



Coopérative Fédérée de Québec

A n n u a l R e p o r t 1 9 8 3



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

Coopérative
Fédérée
de Québec

Annual
Report
1983

H i g h l i g h t s

(in thousands of \$)

	1983	1982
<i>Sales</i>	<u>\$ 1 084 327</u>	<u>\$ 1 217 115</u>
<i>Salaries and employee benefits</i>	<u>66 153</u>	<u>63 748</u>
<i>Financing costs</i>	<u>9 845</u>	<u>18 502</u>
<i>Earnings before extraordinary items, patronage refunds and income taxes</i>	<u>12 181</u>	<u>5 629</u>
<i>Net earnings</i>	<u>4 019</u>	<u>4 208</u>
<i>Accounts receivable and inventories</i>	<u>171 156</u>	<u>178 405</u>
<i>Current assets</i>	<u>174 977</u>	<u>184 977</u>
<i>Additions to fixed assets</i>	<u>5 531</u>	<u>11 576</u>
<i>Working capital</i>	<u>50 267</u>	<u>47 233</u>
<i>Fixed assets, at cost</i>	<u>85 339</u>	<u>86 149</u>
<i>Fixed assets, net</i>	<u>41 915</u>	<u>45 099</u>
<i>Total assets</i>	<u>231 138</u>	<u>249 050</u>
<i>Long-term debt</i>	<u>33 659</u>	<u>40 447</u>
<i>Members' equity</i>	<u>67 828</u>	<u>66 374</u>

About our cover...

*Quebec cooperative farm products are
found on all continents.*

Report from the President



*I*t gives us great pleasure, once again, to bring you our report on Coopérative Fédérée operations for the 1982-1983 financial year, together with a few comments on the farm and co-operative scene during these twelve months.

We were all saddened to learn of the death of Mr. Roland Pigeon this past year. Mr. Pigeon was President of the Federation for eleven years, from 1969 to 1980, and a member of our Board of Directors for twenty-one years. A highly skilled farmer and producer, totally dedicated to the co-operative movement and a convincing advocate of its goals, Mr. Pigeon was a shining example that should inspire each of us to follow the path of excellence and success which he marked out for us. We shall all retain fond memories of him for the immense amount of work he did for us, as farmers and members of the co-operative movement.

As our Chief Executive Officer will give you a detailed analysis of our Federation's operations in his report, we shall not dwell at length on the actual figures for the past year. But we do wish to express our satisfaction at the success achieved, especially in view of the particularly difficult economic conditions we had to deal with these past two or three years. This makes the year's results all the more deserving, and we wish to thank and congratulate all those who made it possible.

First, we thank our member co-operatives and their members for their loyal support and understanding of the many problems we had to face during the year. Then, we congratulate the directors and personnel of the co-operatives for all the hard work they put into their respective tasks to lighten as much as possible the difficulties encountered. Finally, we thank the members of the Board of Directors, the Management and entire staff of Coopérative Fédérée for the foresight they showed and for their constant and devoted efforts on our behalf during our Federation's sixty-first year of operations. Everyone contributed, in one way or another, to demonstrate once again that the farm co-operative movement is an extremely important part of our economy.

The Year in Review

Even with the best will in the world, it would be difficult to say that 1983 was a good year for farmers. We would have to rate it as rather mediocre when we consider, first, that weather conditions were none too favourable for farming and, secondly, that certain producers had to face problems of really dramatic proportions. We refer especially to the hog production, where the normal up-and-down market cycle has been thrown into total disorder.

The dairy producers felt, throughout the year, the effects of a reduced production. Things were none too rosy for cattle and grain producers, either. Fortunately, the situation was better for the poultry producers.

Co-operative Hog Production

Our objective for this past year was to provide maximum assistance to hog producers so they could move from an integrated to an autonomous producer status. The programme included inventory buy-back conditions and competitive financing terms, which proved of interest to the great majority of them.

Following this policy adjustment, the next step was to question the usefulness of Les Élevages Cobec Inc., set up in 1977 with the primary objective of stabilizing the ever fluctuating incomes of members producing hogs in association with their co-operatives. It should be remembered that, at the time, in Quebec, some 70% of hogs were produced on a contractual basis, and the income stabilization programme was not yet in effect.

Since Les Élevages Cobec Inc. was decreasingly filling the role it had been assigned, the member co-operatives quite logically decided to terminate its operations as of October 31, 1983. The co-operative hog production still exists: only the method of intervention has changed. We have always placed considerable importance on hog production, and we intend to do everything in our power to help our members maintain a choice position in this market.

Grain Transportation Policy

At last year's meeting, we spoke at length about the representations a group called the "Coalition for the Survival of the Agri-food Industry in Quebec" had made to Federal authorities concerning the grain transportation policy, following the Government's decision to revise the Crow's Nest Pass agreement. We now know the results of these representations, which were continued in 1983.

Last November, the Federal Government adopted a new legislation which respects the historic principle of equity for all farm producers in Canada, a principle which has long been defended by the co-operative movement and the farm union of Quebec. This victory emphasizes the need for our farm forces to unite in the defence of their members' rights.

25 Years in the Petroleum Business

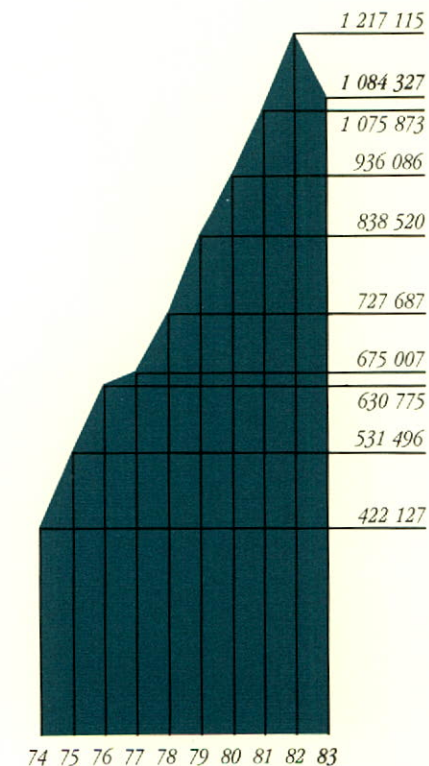
The Federation's Petroleum Department celebrated its 25th anniversary in 1983. This provided an excellent opportunity to recall the different stages this operation has gone through since it was set up within the farm co-operative movement. We all remember that in 1958 there was almost no worthwhile petroleum products distribution available to Quebec farmers. They had to get their supplies at stations which often were quite a distance from their farms.

This was extremely inconvenient for farmers, whose gasoline and oil needs were growing steadily as farm mechanization increased. As a result, Coopérative Fédérée accepted the responsibility for organizing a distribution service to supply our members' needs. The local co-operative contributed directly to its implementation by providing financial investments which were fairly substantial by the standards of the time, permitting the farm co-operative movement to expand its operations to other sectors of activities.

Officers of today's Department took advantage of the anniversary to recall the work of the pioneers and those who followed them over the past twenty-five years. They underlined the constant growth of the Department and the important contributions it has made to the Federation's operating results during that time.

The SONIC CO-OP brand name is now solidly established just about everywhere in rural areas, and even in the cities, a fact which should take pride in, all farm co-operative members.

Sales
(in thousands of \$)



Education and Training

Members of our Board of Directors attended study sessions in 1983. The final report on these sessions called for renewed attention to some important points, such as the need to set up within our own organization a co-operative educational programme for members and managers, as well as a programme for the development of our human resources. The Human Resources Division has already hired a training coordinator to set up such programmes.

"The Farm Co-operative Movement Today" was the subject chosen for the first session for directors and managers of co-operatives, and fifteen sessions have already been held. A second subject is being prepared: "Directors, Administration and Management". Other activities will in time be incorporated within this important programme of human resources development.

There have been some specific requests regarding study sessions, and we intend to follow up on them. The farm co-operatives must also take the necessary steps so their members receive the same co-operative education and training as their directors and managers.

Future farmers

"Future farmers and Co-operative Growth" was the theme chosen for the 5th Annual Congress of the Dairy Co-operative Industry. There could not have been a more appropriate topic, since it is becoming more and more difficult to get young people to establish themselves on our farms, especially in view of the financial constraints facing them. To ensure continuity on our farms represents a responsibility over and above our day-to-day farming activities and the management and development of our co-operatives. Consequently, we believe it is important to think seriously about solutions to the problems of our young people and the measures that should be taken within our co-operative enterprises.

The Federation already participates in the financing of such youth organizations as the Quebec Farm Youth Federation and the Quebec Rural Youth Association. With the Quebec Farm Union (U.P.A.), it also officially supports the steps taken to Government authorities by the Quebec Farm Youth Federation to encourage young farmers to establish themselves.

All this is certainly very useful, but we believe that we should go even further. Each of our co-operatives should make a serious study to see how we, individually or collectively, could provide concrete assistance to our youth and how we could become further involved in co-operative training programmes, starting with the existing realities and basic needs of our farmers.

Young people must become involved in our co-operative activities. To get them involved, "perhaps we should think of expanding the range of services offered and adapting them to the need of our younger generation, so its members, in their turn, can place their original stamp on our entrepreneurial heritage". We borrowed this phrase from an address delivered by one of the speakers at the last Congress of the Dairy Co-operative Industry. We are adopting it for ourselves and we want it to become a call for reflection and action.

Relations with the Farm Union

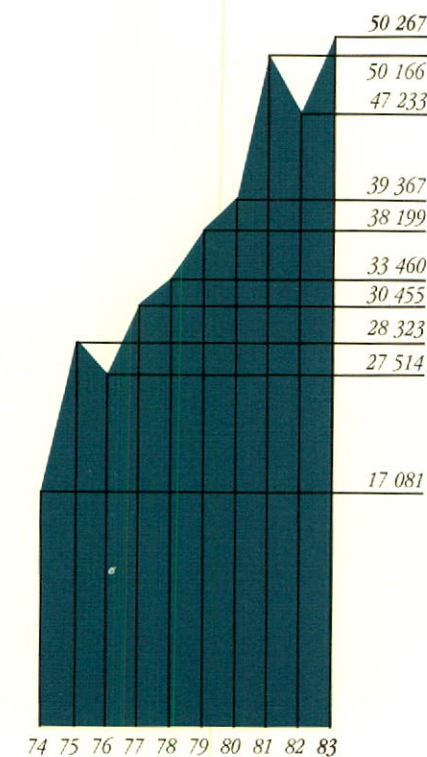
A more marked desire for meaningful dialogue has been noted during the past year on both the Union and Co-operative sides. There have been some clashes, of course, but they generally did not last too long. When those concerned wish to agree, they must first understand one another, and that requires dialogue.

We could cite several examples where the Union and the farm co-operatives formed a common front to defend the general interests of the farming community. It is only necessary here to mention the tremendous amount of work done by representatives of the two organizations within the Coalition for the Survival of the Agri-food Industry in Quebec, during the lengthy discussions regarding the Crow's Nest Pass agreement.

The dairy industry is the sector which is still absorbing a great deal of our time and energy. A more detailed report on this important question will be submitted at this meeting.

Under its mandate, the Professional Commission on Agriculture, made up of six representatives from the farm co-operatives and an equal number from the farm union, must meet at least four times a year. It met only twice during 1983. At the beginning of the year, it set as its objective an attempt to define the major roles of the two distinct entities which it represents. Since this objective has not yet been achieved, the Commission will have to direct its attention towards these distinctive roles in 1984, by using, if necessary, new approaches. Our Board of Directors, when discussing the Professional Commission recently, reiterated its confidence in that mechanism, one of whose precise tasks is to promote dialogue between the two groups. We only hope that it will finally produce the desired results.

Working capital
(in thousands of \$)



The Co-operative Scene

Several special events marked the co-operative scene during 1983, such as the Petroleum Department's 25th anniversary which we spoke of earlier. Other activities also warrant special mention. We are thinking in particular of the 20th Congress of the Feedmill Co-operatives held in Toronto last November. Although Quebec City is the usual site, this Congress was moved to our neighbouring province to place more emphasis on this 20-year milestone in the history of the Congress, and so the delegates could attend the Royal Agricultural Winter Fair. Once again, the event was a success, both from the viewpoint of the number of co-operatives taking part and the quality and usefulness of the reports presented.

A few days later, still in November, the 5th Congress of the Co-operative Dairy Industry was held in Quebec City, on the theme of "Future farmers and Co-operative Growth". This gave the directors and managers of the regional dairy co-operatives a good opportunity to discuss with a group of young people this subject of prime importance to all of us.

For the second consecutive year, we made a tour of different regions of the province to meet the directors and managers of our member co-operatives. In a little more than two months, we held fourteen meetings during which the participants were free to express their opinions on various topics, most of which they themselves suggested.

At each of these meetings, we had an audio-visual presentation on Coopérative Fédérée and its principal functions. Important subjects discussed included: the responsibilities and duties of a Board of Directors; the responsibilities and functions of a General Manager; selection of directors of local co-operatives by insisting on the necessary qualities of good administrators; preparation and training of new or future directors; training of managers; orientation of the farm co-operative movement opposite the evolution of agriculture; co-operative financing; co-operative farm youth training programmes; new legislation affecting co-operatives; inter-cooperation, etc.

As you can see, there was no lack of serious subjects. Several topics could certainly have formed the basis for a special session, and we should definitely look at them again

in the earliest foreseeable future. In our opinion, this consultative procedure allowed a large number of our member co-operative directors and managers to express their opinions openly. We intend to use these views as the basis for corrective measures or improvements we are planning, in order to allow our movement to remain constantly on the "leading edge" of progress in all fields.

We returned from this tour extremely encouraged by the positive mood which reigned throughout and we believe more than ever in the need for meetings of this kind to ensure continued democratic action within our co-operatives and their Federation.

There was yet another important event on the co-operative scene during 1983. During the Agricultural Award of Merit competition, the gold, silver and bronze medals were won by three co-operative members. Two of them are directors of the same farm co-operative. We do not know whether this has happened before in the long history of this prestigious Award, but we cannot help but rejoice at the success of these three co-operative members.

They are a living proof that the ranks of the farm co-operative movement in all regions of the province include a good majority of the most competent and progressive producers.

Our Board of Directors held twelve meetings during the past year, while the Executive Committee met sixteen times.

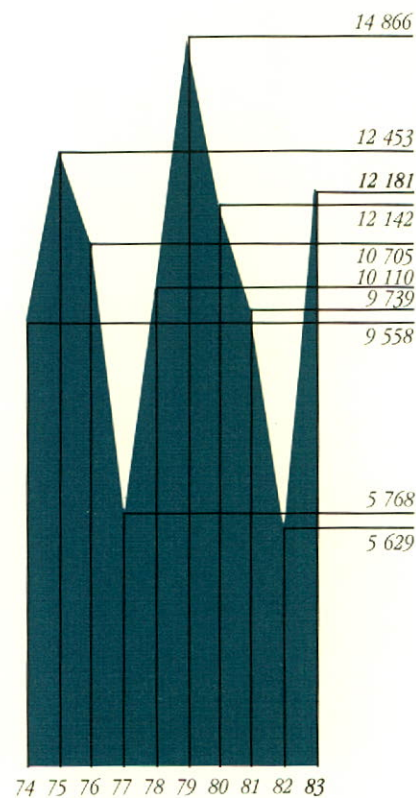
In closing, it is our fondest hope that the economic recovery, even if weak in some areas, will soon spread into the farm sector and bring to our co-operatives and their members the results they well deserve.

Paul-Émile St-Pierre



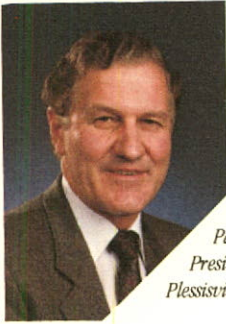
President

Earnings**
(in thousands of \$)

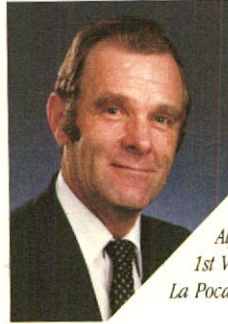


** Before extraordinary items, patronage refunds and income taxes.

Board of Directors



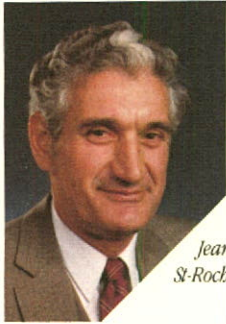
*Paul-Émile St-Pierre **
President
Plessisville



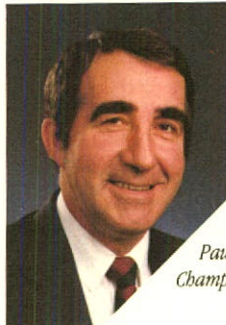
*Alphonse-Roger Pelletier **
1st Vice President
La Pocatière



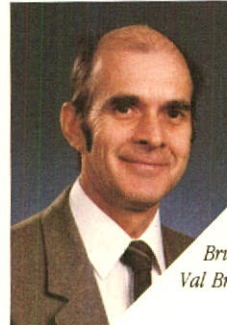
*Michel Lemire **
2nd Vice President
St-Zéphirin



*Jean-Charles Mercier **
St-Roch-de-l'Acbigan



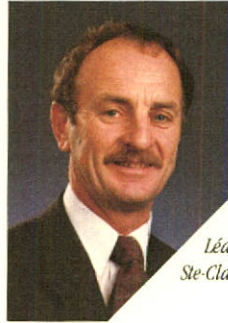
*Paul Massicotte **
Champlain



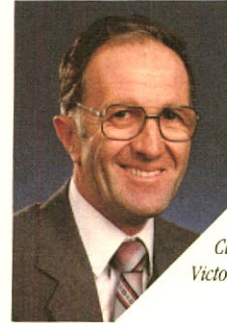
Bruno Beaulieu
Val Brillant



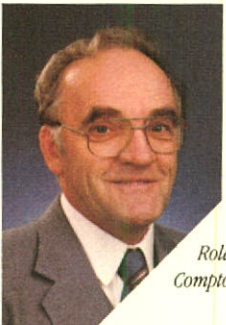
Napoléon Théberge
St-Simon-de-Rimouski



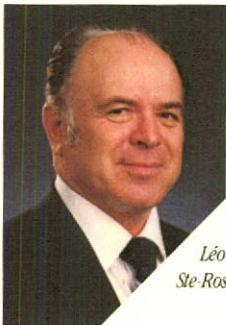
Léandre Morin
St-Claire



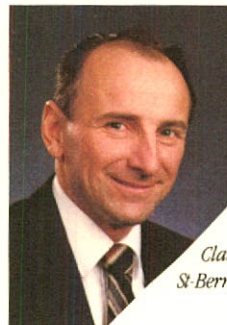
Clément Houle
Victoriaville



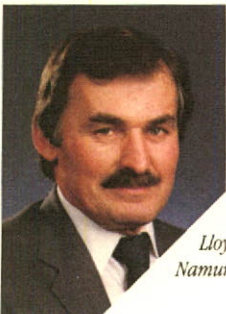
Roland Lachance
Compton



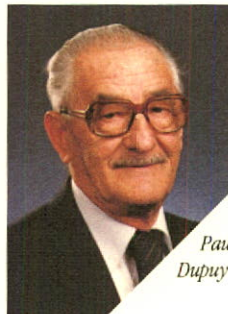
Léon Désautels
St-Rosalie



Claude Couture
St-Bernard-de-Lacolle



Lloyd Meyer
Namur



Paul Dessureault
Dupuy



Léopold Harvey
Delisle

* Members of the Executive Committee

Consolidated statement of operations

for the year ended October 31, 1983

	1983	1982
<i>Sales</i>	\$ 1 084 327 226	\$ 1 217 115 144
<i>Cost of goods sold</i>	944 950 592	1 078 990 074
<i>Gross earnings</i>	\$ 139 376 634	\$ 138 125 070
<i>Expenses</i>		
<i>Salaries and employee benefits</i>	\$ 66 152 999	\$ 63 748 280
<i>Operating and selling</i>	39 208 037	37 982 241
<i>General administrative</i>	5 141 777	6 575 093
<i>Long-term debt interest</i>	4 852 831	5 863 610
<i>Other financial expenses</i>	4 992 578	12 638 781
<i>Depreciation</i>	6 847 253	5 688 165
	\$ 127 195 475	\$ 132 496 170
<i>Earnings before extraordinary items, patronage refunds and income taxes</i>	\$ 12 181 159	\$ 5 628 900
<i>Extraordinary items (Note 8)</i>	(1 546 206)	—
<i>Earnings before patronage refunds and income taxes</i>	\$ 10 634 953	\$ 5 628 900
<i>Distribution of earnings</i>		
<i>Patronage refunds (note 7)</i>	\$ 5 000 000	\$ —
<i>Income taxes — current</i>	1 325 190	332 115
<i>Income taxes — deferred</i>	290 350	1 088 484
<i>Net earnings for the year</i>	4 019 413	4 208 301
	\$ 10 634 953	\$ 5 628 900

Consolidated statement of retained earnings

for the year ended October 31, 1983

<i>Balance at beginning of year</i>	\$ 32 811 617	\$ 28 603 316
<i>Net earnings</i>	4 019 413	4 208 301
<i>Balance at end of year</i>	\$ 36 831 030	\$ 32 811 617

Consolidated balance sheet

as at October 31, 1983

<i>Assets</i>	1983	1982
<i>Current</i>		
<i>Cash</i>	\$ —	\$ 2 356 117
<i>Accounts receivable</i>	105 734 825	97 074 546
<i>Inventories</i>	65 421 096	81 330 771
<i>Prepaid expenses</i>	3 171 990	3 668 323
<i>Investments — current portion</i>	649 292	546 760
	<u>\$ 174 977 203</u>	<u>\$ 184 976 517</u>
<i>Deferred accounts receivable</i>	\$ 599 608	\$ 555 750
<i>Investments (note 2)</i>	<u>\$ 12 290 570</u>	<u>\$ 15 932 873</u>
<i>Fixed assets (note 3)</i>		
<i>Land, buildings and equipment, at cost</i>	\$ 85 338 670	\$ 86 148 979
<i>Accumulated depreciation</i>	43 423 909	41 049 836
	<u>\$ 41 914 761</u>	<u>\$ 45 099 143</u>
<i>Other assets (note 4)</i>	<u>\$ 1 355 541</u>	<u>\$ 2 485 531</u>
	<u>\$ 231 137 683</u>	<u>\$ 249 049 814</u>

Approved by the Board

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

Montreal, January 23, 1984.

Liabilities and members' equity

1983

1982

*Current**Outstanding cheques, less cash*

\$ 3 149 600

\$ —

Bank loans

7 101 000

12 100 000

Notes payable

38 120 000

59 822 000

Accounts payable and accrued liabilities

61 975 374

55 494 337

Patronage refunds

3 500 000

—

Redemption of share capital (note 7)

2 334 102

2 324 831

Income taxes

806 566

314 668

Current portion of long-term debt

7 723 660

7 688 017

\$ 124 710 302

\$ 137 743 853

Long-term debt (note 5)

\$ 33 658 854

\$ 40 446 677

Deferred income taxes

\$ 4 940 528

\$ 4 485 493

*Members' equity**Share capital (notes 6 and 7)*

\$ 30 996 969

\$ 33 562 174

Retained earnings

36 831 030

32 811 617

\$ 67 827 999

\$ 66 373 791

\$ 231 137 683

\$ 249 049 814

Commitments (note 10)

Consolidated statement of changes in financial position

as at October 31, 1983

	1983	1982
<i>Source of funds</i>		
<i>Funds derived from operations</i>		
<i>Earnings before extraordinary items, patronage refunds and income taxes</i>	\$ 12 181 159	\$ 5 628 900
<i>Charges to operations not requiring outlay of funds</i>	7 014 863	5 726 847
	\$ 19 196 022	\$ 11 355 747
<i>Redemption of investments</i>	3 530 455	591 754
<i>Proceeds on disposal of fixed assets</i>	2 177 142	1 263 083
<i>Proceeds on disposal of production licences</i>	1 951 317	—
<i>Increase in long-term debt</i>	941 820	9 844 168
<i>Shares issued</i>	1 717 852	646 153
	\$ 29 514 608	\$ 23 700 905
<i>Application of funds</i>		
<i>New investments</i>	\$ 3 121 256	\$ 2 783 891
<i>Increase (decrease) in deferred accounts receivable</i>	43 858	(373 633)
<i>Additions to fixed assets</i>	5 530 697	11 576 117
<i>Production licences and deferred charges</i>	296 686	934 974
<i>Decrease in long-term debt</i>	7 729 645	7 776 712
<i>Shares redeemed</i>	4 283 057	3 603 768
<i>Patronage refunds</i>	5 000 000	—
<i>Income taxes</i>	475 172	332 115
	\$ 26 480 371	\$ 26 633 944
<i>Increase (decrease) in working capital</i>	\$ 3 034 237	\$ (2 933 039)
<i>Working capital at beginning of year</i>	47 232 664	50 165 703
<i>Working capital at end of year</i>	\$ 50 266 901	\$ 47 232 664

Notes to consolidated financial statements

as at October 31, 1983

Note 1 — Accounting policies

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

Inventories — The inventories are stated at the lower of cost and 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 at the rate of 10% 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 deferral. 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

	1983	1982
Common shares	\$ 2 532 030	\$ 1 269 699
Preferred shares	6 680 852	11 096 223
Mortgages and notes receivable	3 726 980	4 113 711
	<u>\$ 12 939 862</u>	<u>\$ 16 479 633</u>
Current portion	649 292	546 760
	<u>\$ 12 290 570</u>	<u>\$ 15 932 873</u>

Note 3 — Fixed assets

	1983		1982	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 3 517 786	\$ 3 294 086	\$ 3 407 052	\$ 3 218 110
Buildings	29 631 917	18 931 861	30 309 903	19 872 359
Machinery and equipment	39 256 427	15 320 619	39 932 795	17 244 135
Automotive equipment	12 932 540	4 368 195	12 499 229	4 764 539
	<u>\$ 85 338 670</u>	<u>\$ 41 914 761</u>	<u>\$ 86 148 979</u>	<u>\$ 45 099 143</u>

Note 4 — Other assets

	1983	1982
Goodwill	\$ 1	\$ 1
Production licences and rights at amortized cost	1 223 755	2 098 165
Deferred expenses	131 785	387 365
	<u>\$ 1 355 541</u>	<u>\$ 2 485 531</u>

Note 5 — Long-term debt

	1983	1982
Debentures, 9%, 1985	\$ 1 800 000	\$ 1 800 000
Debentures, series "D", 9 $\frac{7}{8}$ %, 1985	1 000 000	1 000 000
Debentures, series "F", 10%, 1984-1986	1 000 000	1 000 000
Debentures, series "G", 10%, 1984-1987	850 000	2 424 200
Debentures, series "H", 9 $\frac{1}{2}$ %, 10%, 1984-1988	2 000 000	3 607 200
Debentures, series "J", 10 $\frac{3}{4}$ %, 1984-1989	1 500 000	1 862 600
Debentures, series "K", floating rate, 1984-1989	2 400 000	2 550 000
Debentures, series "L", 14 $\frac{3}{4}$ %, 1984-1993	4 850 000	4 950 000
Debentures, series "M", floating rate, 1993	2 000 000	2 000 000
Debentures, series "N", 15%, 1984-1993	1 900 000	1 966 666
Bonds, 8 $\frac{7}{8}$ %, 1984-1993	2 145 000	2 274 000
Bonds, 7 $\frac{3}{4}$ %, 1984-1987	300 000	375 000
Unsecured debts, floating rate, 1988-1991	15 100 000	15 000 000
Term purchase loans, 8 $\frac{1}{2}$ %, 9%, 1984-1985	4 086 985	6 451 947
Other	450 529	873 081
	<u>\$ 41 382 514</u>	<u>\$ 48 134 694</u>
Current portion	7 723 660	7 688 017
	<u>\$ 33 658 854</u>	<u>\$ 40 446 677</u>

Long-term debt due in each of the next five years is as follows:

1984 — \$ 7 723 660;	1986 — \$ 2 238 296;	\$ 1988 — \$ 3 840 532.
1985 — \$ 3 701 226;	1987 — \$ 1 847 534;	

Note 6 — Share capital

According to section 5 of the Act incorporating *Coopérative Fédérée de Québec*, the share capital is composed of the common shares subscribed by the members and of the preferred and common shares issued by it. Such share capital 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.

	1983	1982
Preferred shares of \$10 each		
1974 series, redeemable at the latest in 1984	\$ —	\$ 2 271 540
1975 series, redeemable at the latest in 1985	2 126 580	2 268 130
1976 series, redeemable at the latest in 1986	1 780 460	1 894 680
1977 series, redeemable at the latest in 1987	2 660 080	2 834 040
1978 series, redeemable at the latest in 1988	832 970	867 650
1979 series, redeemable at the latest in 1989	1 010 880	1 210 080
1980 series, redeemable at the latest in 1990	2 094 610	2 266 220
1981 series, redeemable at the latest in 1991	1 677 800	1 769 530
1982 series, redeemable at the latest in 1992	1 832 110	1 847 710
	<u>\$ 14 015 490</u>	<u>\$ 17 229 580</u>
Common shares		
Qualifying shares of \$ 10 or \$ 25, each, convertible in preferred shares	\$ 24 695	\$ 24 695
Qualifying shares, class "A", of \$ 25 each	1 903 900	1 867 000
Class "D", of \$ 25 each	14 975 815	14 390 325
	<u>\$ 16 904 410</u>	<u>\$ 16 282 020</u>
Partially paid	\$ 77 069	\$ 50 574
	<u>\$ 30 996 969</u>	<u>\$ 33 562 174</u>

Note 7 — Patronage refunds and redemption of shares

Patronage refunds — In accordance with the terms of the Act incorporating *Coopérative Fédérée de Québec*, the directors, at their meeting held on January 23, 1984, declared, out of earnings from operations of the current year, patronage refunds of \$ 5 000 000. They resolved that these refunds be paid \$ 3 500 000 cash and \$ 1 500 000 by an issuance of common shares class "D".

Redemption of shares — At the same meeting, the directors also resolved to redeem shares for an amount of \$ 2 334 102.

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

Note 8 — Extraordinary items

	1983	1982
<i>Loss on investment (less recovery of income taxes thereon — \$ 275 020)</i>	\$ (2 958 084)	—
<i>Gain on sale of production licences (less income taxes thereon — \$ 170 045)</i>	836 880	—
<i>Income tax reduction due to losses of subsidiaries from previous years</i>	574 998	—
	<u>\$ (1 546 206)</u>	<u>—</u>

Note 9 — Remuneration of directors and senior officers

The remuneration of Directors and senior Officers amounted to \$ 885 576 in 1983 (1982 — \$ 805 422).

Note 10 — Commitments

a) Minimum annual rental expenses, as per lease agreements for buildings and equipment, amount to approximately \$ 1 021 000.

b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately \$ 1 350 000 as at October 31, 1983.

Note 11 — Comparative figures

Certain comparative figures of the consolidated statement of operations have been restated to conform with the current year's presentation.

A u d i t o r s ' r e p o r t

To the members of Coopérative
Fédérée de Québec,

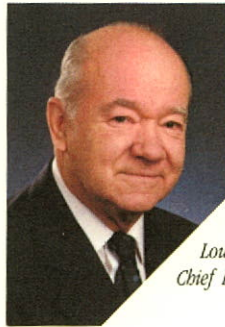
We have examined the consolidated balance sheet of Coopérative Fédérée de Québec as at October 31, 1983 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards 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, 1983, 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.

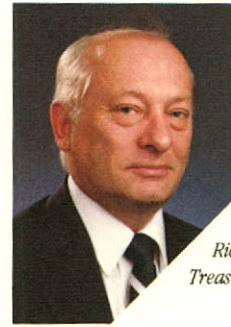
Mallette, Benoit, Boulanger,
Rondeau & Associés
Chartered Accountants.

Montreal, January 23, 1984.

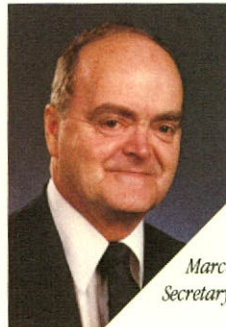
The management



*Louis-Philippe Poulin
Chief Executive Officer*



*Richard Newberry
Treasurer*



*Marcel Gingras
Secretary*



*Jean-Paul Cadieux
Manager
Human Resources Division*



*Yvon Mercier
Manager
Meat Packing Division*



*Émile Cordeau
Manager
Poultry Division*



*Jean-Marc Bergeron
Manager
Dairy Division*

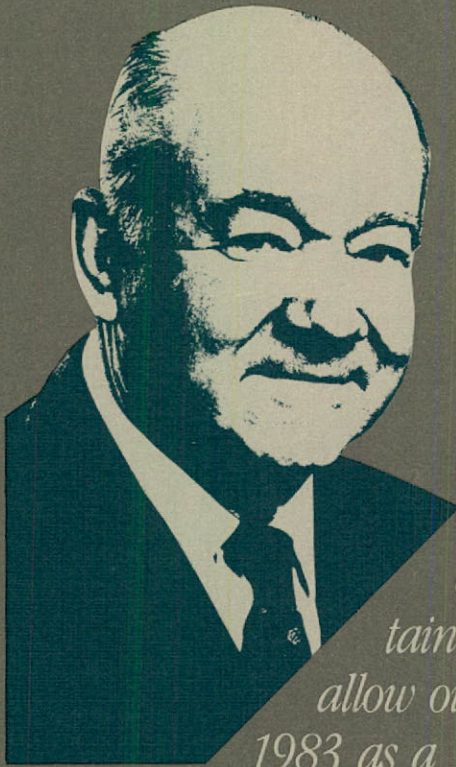


*Jean-Pierre Deschênes
Manager
Farm Supply Group*



*Maurice Lavallée
Manager
Feeds and Fertilizers Division*

The Management Report



An analysis of the 1982-1983 financial year of Coopérative Fédérée shows that economic conditions which so strongly affected the previous year's results had a major impact again this year. Although a certain degree of recovery is apparent, the agri-food industry as a whole has felt few benefits so far. Only particular situations in certain sectors produced large enough contributions to allow our Federation to report results which qualify 1982-1983 as a "good average" year, which is quite satisfying in view of the serious losses which had to be absorbed.

The profile of earnings and losses from various operations is different from those of previous years. Once again, these changes prove that the diversification of our commercial and manufacturing operations, and the Federation's access to different types of markets, are both invaluable factors for stability.

Sales totalled \$1,084 billion, down by 10.9% from the previous year's \$1,217 billion and just slightly above the 1980-1981 figure of \$1,075 billion. Lower sales were due in large part to the Dairy Division's decision to abandon a business with an annual sales volume of nearly \$100 million.

Gross earnings of \$139.4 million, representing 12.8% of sales, were 1.5% ahead of the previous year's figure. Operating and selling expenses at \$99.4 million, compared with \$96.1 million in 1981-1982, increased by just 3.4%, while administrative expenses decreased by 1.7%, to \$17.8 million compared with \$18.1 million the previous year. Total expenses at \$127.2 million were down by 4.1%, which means they have been kept within quite reasonable limits.

Earnings from operations, after accounting for extraordinary items but before income taxes and patronage refunds, totalled \$10.6 million, compared with \$5.6 million the year before and \$9.7 million in 1980-1981. They represent 1% of sales, against 0.5% a year ago. It should be noted that net earnings reflect the action taken by Coopérative Fédérée to respect its commitments towards its partners in Les Elevages Cobec Inc.

Meat Packing Division

During the year, the Meat Packing Division operated three livestock slaughtering and packing plants and two distribution centres. The Vallée Jonction and Princeville plants are owned by the Federation, which also operates a leased plant at St. Charles in Bellechasse County. The two distribution centres are located in Quebec City and Ville d'Anjou. A study of the processing and curing operations resulted in a decision at the beginning of the year to discontinue these operations.

The Meat Packing Division reported much better results than in the previous three years. Thanks to a combination of favourable circumstances, sales and income both reached new highs. Sales of \$270.5 million were 14% above the previous year, while volume was up by 20.4%, with total production of almost 300 million pounds.

This increased volume is due to the addition of a third slaughtering and packing plant at the beginning of the year. During the second quarter, labour disputes resulting in the closing of some plants helped to increase livestock receipts at the abattoirs. Total livestock receipts at the Division's three plants rose to 1,672,932 heads, a 22.2% increase over 1981-1982, including 1,671,397 hogs.

Export sales increased by more than 22.5% over the previous year. The United States retained first place in terms of volume, with Japan a good second and the United Kingdom third. The balance of sales abroad was shared among several other countries.

The Meat Packing Division made a very worthwhile contribution this year, as it provided the highest earnings of any sector. This is the result of greatly increased volume, generally satisfactory margins maintained throughout the year, and markets which regularly absorbed the Division's production.

Poultry Division

Poultry Division sales totalled \$128.3 million, down by 7.6% from the previous year, accompanied by a 3.8% drop in volume.

Market conditions were rather poor during the first ten months of the year, resulting in shrinking wholesale prices. The reversal of the situation at the end of the year allowed the Division to erase the quite substantial loss accrued by the end of the tenth month and to finish the year with a slight loss in comparison to those of the three preceding years.

A study on the possibility of achieving normal profitability at the Upton egg breaking plant resulted in a recommendation to the Board of Directors that this plant should be sold. The Board agreed with this recommendation and it was sold at the end of April 1983.

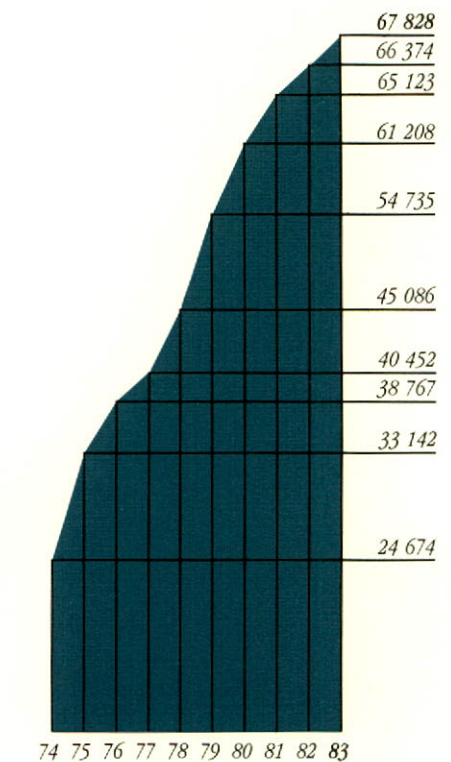
Dairy Division

The Dairy Division recorded the best results since it was set up, even though sales were down by 28.3%, to a total of \$263 million. This decrease was due to the reasons given at the beginning of this Report, along with lower butter sales. The three main factors contributing to the year's good results were: a dynamic approach to exports, a substantial increase in cheddar cheese sales on the Canadian market, and good control of expenses.

An analysis of the Division's operations shows a quite substantial reduction in butter sales; a marked decrease in skim milk powder transactions with the Canadian Dairy Commission, although export sales of this product were up sharply; but, on the positive side, there was a noticeable increase in sales of cheeses and evaporated milk.

Export activities have been on the rise, aided by a favourable market context. In the first place, the very large butter surpluses being held by the Canadian Dairy Commission made it more necessary than ever to have the Commission's export policy working smoothly, because the best way to avoid larger butter surpluses was to export evaporated milk and whole milk powder. The Dairy Division has been quite happy to take part in such a policy.

Members' Equity
(in thousands of \$)



There are still some questions being raised about exports. However, the Division's relations with the Canadian Dairy Commission and other associates provide the best hopes for the future. In this respect, we should mention the close co-operation offered by Francexpa S.A., one of the most important firms in France engaged in the export of dairy products, and which has been associated with Coopérative Fédérée for several years now.

In last year's Annual Report, we drew your attention to the joint initiative taken by the dairy co-operatives to produce and market a high quality butter under the SAVOURIN brand name. There is no need here to recall the objectives of this joint effort, nor to repeat that this product ably testifies to the quality, competence and leading edge technology of our dairy co-operatives. It is a convincing argument that the general public can easily appreciate.

Contributions made by the Division's various Departments were better than in the previous year. This Division has always been extremely active at the institutional level. This is due not only to the technical support it provides the Co-operative Dairy Council and other joint initiatives, but also because of its role as a resource and an element of continuity in certain programmes. When we add to this the work of an institutional nature which it does as part of its essential commercial operations, we believe that the Division serves the co-operative interests of our principal farm industry capably and well.

The uncertain pricing situation, in addition to the effect it had on profitability, thrust the Petroleum Department right into the middle of an industry-wide upheaval. Following the example of many industries in this economic sector, the Department had to restructure its purchasing policies and procedures and its management, in order to reduce its expenses to the lowest level possible. Fortunately, almost normal conditions prevailed in the propane gas and automotive products sectors, which both reported normal profitability.

The Department celebrated during the year its 25th anniversary in an appropriate manner. We believe the difficulties that it had to surmount during that period prove that this sector of the farm co-operative movement can successfully come through major crises of any kind. That fact seems to guarantee the future of an operation which has made a worthwhile contribution to the success of our movement.

Feeds and Fertilizers

The Feeds and Fertilizers Division reported results appreciably below those of the previous year. In fact, they were the lowest in four years. This situation can be explained in large part by two factors. The first involves difficult market conditions for fertilizers, feed grains and hatched chicks. The second is due to the additional fixed costs incurred following the construction of the new Joliette plant.

Overall sales totalled \$180.7 million, down by 9.2% compared to the previous year, almost entirely attributable to lower grain sales. A reduction of about 6% in the gross margin and an increase of some 9% in expenses helped to reduce the annual contribution by some 40%. It should also be mentioned, however, that patronage refunds from C.F. Industries Inc. and IPCO amounted to only \$89 thousand, compared with \$537 thousand in 1981-1982 and \$3.06 million in 1980-1981. Such outside income quite obviously improved the results of the two previous years very substantially.

Fruits and Vegetables

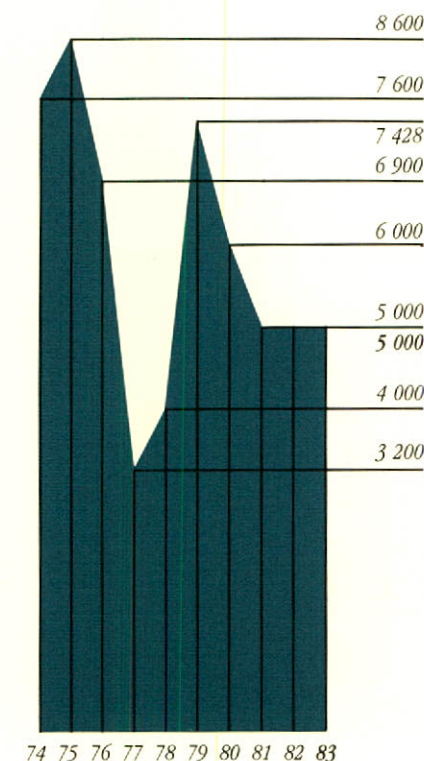
Fruit and Vegetable Department sales were down by about 10%, at \$1.8 million, but overall results were better. The Department's earnings increased, due to the fact that gross margin decreased less than expenses. Volume was about at the same level, and the principal products marketed are table potatoes, onion, carrots and seed potatoes, among others.

Petroleum Department

This has been a turbulent year for the Petroleum Department. In addition to the persisting trend towards lower consumption of all petroleum products, numerous and lengthy price wars have upset the market. Needless to say, all this has seriously damaged profitability. As a result, the Department's 1982-1983 contribution, although positive, was the lowest in five years.

Sales totalled \$140 million, 21.4% below the preceding year's figure, and volume was down by a little more than 10%. An analysis of product volumes shows sharp drops for heating products, including bunker oil and propane for industrial use. The only product showing an increase was diesel fuel, coloured and uncoloured.

Patronage Refunds Allocated
(in thousands of \$)



Grain Department sales decreased by 11.7% in value and 13.5% in volume. This lower volume is due mainly to a drop in the quantity of dairy and hog feeds manufactured, accompanied by a continuing increase in local grain production.

Gross margin decreased by 28.5% in dollar terms, compared with the preceding year. The risks assumed by this Department on winter stocking of grains resulted in a substantial inventory gain over 1981-1982. During the first few months of 1983, the availability of local grain supplies at prices lower than the replacement cost for out-of-province grain triggered liquidation of stocks in the port elevators, resulting in lower margins and a large decrease in the Department's contribution.

The Department operates the grain drying plant at Napierville, which plays the dual role of grain drying and grain marketing. This operation, which has always been a deceptive one, again recorded a loss. The presence of a great number of dryers on farms and two other industrial installations in the vicinity means that the Napierville plant operates at only 50% of its capacity. Some serious questions are being raised about the future of this operation.

Even though the industry is undergoing profound changes, livestock feeds still play a leading role in the business activities of North America farm supply co-operatives. Feeds Department sales were down by 10.6% compared with the preceding year, but if a comparison is made on the same basis as last year, that is, their equivalent content of concentrates, the volume decrease turns out to be 4.2%. This corresponds roughly to the trend in the Quebec feeds market during that same period.

Cattle and hog feeds volumes were down, but poultry feeds showed an increase. On the whole, considering the general trend in the industry, the Department has not really lost any ground in this very competitive market.

The gross margin was virtually unchanged from 1981-1982, but expenses were considerably higher, due principally to additional interest and depreciation charges attributable to the Joliette feedmill. The Feeds Department's contribution, as a result, was about one-third lower than in the previous year. Mention should also be made of the labour dispute which brought operations to a standstill at the new Joliette plant towards the end of the financial year.

Sales of livestock health products were down by almost 8%, essentially as a result of lower hog production and reduced demand for medications after a serious hog epidemic was brought under control. Competition in the livestock health products market is always very keen.

Hatchery Department sales decreased by almost 4% in dollar value, and by 12.5% in volume. This drop is attributable to the loss of customers in Eastern Ontario and the fact that insufficient poultry production quotas were available for leasing in exchange for broiler chick purchases. Pullet sales increased for the sixth consecutive year, indicating greater market penetration is being achieved. The Hatchery Department contribution was down sharply, for the reasons mentioned.

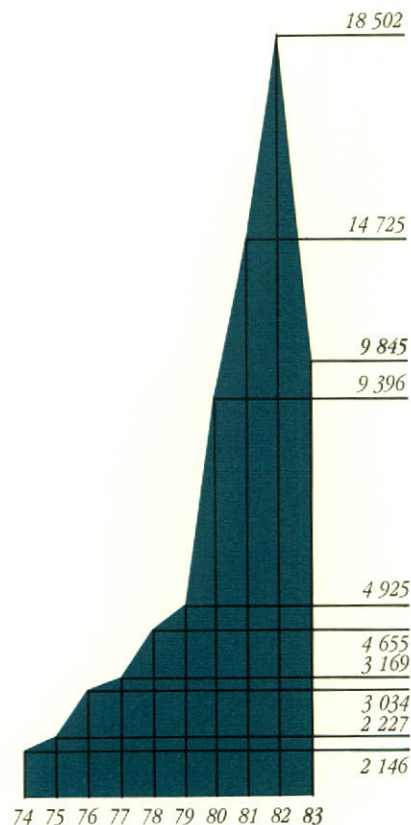
This was a difficult year for the North American fertilizer industry, and Quebec was no exception. Because of the weather last spring, sales had to be made over a short period of time. Our Federation was able to provide satisfactory service during this abbreviated season, thanks to its well structured and widespread distribution network. Although sales were down by 6%, to \$31.5 million, volume increased by 5%, with more than half of that in blended products. This volume increase bettered the overall market performance, indicating that the co-operative's market penetration is still growing.

The Department's contribution was small. The fears of some suppliers that they would be unable to move their inventories triggered a price war which slashed margins severely. Margins on purchases of ingredients were reduced, and no refunds were granted by the principal manufacturer of ingredients. Although expenses were reduced appreciably, the above factors weighed heavily on this sector's operations.

Farm Chemicals Department volume was about the same as in the previous year, but the contribution was smaller. Sales of products for farms and garden centres also stayed at about 1981-1982 levels, while there was an increase in sales of rat poisons and insecticides.

Seeds Department sales increased by 1.6%, producing the best contribution in recent years. Sales of forage crop seeds rose substantially in volume, but those of grain seeds dropped, due to decreased usage and increased sales directly from graders to users.

Financing Costs
(in thousands of \$)



Agricultural Supplies

The Agricultural Supplies Division reported sales of \$22.3 million, a 24.5% decrease from the previous year. Retail sales fell sharply after the closing of the Sorel and Trois-Rivières branches, but the wholesale sector showed a sales increase of about 4.5%. As previously noted, Petroleum Department sales felt the depressing effects of price wars in the industry.

An analysis of the wholesale sector by product shows increased sales of hardware, building materials, electrical and plumbing supplies, but lower sales of dairy and general farm supplies and automotive products.

Farm Supplies Department sales have been on the decrease for the past two years, in line with the general trend in this economic sector. Despite that, the Department's results have been improving for the past three years, although they are still unsatisfactory, with volume the main problem, as always.

Farm Implements Department results mirror the unprecedented crisis this industry is undergoing throughout North America. Our co-operative movement is doing no better than the rest, but the woes of one sector do not alleviate those of the other.

Although this Department remains our Federation's "soft sector", results showed improvement over the previous year. Sales decreased by almost 10%, but improved gross margins and a drastic reduction of almost 30% in expenses helped to reduce operating losses substantially. They went from \$4.5 million in 1981-1982 to a little more than \$1 million this past year.

At the end of the year, the Federation operated seven retail branches, not counting those attached directly to the wholesale operation. Together, they reported sales of slightly more than \$58 million. There were some losses, about half of them attributable to the dissolution of Les Élevages Cobec Inc.

In all cases, needless to say, these retail branches were opened in response to difficulties being encountered by member co-operatives. In order to restore these branches to normal operating efficiency, it was necessary to assume some costs and accept certain losses, most of which are of a non-recurring nature. This is the price which must be paid so the farm co-operative movement can maintain a viable presence in certain regions.

Farm Supply Group

Management for some time now has been thinking of grouping all farm supply operations under a single administrative authority. The objective, essentially, is for the Federation to better unify, plan and coordinate its relations with the farm supply co-operatives. This is the reason for setting up the Farm Supply Group.

This new group operation concept introduced by Management within the organizational structure is clearly necessary under today's market conditions. It has become more and more important to ensure the best possible "marriage" between market demand and the product concept, and we believe that we have responded to that concern. The primary responsibilities of those in charge of this new structure are at the related levels of planning and orienting the farm co-operative movement's activities in the entire vast area of providing our members with a complete range of needed farm supplies.

Financial situation

Working capital increased by \$3 million during the past twelve months, totalling \$50.2 million at financial year-end. Accounts receivable, at \$105.7 million, were up by 8.8% over the previous year's \$97.1 million. This increase of about \$8 million was due principally to the decision of a large purchaser of dairy products to lengthen payment terms. Accounts receivable represented 9.7% of sales, compared with 7.9% in 1982 and 10.2% in 1981.

Overdue accounts receivable decreased appreciably, from \$28.9 million, or 28.6% of accounts receivable, in the preceding year, to \$24.7 million, or 23%, of accounts receivable at 1982-1983 year-end. The bad debts to sales ratio was also lower, at 0.08% compared with 0.18% the year before.

Inventories were down \$15.9 million or 19.6% from the previous year's level, substantially outweighing the 10.9% decrease in sales. This reduction is essentially due to better inventory control, and it is interesting to note that almost all operational units reported similar improvements.

Increasing retained earnings and the members' equity remains a foremost objective of the Board of Directors. The 1982-1983 balance sheet shows retained earnings of \$32.8 million, an increase of \$4.0 million for the year. Members' equity rose to \$67.8 million, compared with \$66.4 million a year ago.

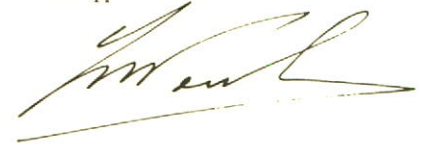
Administrative Departments

Our Federation's operational units can always count on the administrative departments for the wide and varied range of services they need to carry out their essential daily tasks promptly and efficiently. Coöperative Fédérée Management and the entire personnel of our member co-operatives benefit in equal measure. The unfailing availability of the specialists in these departments, and their professional expertise, improves the work skills and competence of everyone. We know, also, that their presence on both levels of our great movement is an important factor in our cohesiveness and unity.

In all sectors of our operations which are not protected by government interventions of one kind or another, our Federation last year had to face various degrees of competition which exerted downward pressures on margins. In markets that are seasonal in nature, or in certain situations where demand is shrinking, an upsurge in competition is only normal. One answer is to reduce expenses, and the figures given earlier testify to the total effort made in this area by all our managers. Full recognition must be given them for their constant desire to seek ways to achieve the greatest possible efficiency.

We wish to extend special thanks to all our directors, colleagues, farm co-operative members and outside associates who have given us their constant support in carrying out our task. Although some financial years may produce better results than others, none is totally lacking in difficult and delicate situations. The quality of the human resources we can draw upon is the vital factor that allows us to surmount all difficulties.

Louis-Philippe Poulin



Chief Executive Officer

1958-1983

25
ANNIVERSARY



