 034 609
Savings before extraordinary items, patronage refunds and income taxes	\$ 9 738 605	\$ 12 141 884
Extraordinary items (note 9)	—	796 577
Savings before patronage refunds and income taxes	\$ 9 738 605	\$ 12 938 461
Distribution of savings		
Patronage refunds (note 8)		
Cash	\$ 2 000 000	\$ 2 400 000
Preferred shares	1 500 000	1 878 600
Common shares	1 500 000	1 721 400
	\$ 5 000 000	\$ 6 000 000
Income taxes	1 292 924	1 764 158
Net savings for the year	3 445 681	5 174 303
	\$ 9 738 605	\$ 12 938 461

Consolidated Statement of General Reserve

for the year ended October 31, 1981

Adjusted balance at beginning of year (note 10)	\$ 25 157 635	\$ 19 983 332
Net savings	3 445 681	5 174 303
Balance at end of year	\$ 28 603 316	\$ 25 157 635

Consolidated Balance Sheet

as at October 31, 1981

Assets	1981	1980
Current		
Accounts receivable	\$ 107 243 785	\$ 96 084 946
Inventories	97 320 320	77 265 846
Prepaid expenses	3 214 890	3 570 839
Income taxes	165 445	—
Investments — current portion	457 540	364 470
	\$ 208 401 980	\$ 177 286 101
Deferred accounts receivable	\$ 929 383	\$ 684 752
Investments (note 2)	\$ 13 806 237	\$ 10 243 683
Fixed assets (note 3)		
Land, buildings and equipment, at cost	\$ 76 646 025	\$ 68 208 738
Accumulated depreciation	36 555 036	31 727 577
	\$ 40 090 989	\$ 36 481 161
Other assets (note 4)	\$ 1 914 569	\$ 2 040 293
	\$ 265 143 158	\$ 226 735 990

Approved by the Board

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

Montreal, January 21, 1982.

Liabilities and members' equity	1981	1980
Current		
Outstanding cheques, less cash	\$ 3 923 255	\$ 4 879 386
Bank loans (note 5)	28 490 000	24 842 000
Notes payable	59 951 435	44 545 200
Accounts payable and accrued liabilities	57 758 604	55 499 712
Patronage refunds (note 8)	2 000 000	2 400 000
Redemption of capital stock (note 8)	2 010 265	1 534 058
Income taxes	—	1 498 995
Current portion of long-term debt	4 102 718	2 719 968
	\$ 158 236 277	\$ 137 919 319
Long-term debt (note 6)	\$ 38 379 221	\$ 24 277 923
Deferred income taxes	\$ 3 404 556	\$ 3 330 344
Members' equity		
Capital stock (notes 7 and 8)	\$ 36 519 788	\$ 36 050 769
General reserve	28 603 316	25 157 635
	\$ 65 123 104	\$ 61 208 404
	\$ 265 143 158	\$ 226 735 990

Commitments (note 12)

Consolidated Statement of Changes in Financial Position

as at October 31, 1981

	1981	1980
Source of funds		
Funds derived from operations		
Net savings	\$ 3 445 681	\$ 5 174 303
Charges to operations not requiring outlay of current funds	5 711 412	4 921 720
Funds from operations	\$ 9 157 093	\$ 10 096 023
Redemption of investments	689 341	605 539
Proceeds on disposal of fixed assets	672 014	3 569 253
Increase in long-term debt	18 531 975	8 071 664
Issue of shares	3 041 419	3 755 387
	\$ 32 091 842	\$ 26 097 866
Application of funds		
Increase (decrease) in deferred accounts receivable	\$ 244 631	\$ (30 440)
New investments	4 251 895	5 881 995
Additions to fixed assets	9 641 855	12 245 310
Additions to production licences and rights	140 923	1 029 990
Reduction of long-term debt	4 441 218	3 346 968
Redemption of shares	2 572 399	2 456 662
	\$ 21 292 921	\$ 24 930 485
Increase in working capital	\$ 10 798 921	\$ 1 167 381
Working capital at beginning of year	39 366 782	38 199 401
Working capital at end of year	\$ 50 165 703	\$ 39 366 782

Notes to Consolidated Financial Statements

as at October 31, 1981

Note 1 — Accounting policies

Consolidation — The consolidated statements include the accounts of Coopérative Fédérée de Québec and of its subsidiaries.

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 stated at cost and are depreciated on the diminishing balance basis at the following rates:

- Buildings — 5% and 10%
- Machinery and equipment — 20%
- Automotive equipment — 30%

Production licences and rights — The production licences and rights are amortized at the rate of 10% on the straight-line method for half of their cost and on the diminishing balance basis for the other half.

Income taxes — Coopérative Fédérée de Québec and its subsidiaries provide for income taxes on the basis of tax deferment. The deferred income taxes result in timing differences between the recognition of expenses (mainly depreciation) for accounting and for income tax purposes.

Note 2 — Investments	Current portion	1981	1980
Corporate shares	\$ —	\$ 10 667 653	\$ 7 943 395
Mortgages	24 038	455 931	474 563
Term notes	433 502	3 140 193	2 190 195
	\$ 457 540	\$ 14 263 777	\$ 10 608 153
Current portion		457 540	364 470
		\$ 13 806 237	\$ 10 243 683

Note 3 — Fixed assets	1981		1980	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 3 106 783	\$ 2 946 737	\$ 2 873 590	\$ 2 740 980
Buildings	28 283 686	18 930 455	25 314 587	17 024 055
Machinery and equipment	33 693 112	13 732 121	29 820 394	12 518 826
Automotive equipment	11 562 444	4 481 676	10 200 167	4 197 300
	\$ 76 646 025	\$ 40 090 989	\$ 68 208 738	\$ 36 481 161

Note 4 — Other assets	1981	1980
Goodwill	\$ 1	\$ 1
Production licences and rights at unamortized cost	1 833 738	1 940 395
Deferred expenses	80 830	99 897
	\$ 1 914 569	\$ 2 040 293

Note 5 — Bank loans

The bank loans are secured by assignment of inventories and accounts receivable under the provisions of section 178 of the Bank Act.

Note 6 — Long-term debt	Current portion	1981	1980
Coopérative Fédérée de Québec			
Debentures, series "D", 9 7/8%, 1985	\$ —	\$ 1 000 000	\$ 1 345 300
Debentures, series "F", 10%, 1982-86	844 800	1 844 800	2 898 300
Debentures, series "G", 10%, 1983-87	—	2 427 700	3 530 800
Debentures, series "H", 9 1/2%, 10%, 1983-88	—	3 631 700	3 669 000
Debentures, series "J", 10 3/4%, 1983-89	—	1 881 100	1 963 500
Debentures, series "K", floating rate, 1982-89	450 000	3 000 000	3 000 000
Debentures, series "L", 14 3/4%, 1982-93	50 000	5 000 000	—
Debentures, series "M", floating rate, 1993	—	2 000 000	—
Debentures, series "N", 15%, 1982-93	33 334	2 000 000	—
Bonds, 9.9%, 1982	6 900	6 900	48 300
Bonds, 7 1/2%, 1982-87	75 000	450 000	—
Bonds, 7 1/2%, 1982	35 000	35 000	65 000
Term notes, floating rate, 1987-91	—	8 000 000	5 000 000
Term purchase loans, 9%, 1982-84	2 360 146	6 521 506	—
Other	40 643	244 395	277 986
	\$ 3 895 823	\$ 38 043 101	\$ 21 798 186
Bexel (1979) Inc. and its subsidiaries			
Bonds, 8 7/8%, 1982-93	\$ 120 000	\$ 2 394 000	\$ 2 505 000
Debentures, 9%, 1984-85	—	1 800 000	1 800 000
Mortgages, 6% to 10%, 1982-88	37 339	124 838	169 005
Term notes, 8%, 1982-83	28 500	57 000	116 700
Other	21 056	63 000	84 000
	\$ 206 895	\$ 4 438 838	\$ 4 674 705
Les Abattoirs de l'Est Limitée			
Bonds, 7 1/2%, 1981-87	\$ —	\$ —	\$ 525 000
	\$ 4 102 718	\$ 42 481 939	\$ 26 997 891
Current portion		4 102 718	2 719 963
		\$ 38 379 221	\$ 24 277 923
Long-term debt due in each of the next five years is as follows:			
1982 — \$4 102 718 ; 1984 — \$4 433 396 ; 1986 — \$1 980 069.			
1983 — \$6 619 245 ; 1985 — \$2 701 515 ;			

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.

	1981	1980
Preferred shares of \$10 each		
1972 series, redeemable at the latest in 1987	\$ —	\$ 1 781 110
1973 series, redeemable at no set date	7 880	7 880
1974 series, redeemable at the latest in 1984	2 328 890	2 409 750
1975 series, redeemable at the latest in 1985	2 342 930	2 423 420
1976 series, redeemable at the latest in 1986	1 961 730	2 030 800
1977 series, redeemable at the latest in 1987	2 954 210	3 357 080
1978 series, redeemable at the latest in 1988	998 550	1 030 230
1979 series, redeemable at the latest in 1989	1 266 310	1 294 120
1980 series, redeemable at the latest in 1990	2 349 000	2 393 710
1981 series, redeemable at the latest in 1991	1 864 360	1 878 600
1982 series, redeemable at the latest in 1992	1 500 000	—
	\$ 17 573 860	\$ 18 606 700
Common shares		
Qualifying shares of \$10 or \$25 each, convertible in preferred shares	\$ 24 695	\$ 24 695
Qualifying shares, class "A", of \$25 each	1 705 225	1 666 150
Class "C", of \$10 each	2 270 230	2 271 820
Class "D", of \$25 each	14 897 800	13 435 750
	\$ 18 897 950	\$ 17 398 415
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	\$ 47 978	\$ 45 654
	\$ 36 519 788	\$ 36 050 769

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 21, 1982, declared, out of savings from operations of the current year, patronage refunds of \$5 000 000. They resolved that this refund be allocated as follows:

	1981	1980
Cash	\$ 2 000 000	\$ 2 400 000
Preferred shares	1 500 000	1 878 600
Common shares	1 500 000	1 721 400
	\$ 5 000 000	\$ 6 000 000

Redemption of shares — At the same meeting, the Directors also resolved to redeem preferred shares for an amount of \$2 010 265. The effect of these resolutions is accounted for in the consolidated financial statements.

Note 9 — Extraordinary items

	1981	1980
Gain on indemnities on properties destroyed	\$ —	\$ 1 665 305
Amortization of the excess of cost of shares in subsidiaries over the net book value at dates of acquisition	—	(868 728)
	\$ —	\$ 796 577

Note 10 — Prior year adjustment

	1981	1980
The balance of the general reserve as at the beginning of 1981 has been adjusted as follows:		
Previous balance	\$ —	\$ 24 757 635
Decrease in income taxes arising from gain on indemnities of properties destroyed in 1980	—	400 000
Adjusted balance	\$ —	\$ 25 157 635

Note 11 — Remuneration of directors and senior officers

The remuneration paid to directors and senior officers amounted to \$723 423 in 1981 (1980 — \$698 947).

Note 12 — Commitments

- Coopérative Fédérée de Québec and some of its subsidiaries maintain 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 \$600 000.
- The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately \$6 500 000 as at October 31, 1981.
- Actuarial expertise indicates an unfunded past service pension liability estimated at \$1 797 861 as at October 31, 1981. This amount will be charged off to savings over a period not exceeding seven years.

Note 13 — Comparative figures

Certain 1980 amounts have been reclassified to conform with 1981 presentation.

Auditors' Report

To the members of Coopérative Fédérée de Québec,

We have examined the consolidated balance sheet of Coopérative Fédérée de Québec as at October 31, 1981 and the consolidated statements of operations, general reserve and changes in financial position for the year then ended. 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. We have obtained all the information and explanations we have required.

In our opinion, these consolidated financial statements present fairly the financial position of Coopérative Fédérée de Québec as at October 31, 1981, and the results of its operations and changes in its 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, Benoit, Boulanger, Rondeau & Associés
Chartered Accountants.

Montreal, January 21, 1982.

The Management Report



The 1980-81 financial year results show the impact that the country's general economic situation and conditions in the agri-food industry had on Coopérative Fédérée operations. There is no need to list all the factors that made Management's task more difficult, since they have been in the headlines regularly. But three things in particular marked the year: high financing costs, the situation in the hog industry and a major labour conflict. Coupled with the prevailing uncertainty over economic conditions, these three factors have reduced our savings in comparison with the previous year.

Sales climbed to \$1,075.9 million, compared with \$936.1 million in 1979-80, an increase of \$139.8 million or 14.9%. Sales of agricultural products accounted for two-thirds of the Cooperative's dollar volume, with farm inputs making up the other third. When price index movements in both sectors during the year are taken into account, our growth rate was actually superior to that of the previous year.

While sales were up by 14.9%, gross savings at \$127.3 million represent an increase of 11.5% over last year's \$114.2 million. This lower gross margin on sales was due to the situation that prevailed during the year in some important sectors, meat packing in particular.

Total expenses rose to \$117.6 million from the previous year's \$102 million, an increase of \$15.6 million, or 15.3%. When this 15.3% spending growth is measured against the 11.5% increase in gross margin, net results are correspondingly lower.

A breakdown of expenses shows that the most notable increases were in financing and general administrative costs. Operating costs were up by 6.4%, or less than the inflation rate, while distribution costs rose by 12.9%, or slightly above the inflation rate. Financing costs increased by 56.7% from \$9.4 million in 1979-80, to \$14.7 million this year. Administrative expenses rose by 38.6%, as a result of a 55% increase in communication services costs and higher bad debt provisions and writeoffs.

Savings before extraordinary items, patronage refunds and income taxes totalled \$9.7 million, down by \$2.4 million or 19.8% from the previous year's \$12.1 million. They represent 0.9% of sales, compared with 1.3% in 1979-80.

Meat Packing Division

The Meat Packing Division comprises three departments: Legrade, Turcotte & Turmel and the Canadian Livestock Cooperative of Quebec Ltd. It operates three livestock slaughtering and packing plants, located at Princeville, Vallée-Jonction and Bic, but operations at the latter plant were discontinued towards the end of the year. The Division also has cutting and curing facilities at Princeville, in addition to the abattoir. The Canadian Livestock Cooperative acts as a commission agent at the Montreal West-End Public Livestock Yards.

Sales were up by 25.6% in dollar volume, to \$190.8 million from \$151.9 million the previous year, while volume increased by 20.16%, due mainly to increased hog receipts at the new Princeville abattoir. Vallée-Jonction receipts followed the general Quebec trend for hog shipments. However, volume of cured and delicatessen products was down.

Total livestock receipts at the Division's various plants rose to 1,231,856 heads, an 11.6% increase over 1979-80. While hog receipts at the abattoirs increased by 13.1%, cattle receipts were down by 19.8% and receipts of calves tumbled by 40.7%. Canadian Livestock Cooperative cattle receipts dropped by 19.5%, with calf receipts down by 10.6%.

Export sales grew by about 50%. The United States remains the first market in terms of pounds shipped, while Japan holds first place in dollar volume.

The Division failed to report savings for the second consecutive year. Since integration of all meat packing operations is now almost completed, operating results of the individual plants are less significant than before. It is also worth noting that it cost quite a bit more than expected to get the new Princeville abattoir into operation, since the desired volume was only reached at the end of the financial year.

Cutting and packaging of pork meats for the delight of the consumer.

The Division's results were a direct consequence of conditions in the livestock and meat packing sectors for almost two years, since the livestock market collapsed in the springtime of 1979. The industry experienced profitability difficulties all through the year, but the worst was in the months of May, June and July. It is hoped that conditions will improve rapidly.

Poultry Division

A labour dispute at four plants, lasting for about three months, seriously affected the Poultry Division, with operations not returning to normal until two or three weeks after the strike ended. The Division had been making a positive contribution until the strike began, but the cost of the lengthy shutdowns turned results into the negative column. Fortunately, there was no violence or material damage during the strike, and operations were resumed normally and smoothly.

A labour dispute of this kind is very costly. Because of the essential need to protect the interests of members and other poultry suppliers, birds had to be processed at higher costs at other abattoirs to avoid a prolonged stay in the pens that would have resulted in financial losses for producers.

Sales totalled \$114.2 million, down by 1.5% from the previous year's \$116 million. Volume of birds processed in the Division's abattoirs or elsewhere decreased from the previous year's level due to production cutbacks ordered by the National Chicken and Turkey Marketing Agencies and the Federation of Poultry Producers. These reductions were 5% for chickens and 12% for turkeys. Our Cooperative's market share remained substantially unchanged, increasing by only 0.5%.



Due to the labour dispute, the Division reported negative results for the second year in a row, following two successive profitable years. Even though the strike was the sole reason for the lack of positive results, profits would have been lower than expected in any case, due to meat prices in general. Lower beef and pork prices, combined with poultry surpluses, helped to erode the market.

During the year, Coopérative Fédérée signed a franchising agreement with Guyomarc'h S.A., a French firm specializing in the processing and in the marketing of turkey products. Under it, the Poultry Division will process and market products to meet the demand in certain sectors of the Canadian market. The strike delayed the startup of this programme, but it is now getting underway. Added to our already well known poultry products, this new line will enlarge our existing share of the processed poultry market.

Fruits and Vegetables

Considering its size, the Fruit and Vegetable Department had its best twelve months results in several years. Although volume was down, sales dollar were 41% higher than in the previous year and the Department made a positive contribution.

Working capital
(\$ in thousands)

1972	10 313
1973	15 169
1974	17 081
1975	28 323
1976	27 514
1977	30 455
1978	33 460
1979	38 199
1980	39 367
1981	50 166

Breaking eggs the "modern way" at the newly renovated Ferme La Poule Blanche plant in Upton.



Dairy Division

Dairy Division sales and profitability grew as usual. Sales reached a new peak of \$305.7 million, a 10.5% increase, mainly attributable to higher prices.

A sales analysis of products marketed by the Division shows increases for evaporated milk, whole milk powder and butter, and decreases for skim milk powder and cheese. Products marketed by the Division indicate the diversified production of the dairy co-operatives. This programme was set in motion about five years ago to establish a better balance in the manufacture of various dairy products and to meet the needs of existing and future markets.

Diversification plays an important role in protecting Canada's dairy policy by making it less costly. While the Directors and members of the dairy co-operatives are assuming a great responsibility in developing and diversifying their industry, it should be noted that the Canadian Dairy Commission also continues to lend its support in achieving this goal. Quebec's Agriculture, Fisheries and Food Ministry completes the picture by providing valuable financial assistance for building and equipping the plants.

Sales of dairy equipment, supplies and packaging equipment increased by 40% over last year, resulting in a positive contribution. Storage operations made an increased contribution, due to the addition of a new cheese ageing room and expanded milk powder and container storage facilities.

The Dairy Division intensified its commercial activities during the year. As an encouraging note for the future, strong efforts were made to seek out new markets and plan new products for existing markets. This work is being done in close co-operation with governmental agencies involved in exporting dairy products, such as the Canadian Dairy Commission. Such efforts contribute directly to the development of Quebec's main agricultural activity, while helping to ensure its continued protection.

As always, the Division was extremely active on the institutional front. In addition to representing the interests of the dairy co-operatives and their members whenever necessary, it also ensures the smooth operation of several committees or councils. The goal is to encourage the highest possible level of concertation between the dairy co-operatives in their joint activities or in their relations with other groups or organizations representing other sectors of the industry.

The Division's interventions at the institutional level generally involve studies or surveys to define situations or problems and to bring forth solutions or answers. The Co-operative Dairy Council was again very active throughout the year. It continues to provide a common meeting ground for the Co-operative Dairy Industry Management, where policies and attitudes of the co-operative dairy sector are formulated.

The relatively new Technical Department dispenses advice and information extremely useful for the sound management of the regional co-operatives. Its quality control laboratory, set up a few months ago, makes available to the dairy co-operatives on a shared cost basis a most modern scientific facility.

Members' equity (\$ in thousands)

1972	16 969
1973	22 794
1974	24 674
1975	33 142
1976	38 767
1977	40 452
1978	45 086
1979	54 735
1980	61 208
1981	65 123

A powerful pellet mill ensures quality products and better service to co-operative members. This new equipment was recently installed in the St-Romuald feedmill.

Feeds and Fertilizers

Once again this past year the Feeds and Fertilizers Division made an important contribution, with all except one of its varied activities showing positive results. Higher volume explains the sales increase of \$218.3 million, up by 15.8% over the 1979-80 figure of \$188.5 million. The strongest sales increases were posted by the Feeds, Hatchery and Seeds Departments.

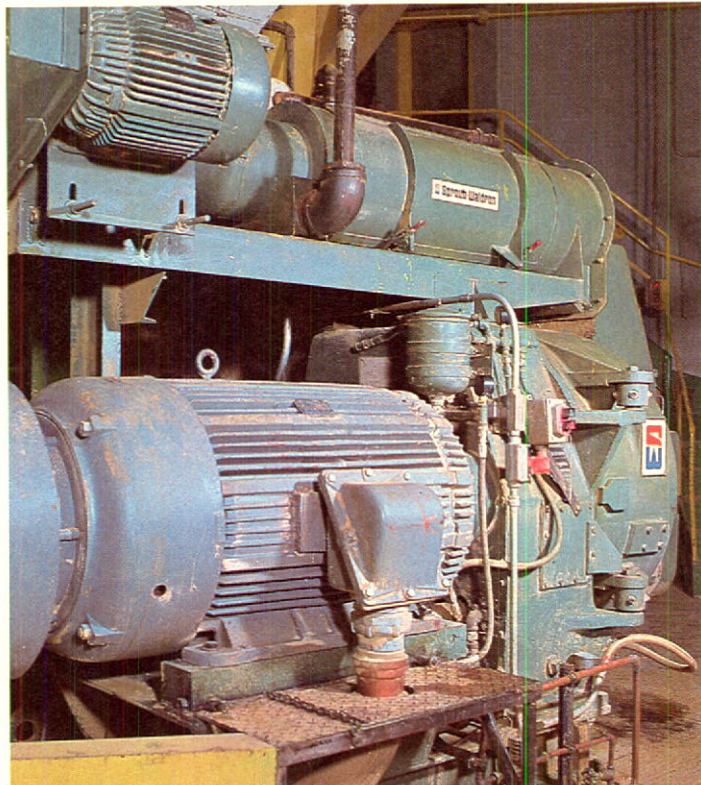
Grain Department sales increased by 7.4% in dollar terms, although volume was down by 3.6%. That decrease was due to greater consumption of local grains bought directly by the co-operatives, along with lower hog production. Keen competition was encountered, primarily as a result of the arrival in Quebec of a new and large competitor.

Livestock feeds still play a prime role in the business activities of North American farm supply co-operatives. Feeds Department sales increased by 28.3% during the year, with almost 45% of total volume coming from dairy feeds concentrates, pre-mixes and minerals. Higher volume of these products more than compensated for the decreases in hog and poultry feeds.

Hog feeds represent about 25% of the total volume, with poultry feeds accounting for some 10% and various products making up the balance. Once again we note that the farm co-operative movement has a strong position in the dairy feeds sector, a great help in gradually improving its market share.

The accident at the St-Henri plant in Montreal continues to weigh heavily on Feeds Department operating costs. It has been responsible for about \$1,800,000 in additional expenses resulting from the need to pay transportation allowances to the co-operatives, assume additional costs for transferring ingredients from Montreal to St-Romuald, renting a feedmill, and so on.

Sales of livestock health products were up by 4.2% over the previous year, a lower than usual increase. The Hatchery Department recorded a 26.7% sales gain, even though chicks had to be bought from outside sources as a result of a strike at one of the hatcheries. Even if these purchases amounted to only 4% of the Coopérative's needs, during the past few years no eggs had to be bought from outside sources. The goal of self-sufficiency in eggs for broiler chicks has almost been reached, although the difficulty in making this production profitable must be recognized. The Hatchery Department contribution reached a new peak this year.



Fertilizer Department sales increased by 16.3% on a dollar basis, while volume was up by 7.1%. While the first six months were profitable, the second half of the year was rather disappointing. Sales plummeted as a result of inclement weather, fall of fertilizer prices, and of poor harvests triggering resistance among producers. This situation was aggravated by very stiff competition from dealers trying to avoid heavy financing costs from high inventories. Blending plants and liquid nitrate facilities continued to record higher sales, and now account for almost 47% of total volume.

Blending and distribution operations recorded negative results after two years of profitability, but the deficit was more than compensated by patronage refunds paid by CF Industries, Inc. One blending plant was built during the year, bringing the total to 33, of which six are owned by member co-operatives.

The Farm Chemicals Department reported a 5.6% sales increase over the previous year. Herbicides, fungicides and insecticides, which represent 78.5% of Department sales, were up by 9%, while gardening products were down by almost 10%. Results were below those of recent years, when the Department posted an extremely strong annual growth rate. Unfavourable weather conditions during the summer resulted in slower sales of herbicides, fungicides and insecticides. Gardening products, for their part, seemed to have been affected more by general economic conditions.

Good tools and equipment are vital for running a modern farm efficiently.



Seeds Department sales rose by upwards of 20%. Quebec's changing crop patterns made themselves felt again this year by way of a 12.2% decrease in sales of forage crop seeds, along with an 18.7% increase in grains. Year-end results were down slightly from the previous year, due to inventory losses, price adjustments and higher financing costs.

Agricultural Supplies

The Agricultural Supplies Division has three separate operating departments: Farm Supplies, Farm Implements and Petroleum. Combined sales grew by 22.8% during the year, increasing to \$212 million from \$172.7 million in 1979-80. The Petroleum Department accounted for a large share of this increase, mainly the result of higher prices rather than greater volume.

This Division's contribution to our overall financial results was lower than in the previous twelve-months. Farm Implements reported a lesser gain than last year and Farm Supplies a loss, which was not entirely offset by the Petroleum's better results for the year.

Farm Supply Department sales decreased by about 1.5%. Considering the general price rises due to inflation, it's obvious that volume of business was appreciably lower. This corresponds with the prevailing situation in similar activities at the level of member co-operatives. Sales of dairy farm supplies and building materials are on the rise while those of general farm supplies, hardware, automobile, electrical and plumbing supplies are on the decline.

The Department's negative results show that corrective measures taken to improve profitability, although early results have been encouraging, have been halted by sales decline.

The realities of the 1980-81 financial year are quite disappointing, in view of the hopes expressed in last year's Annual Report. While expenses have been held in check to a worthwhile degree, in some cases below the inflation rate as we noted earlier, volume has been the big problem. This is the challenge we must meet. Higher volume of products generating more attractive margins must obviously be the desired result of consolidating this Department's activities.

Sales of farm implements increased by 10.9%. Here again we can see the effects of lower volume, in view of rising prices during the year. The news media have regularly reported the difficulties encountered by the farm implements industry, and the Coopérative has not been immune to the general trend.

The Department nevertheless made a positive contribution, although slightly less than in 1979-80. Several reasons have been cited to justify the cautious attitudes displayed by farmers in delaying their decisions to purchase new machinery. High interest rates are obviously foremost among these reasons. There is also no doubt that the widely publicized difficulties of one of our major suppliers did not encourage sales of this manufacturer's products.

Coupled with the general situation in the industry, the farm co-operative movement has also had some distribution problems which have been a major cause of declining farm implements sales.

Patronage refunds allocated
(\$ in thousands)

1972	4 000
1973	6 600
1974	7 600
1975	8 600
1976	6 900
1977	3 200
1978	4 000
1979	7 428
1980	6 000
1981	5 000

A typical co-operative hardware store, like those found in all agricultural regions throughout Quebec.



In order to counter these unfavourable conditions and trends, a task force was set up to make an in-depth analysis of our Farm Implement Department operations. The programme drawn up calls for close collaboration between the Federation, the member co-operatives, and others. We are counting on the directors and management of the co-operatives to support the efforts of the personnel of the Department.

The Petroleum Department had the second best year in its history. Sales were up by 35.4% to \$137.3 million, due to higher prices for petroleum products, but volume increased by only 1.7%. Considering the drop in gasoline and oil consumption in Quebec, the farm co-operative movement is doing quite well.

Almost 45 co-operatives are directly involved in this activity, while the Department itself operates 19 distribution centres. Competition in all product lines has become very keen since June 1981. While there have been no price wars, this struggle for market share has inevitably affected profit margins.

The Department is trying to make the best gains possible in an industry where stability certainly is not the norm, by any means. This makes planning and development activities no easy task. Substantial changes therefore had to be made in the supply policy to react rapidly to all unforeseen situations that could result in a buyers market or government interventions.

Financial Situation

Working capital increased by \$10.8 million during the past twelve months, totalling \$50.2 million at financial year-end. Accounts receivable, at \$107.2 million, were up by \$11.1 million in comparison with 1979-80. They represent 10% of sales, compared with 10.2% for the previous twelve months. Overdue accounts receivable increased slightly, while the bad debts to sales ratio was unchanged from last year. Looking at the overall picture, accounts receivable increased by 11.6% over 1979-80, while sales grew by 14.9%.

Inventories were 26% higher than at the previous financial year-end, clearly outdistancing sales growth. Higher inventories are general in all sectors, with only three departments showing a decline. While higher prices are the major cause for this situation in most cases, it should also be remembered that inventories of raw materials must be maintained at a high level to ensure sufficient supplies on hand when needed.

Improving the level of the general reserve in relation to total members' equity remains a foremost objective of the Board of Directors. The 1980-81 balance sheet shows a general reserve of \$28.6 million, an increase of \$3.4 million for the year. Members' equity increased to \$65.1 million compared with \$61.2 million at the end of the previous year.

Administrative Departments

Members of the Board and the Executive Committee, as well as those in charge of our commercial and manufacturing operations, know they can always count on the close co-operation of all personnel in the administrative departments. The contributions made by some of these can be evaluated in a tangible way, while the efforts of others cannot be measured in balance sheet terms, although they are essential nonetheless.

These administrative departments are the Treasury, Secretariat, Human Resources, Regional Development and Solicitor. We again take great satisfaction in noting that our member co-operatives increasingly call on the technical and professional expertise of our administrative departments. This is a clear indication of the way different elements of our movement seek to forge ever closer links among themselves.

Year-end results were virtually unchanged from the first-half figures, thus reflecting the difficult conditions so much in evidence during the last six months of the financial year. It is quite obvious that neither Coopérative Fédérée nor its member co-operatives can isolate themselves from conditions that affect any sector of the agri-food industry. We must abide by the rules of the game.

The agri-food industry is by no means the only economic activity affected by important production and price cycles. But the commodities market cycles in our industry are numerous and have profound effects. In addition, some of these cycles tend to last for lengthy periods, adding to the vulnerability of our industry's primary and secondary sectors.

Planning a defensive strategy for the industry is becoming ever more difficult. Classic analysis methods of market trends and prices are of less and less value. Reality regularly confounds the findings of all government and other organizations which specialize in making economic forecasts.

It has often been said that diversification has been a major feature of Coopérative Fédérée activities throughout its history. But it is also the gage of its continuity, because an enterprise such as ours is one within which each individual sector makes its own contribution to the global dynamic of it. To forget that, would be to divide and weaken the organization, make it less capable of accomplishing the mission to which it is dedicated.

Many people within Coopérative Fédérée and its member co-operatives, whatever their role may be, join eagerly in this common task because they believe in the same objectives. Members, Directors, Managers: each deserves a share of the credit for what we have achieved, and we thank them sincerely. We know that those who are directly involved in the general management of our Coopérative feel as we do, and join us in expressing our deep appreciation.



Louis-Philippe Poulin
Chief Executive Officer

Financing costs (\$ in thousands)

1972	953
1973	1 176
1974	2 146
1975	2 227
1976	3 034
1977	3 169
1978	4 655
1979	4 925
1980	9 396
1981	14 725



