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COOPÉRATIVE
FÉDÉRÉE
DE QUÉBEC

ANNUAL
REPORT
1984

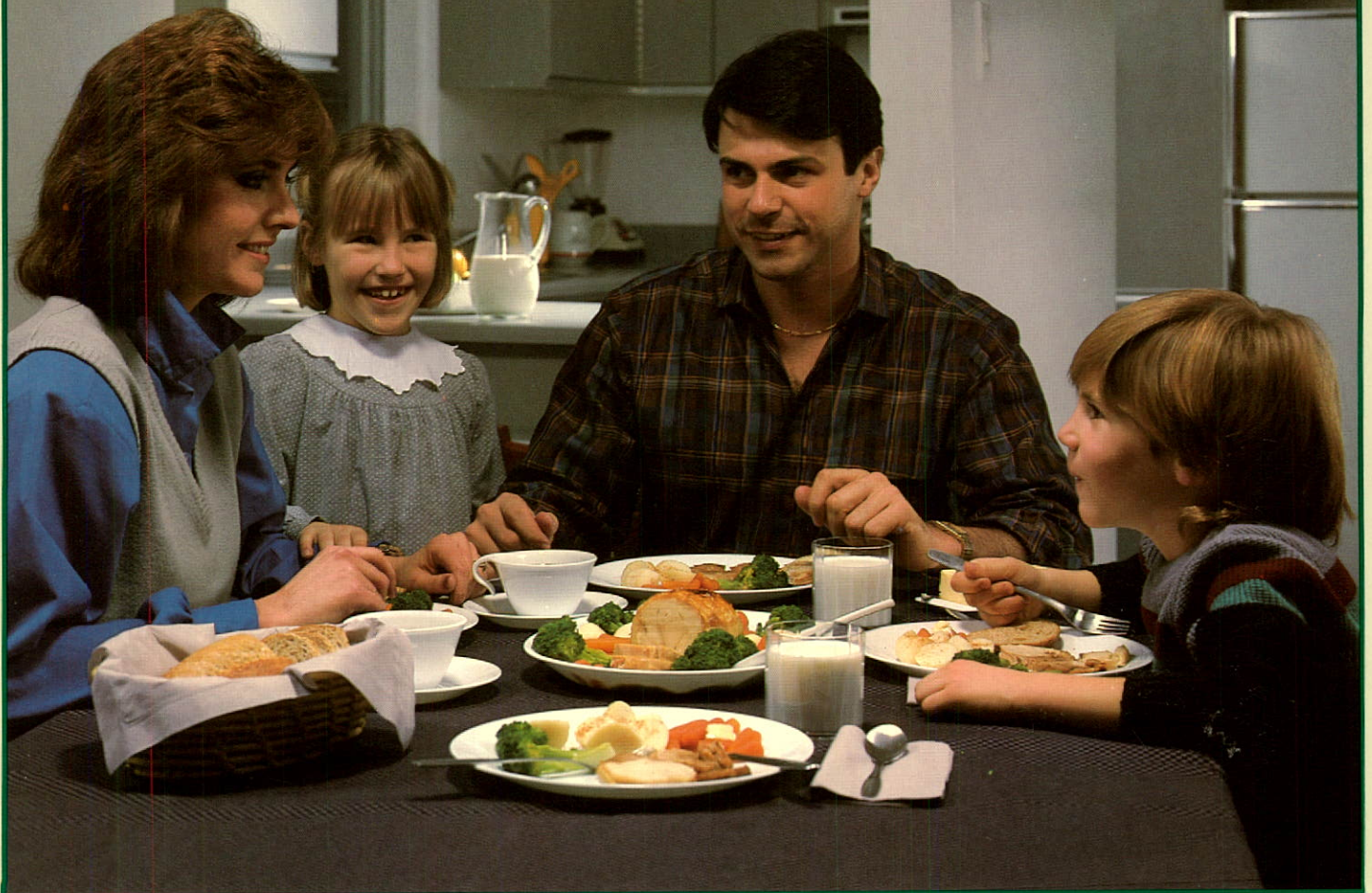


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**Consumers' tables welcome our
new products**

Our cover photo sheds lustre upon Quebec's ever innovating farm co-operatives products that are being found more and more on the tables of consumers.

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

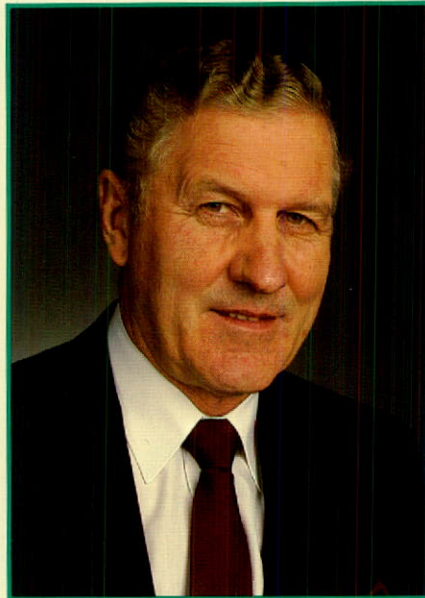
Annual Report 1984

Highlights (in thousands of \$)	1984	1983
Sales	\$1 156 877	\$1 084 327
Salaries and employee benefits	71 108	66 153
Financing costs	8 119	9 845
Earnings before extraordinary items, patronage refunds and income taxes	13 839	12 181
Net earnings	6 057	4 019
Accounts receivable and inventories	175 283	171 156
Current assets	179 777	174 977
Additions to fixed assets	8 857	5 531
Working capital	50 010	50 267
Fixed assets, at cost	91 130	85 339
Fixed assets, net	43 345	41 915
Total assets	240 048	231 138
Long-term debt	32 247	33 659
Members' and Cooperative's equity	73 399	67 828

For another year, we are pleased to present you our report on Coopérative Fédérée operations for the 1983-1984 financial year, along with comments on some of the main events or situations which marked the farm and co-operative scene during these twelve months.

As in past years, our Chief Executive Officer will be giving you a detailed report on the results achieved by the Federation's various divisions and departments. But just let me say that we are all profoundly pleased with the success that has been achieved. For yet another year, the cooperative movement has economic force to be better results can be future.

The interesting Executive Officer will the result of hazard. due, above all, to the member co-operatives the one hand, and to done by all managers



Quebec farm co-operated that it is still an envied, and that even anticipated in the

figures that our Chief be giving you are not Far from it. They are concerted action of our and their members, on the excellent work and employees of our

co-operatives and our Federation, on the other hand. Once again, their loyalty to our movement has brought us all a rich harvest. Once more, we have shown that together we can achieve great results, especially when we all have the same objectives.

THE YEAR IN REVIEW

It is not possible for us to describe what was good or bad about 1984, because it was an excellent year for some sectors and a disastrous one for others. If we consider the forage crops, the yield was very good but prices were disappointing. The milk producers fared a bit better than they did the year before and they earned what may be termed a decent income from their production. Things were not too bright in hog production, and without the income stabilization insurance, it would have been another disastrous year. We must add that no hog producer has become rich in recent years.

Although farm income may have increased in 1984, it certainly was not sufficient to encourage farmers to renew their farm implements. This sector had another bad year, as a result. Producers being always eternal optimists, we can only hope that 1985 will mark the return to a certain degree of prosperity.

FARM FINANCING

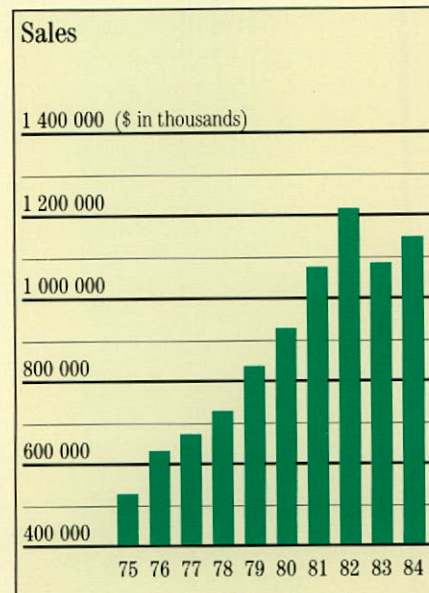
During recent months, the media have regularly reported the ever increasing financial difficulties many farmers face. Quite a few have gone bankrupt and an impressive number of them will have to abandon farming because they lack the necessary funds. But what is especially important is the fact that many of those giving up farming are young people.

Our farm organizations, provincial and national alike, have tried to make our governments aware of this farm credit problem. It seems that their voices have finally been heard, since some important improvements were

announced recently. This subject will still be front and centre in 1985, because we believe that some very significant changes in government policy are essential if we wish to ensure the survival of our farming industry by allowing young farmers to take their rightful place.

FUTURE FARMERS AND RURAL YOUTH

We have just pointed out the problems facing young farmers and the



difficult situations they have to live with. Now, we would like to emphasize that the farm co-operative movement is far from being insensitive to those problems and that it is directly involved in certain activities launched by youth groups. For example, the Federation finances the newsletter published by the Quebec Farm Youth Federation. It also helps finance the Quebec Rural Youth Association, and one of our directors is a member of the Board of that organization. Recently, in addition, our Federation joined with the dairy co-

operatives to sponsor the Rural Youth group's publication, Info-Rural. This sponsorship takes the form of a regular column on the farm co-operative movement.

In our last year's message, we called on member co-operatives to study ways they could provide concrete assistance to our youth, by becoming further involved in co-operative training programmes, starting with the existing realities and basic needs of our farmers. Our appeal was not in vain, because some of our co-operatives, in almost all regions of the province, organized activities designed to respond to some of the most glaring needs of our young people. We congratulate those co-operatives that have taken such initiatives, and encourage the others to follow their example. The future of agriculture in this province, and the future of our member co-operatives depend on having well trained youth to carry on our tasks in future years. We must ensure that they are ready.

RELATIONS WITH THE FARMERS UNION

Before speaking about present relations with the Farmers Union, it is certainly appropriate at this point to recall that last October, the Quebec Farmers Union (U.P.A.), celebrated its 60th Anniversary. In an advertisement published on that occasion, we recalled that over the years the farm co-operative movement and the farmers union have generally got along well.

After all, don't they have a common objective, which is to ensure the well-being of their members by defending their interests while seeking to ensure a better sharing of powers and wealth.

Once again in 1984, the two movements made joint representations on matters of primary importance, such as the grain transportation policy, farm financing, improvement of conditions offered to young farmers, and so on. The U.P.A. and the Federation also shared a seat at the recent economic summit on "Quebec in the World".

The Professional Commission on Agriculture, made up of six representatives from the farm co-operatives and an equal number from the farmers union, continued to carry on in its quiet way.

This Commission, which met three times in 1984, may not make much noise, but it does ensure a permanent and serene contact between our two farm movements. That was one of the objectives set for the Commission when it was created in 1980. This forum for discussion and dialogue must be kept in place, and we intend to help it fill its useful role in every way we can.

Our dairy co-operatives continue to lead in the market place by introducing a high quality ice cream.

PROVINCIAL TOUR

Accompanied by our Chief Executive Officer, Mr. Louis-Philippe Poulin, we made a tour of virtually all regions in the province between October 30 and December 13, 1984. This was the third consecutive year that such a tour was organized and it allowed us once again to have a most useful dialogue with the directors and managers of almost all our member co-operatives.

Since the matters dealt with at these meetings had been suggested by the co-operatives themselves, each

meeting dealt with a particular aspect of special interest to that particular group. Everywhere we went, the discussions were animated and we could feel a genuine interest in this kind of dialogue. There was unanimous agreement at each meeting that we should continue this procedure next year.

Some of the important matters discussed during this tour were: the need to have more information regarding amendments to the act incorporating Coopérative Fédérée; application of the new co-operative Act; member contracts; the agreement concerning the management of the co-operatives' human resources; the services offered by the Federation to its member co-operatives; the self-financing of co-operatives, and others.

These meetings also provided further opportunities to discuss the duties and responsibilities of the directors of our co-operatives. We also took advantage of these occasions to remind the participants, who are all in positions of authority in their co-operatives, that they must,



as owner-users, set an example for other members in being loyal to their institution. We feel that practising what one preaches is the most efficient way to obtain strong support from the members of our respective co-operatives and, consequently, achieve results of which we can truly be proud.

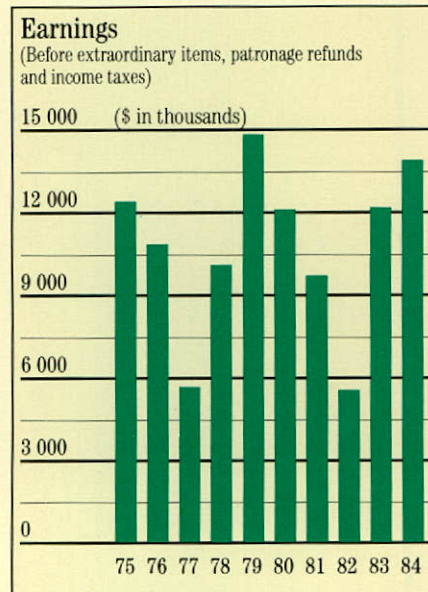
TRAINING PROGRAMME

It will be recalled that in our last year's report, we mentioned that we had started a training programme for the directors and managers of co-operatives. Using the theme of "The Farm Co-operative Movement Today" this programme involved 503 participants from 93 co-operatives in 36 sessions. A special programme, launched at the beginning of last autumn, was designed exclusively for presidents and vice-presidents. It deals specifically with the role and responsibilities of a president of a farm co-operative. Still in the Fall of 1984, another training course was inaugurated to promote better knowledge and greater proficiency in the roles and responsibilities of co-operative directors and managers. We are also pleased to announce that the first training programme for employees of farm co-operatives will get underway in 1985.

COMMUNICATIONS

LE COOPÉRATEUR AGRICOLE, the official organ of our movement, is now in its fourteenth year. Regular readers will certainly have noted how it

has progressed over the years. It now contains regular columns on both animal and crop production, along with a broad range of information on the activities of our member co-operatives and their Federation. Space is also provided for news about the Quebec Farm Youth Association and the Association of Farm Women Colleagues. We urge all our member co-operatives to encourage not only their members to subscribe to this magazine, but all farmers in their areas. Our magazine is an excellent extension instrument for our movement and can be of great help in increasing the num-



ber of farm co-operative members.

AGRI-COOP, the newsletter for co-operative directors and managers, is another important communications medium. We believe that it is of great help in improving our knowledge of administrative and management matters, and that we can all profit from it.

THE CO-OPERATIVE SCENE

There were a number of interesting events on the co-operative scene during 1984 that deserve mention. First of all, we should call attention to the numerous anniversaries celebrated by our member organizations during the year. These celebrations, in our view, gave us several golden opportunities to recall the work and efforts of the builders of our movement and those who have followed them. But they also gave our members the opportunity to meet on fields other than those where the cattle roam, to forge the close links that must exist between them, and to plan the development of their own enterprise.

Another important event on the co-operative scene was the 6th Annual Congress of the Co-operative Dairy Industry. Based on the theme, "The Dairy Co-operative Movement: a World of its Own", this Congress brought together the directors and managers of the dairy co-operatives and Coopérative Fédérée, as well as an impressive list of guests from dairy co-operatives in France, the United States and the Netherlands.

Although it lasted only one day, this Congress resulted in a productive exchange of ideas on such matters as the place of co-operatives in the dairy network, the structures and specific activities of co-operatives, programmes designed to develop the skills and knowledge of members, but especially the challenges and orientations of the dairy co-operatives from now until the year 2000. The quality of the guest



speakers and the positive attitude of the delegates were the main factors that ensured the success of this important event.

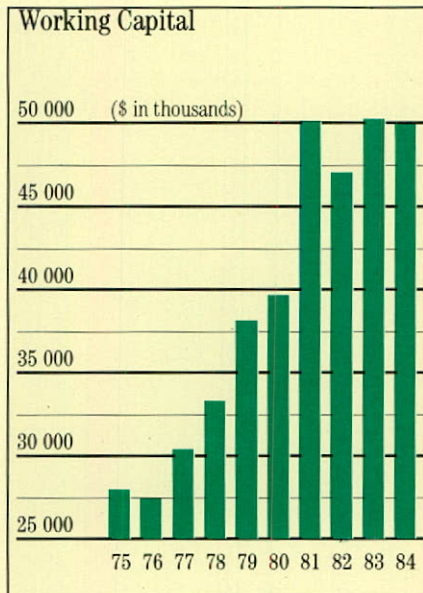
“Co-operation; Discover its Strength” was the theme chosen for the National Co-operation Week, which was held from October 15 to 20, 1984. During that period, we invited our member co-operatives to transpose that theme to their own activities, to help their members discover all the social and economic advantages they can gain from the enterprise which they jointly own. “Masters in our own home” is not only a political slogan: above all, it is also a reality for the already convinced members of our co-operatives.

On several occasions during the year, we had convincing proof that our member co-operatives and their members constantly seek excellence. Among the many examples, we wish to mention the honor conferred on three of our dairy co-operatives during the presentation of the Lys d’Or awards last October.

In our message last year, we stressed the unusual achievement of three co-operative members who won the gold, silver and bronze medals during the 1983 Agricultural Award of Merit competition. We are pleased to mention that their constant striving for excellence has once again resulted in three members of our co-operatives winning the three medals in 1984. This search for excellence also enabled a Quebec couple, also co-operative members, to

be named as “Canada’s Elite Farm Youth”. This was the third consecutive year that Quebec co-operative members have captured the prize in this national competition. We are proud of them, and equally proud of our movement.

This Annual Report shows you photographs of some of the new products that have recently been introduced in the market by the farm co-operative movement. We should like to mention in particular the SAVOURIN butters and ice cream, and the DIND’OR turkey roasts.



Once again, the farm co-operatives proved that they have the know-how and that they are diligently seeking ways at all levels to produce and market products of the highest quality, which are sure to find favour with consumers.

In another area of great interest to our members, the Board of Directors followed up on a resolution passed at our 1984 Annual Meeting by urging the provincial authorities to introduce a bill

setting up a stock investment plan that would be compatible with co-operative movement principles. Unfortunately, such a plan did not see the light of day during 1984 as we had hoped, but it appears that we can expect to see it introduced in the not too distant future. If that is not done, we will apply further pressures.

In closing, we must say a word of appreciation for the excellent work done this past year by the members of our Board of Directors. Their great competence and sense of duty are closely linked with the success achieved by our Federation, and we are very grateful to them. During the period covered by this Report, our Board met eleven times and the Executive Committee held fifteen meetings.

Finally, our message would be far from complete if we did not express our appreciation to our managers and employees for the support they continued to give us throughout the year. Without them, and without the loyalty of our co-operatives, their members and employees, the farm co-operative movement would certainly not be what it is today, and would not be looking forward to an even more promising future.

Paul-Émile St-Pierre
President

DIND'OR, the brand name of new turkey products recently introduced by the Poultry Division of Coopérative Fédérée. Gourmets, and all those who want to be gastronomic experts, only have to try these products once to become regular and enthusiastic users.



B O A R D O F D I R E C T O R S



*From left to right
Executive Committee, Paul
Massicotte, Paul-Émile St-Pierre,
President, Jean-Charles Mercier,
Michel Lemire, 2nd Vice President,
Alphonse-Roger Pelletier,
1st Vice President.*



Léandre Morin, Roland Lachance,
Bruno Beaulieu, Napoléon Théberge,
Jean-Marie Girouard.



Paul Dessureault, Claude Couture,
Lloyd Meyer, Léon Désautels, Hubert
Doré.

T H E M A N A G E M E N T



From left to right
Jean-Pierre Deschênes, Manager, Farm
Supply Group, Louis-Philippe Poulin,
Chief Executive Officer, Richard
Newberry, Treasurer.



Émile Cordeau, Manager, Poultry
Division, Marcel Gingras, Secretary,
Maurice Lavallée, Manager, Feeds and
Fertilizers Division.



Jean-Paul Cadieux, Manager, Human
Resources Division, Jean-Marc
Bergeron, Manager, Dairy Division,
Yvon Mercier, Manager, Meat Packing
Division.

CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended October 31, 1984

	1984	1983
Sales	\$1 156 877 113	\$1 084 327 226
Cost of goods sold	1 011 387 879	944 950 592
Gross earnings	145 489 234	139 376 634
Expenses		
Salaries and employee benefits	71 108 399	66 152 999
Operating and selling	39 929 224	39 208 037
General administrative	6 088 019	5 141 777
Long-term debt interest	4 325 653	4 852 831
Other financial expenses	3 793 164	4 992 578
Depreciation	6 405 340	6 847 253
	131 649 799	127 195 475
Earnings		
before extraordinary items, patronage refunds and income taxes	13 839 435	12 181 159
Extraordinary items (Note 8)	—	(1 546 206)
Earnings before patronage refunds and income taxes	\$ 13 839 435	\$ 10 634 953
Distribution of earnings		
Patronage refunds (Note 7)	\$ 6 000 000	\$ 5 000 000
Income taxes - current	2 087 997	1 325 190
Income taxes - deferred	(305 721)	290 350
Net earnings for the year	6 057 159	4 019 413
	\$ 13 839 435	\$ 10 634 953

CONSOLIDATED STATEMENT OF GENERAL RESERVE
for the year ended October 31, 1984

Balance at beginning of year	\$ 36 831 030	\$ 32 811 617
Net earnings	6 057 159	4 019 413
Balance at end of year	\$ 42 888 189	\$ 36 831 030

CONSOLIDATED BALANCE SHEET
as at October 31, 1984

Assets	1984	1983
Current		
Accounts receivable	\$104 580 886	\$105 734 825
Inventories	70 701 665	65 421 096
Prepaid expenses	3 775 618	3 171 990
Investments - current portion	719 257	649 292
	<u>179 777 426</u>	<u>174 977 203</u>
Deferred accounts receivable	697 579	599 608
Investments (Note 2)	15 166 256	12 290 570
Fixed assets (Note 3)		
Land, buildings and equipment, at cost	91 130 064	85 338 670
Accumulated depreciation	47 785 455	43 423 909
	<u>43 344 609</u>	<u>41 914 761</u>
Other assets (Note 4)	1 061 713	1 355 541
	<u>\$240 047 583</u>	<u>\$231 137 683</u>

Approved by the Board

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

Montreal, January 24, 1985.

Liabilities and equity	1984	1983
Current		
Outstanding cheques, less cash	\$ 3 104 233	\$ 3 149 600
Short-term loans	56 946 000	45 221 000
Accounts payable	58 343 228	61 975 374
Patronage refunds	4 132 588	3 500 000
Redemption of share capital (<i>Note 7</i>)	2 334 682	2 334 102
Income taxes	989 464	806 566
Current portion of long-term debt	3 916 780	7 723 660
	<u>129 766 975</u>	<u>124 710 302</u>
Long-term debt (<i>Note 5</i>)	32 247 294	33 658 854
Deferred income taxes	4 634 808	4 940 528
Equity		
Members' equity		
Share capital (<i>Notes 6 and 7</i>)	30 510 317	30 996 969
Cooperative's equity		
General reserve	42 888 189	36 831 030
	<u>73 398 506</u>	<u>67 827 999</u>
	<u>\$ 240 047 583</u>	<u>\$ 231 137 683</u>

Commitments and contingencies (*Note 10*)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

as at October 31, 1984

	1984	1983
Source of funds		
Operations		
Earnings before extraordinary items, patronage refunds and income taxes	\$13 839 435	\$12 181 159
Charges to operations not requiring outlay of funds	6 521 160	7 014 863
	20 360 595	19 196 022
Redemption of investments	988 233	3 530 455
Disposal of fixed assets	1 200 024	2 177 142
Disposal of production licences	—	1 951 317
Increase in long-term debt	2 505 220	941 820
Shares issued	1 955 043	1 717 852
	27 009 115	29 514 608
Application of funds		
New investments	3 863 919	3 121 256
Increase in deferred accounts receivable	97 971	43 858
Additions to fixed assets	8 857 203	5 530 697
Production licences	—	296 686
Decrease in long-term debt	3 916 780	7 729 645
Shares redeemed	2 441 695	4 283 057
Patronage refunds	6 000 000	5 000 000
Income taxes	2 087 997	475 172
	27 265 565	26 480 371
Increase (decrease) in working capital	(256 450)	3 034 237
Working capital at beginning of year	50 266 901	47 232 664
Working capital at end of year	\$50 010 451	\$50 266 901

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at October 31, 1984

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

	1984	1983
Common shares	\$ 4 037 315	\$ 2 532 030
Preferred shares	8 925 134	6 680 852
Mortgages and notes receivable	2 923 064	3 726 980
	\$15 885 513	\$12 939 862
Current portion	719 257	649 292
	\$15 166 256	\$12 290 570

Note 3 Fixed assets

	1984		1983	
	Cost	Net book value	Cost	Net book value
Land and land improvements	\$ 3 748 677	\$ 3 482 086	\$ 3 517 786	\$ 3 294 086
Buildings	32 991 020	20 949 944	29 631 917	18 931 861
Machinery and equipment	42 015 808	15 089 799	39 256 427	15 320 619
Automotive equipment	12 374 559	3 822 780	12 932 540	4 368 195
	\$91 130 064	\$43 344 609	\$85 338 670	\$41 914 761

Note 4 Other assets

	1984	1983
Goodwill	\$ 1	\$ 1
Production licences and rights at amortized cost	1 045 747	1 223 755
Deferred expenses	15 965	131 785
	\$ 1 061 713	\$ 1 355 541

Note 5**Long-term debt**

	1984	1983
Debentures, 9%, 1985	\$ 900 000	\$ 1 800 000
Debentures, series "D", 9 $\frac{7}{8}$ %, 1985	1 000 000	1 000 000
Debentures, series "F", 10%, 1986	1 000 000	1 000 000
Debentures, series "G", 10%, 1987	850 000	850 000
Debentures, series "H", 10%, 1988	2 000 000	2 000 000
Debentures, series "J", 10 $\frac{3}{4}$ %, 1989	500 000	1 500 000
Debentures, series "K", floating rate, 1988-1990	2 400 000	2 400 000
Debentures, series "L", 14 $\frac{3}{4}$ %, 1985-1993	4 500 000	4 850 000
Debentures, series "M", floating rate, 1993	2 000 000	2 000 000
Debentures, series "N", 15%, 1985-1993	1 800 000	1 900 000
Bonds 8 $\frac{7}{8}$ %, 1985-1993	2 004 000	2 145 000
Bonds 7 $\frac{3}{4}$ %, 1985-1987	225 000	300 000
Unsecured debts, floating rate, 1988-1991	15 000 000	15 100 000
Term purchase loans, 8 $\frac{1}{2}$ %, 1985-1987	1 672 003	4 086 985
Other	313 071	450 529
	\$36 164 074	\$41 382 514
Current portion	3 916 780	7 723 660
	\$32 247 294	\$33 658 854

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

1985 - \$3 916 780; 1987 - \$1 968 807; 1989 - \$4 648 866.
 1986 - \$2 401 685; 1988 - \$3 840 531;

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.

	1984	1983
Preferred shares of \$10 each		
1975 series, redeemable at the latest in 1985	\$ —	\$ 2 126 580
1976 series, redeemable at the latest in 1986	1 779 380	1 780 460
1977 series, redeemable at the latest in 1987	2 658 090	2 660 080
1978 series, redeemable at the latest in 1988	831 990	832 970
1979 series, redeemable at the latest in 1989	1 002 800	1 010 880
1980 series, redeemable at the latest in 1990	1 880 930	2 094 610
1981 series, redeemable at the latest in 1991	1 677 430	1 677 800
1982 series, redeemable at the latest in 1992	1 829 000	1 832 110
1984 series, redeemable at the latest in 1988	7 560	—
1985 series, redeemable at the latest in 1995	193 938	—
	\$11 861 118	\$14 015 490
Common shares		
Qualifying shares of \$10 or \$25, each, convertible in preferred shares	\$ 24 695	\$ 24 695
Qualifying shares, class "A", of \$25 each	1 959 600	1 903 900
Class "D", \$25 each	16 595 824	14 975 815
	\$18 580 119	\$16 904 410
Partially paid	\$ 69 080	\$ 77 069
	\$30 510 317	\$30 996 969

Note 7
Patronage refunds and redemption of shares

In accordance with the Act incorporating Coopérative Fédérée de Québec, the directors have declared, out of earnings from operations of the current year, patronage refunds of \$6 000 000 (\$5 000 000 in 1983). They resolved that these refunds be paid in the following manner:

	1984	1983
Cash	\$ 4 132 588	\$ 3 500 000
Common shares, class "D"	1 673 474	1 500 000
Preferred redeemable shares	193 938	—
	\$ 6 000 000	\$ 5 000 000

The directors also resolved to redeem shares for an amount of \$2 334 682 (\$2 334 102 in 1983). The effect of these resolutions is accounted for in the consolidated financial statements.

Note 8
Extraordinary items

	1984	1983
Loss on investment (less recovery of income taxes thereon - \$275 020)	\$ —	\$(2 958 084)
Gain on sale of production licences (less income taxes thereon - \$170 045)	—	836 880
Income tax reduction due to losses of subsidiaries from previous years	—	574 998
	\$ —	\$(1 546 206)

Note 9
Remuneration of directors and senior officers

The remuneration of directors and senior officers amounted to \$994 421 in 1984 (1983 - \$885 576).

Note 10
Commitments and contingencies

- a) Minimum annual rental expenses, as per lease agreements for buildings and equipment, amount to approximately \$850 000.
- b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately \$3 368 000 as at October 31, 1984.
- c) Coopérative Fédérée de Québec may be liable for additionnal income taxes of approximately \$612 000 for prior years due to certain expenses claimed for fiscal purposes which have been disallowed by the Minister of National Revenue. The Coopérative contests the Minister's position and, consequently, has not accounted for in the consolidated financial statements the amounts in dispute.
 Any amount which may ultimately be payable will be considered as a prior years' adjustment in the accounting records.

AUDITORS' REPORT

To the members of
Coopérative Fédérée de Québec,

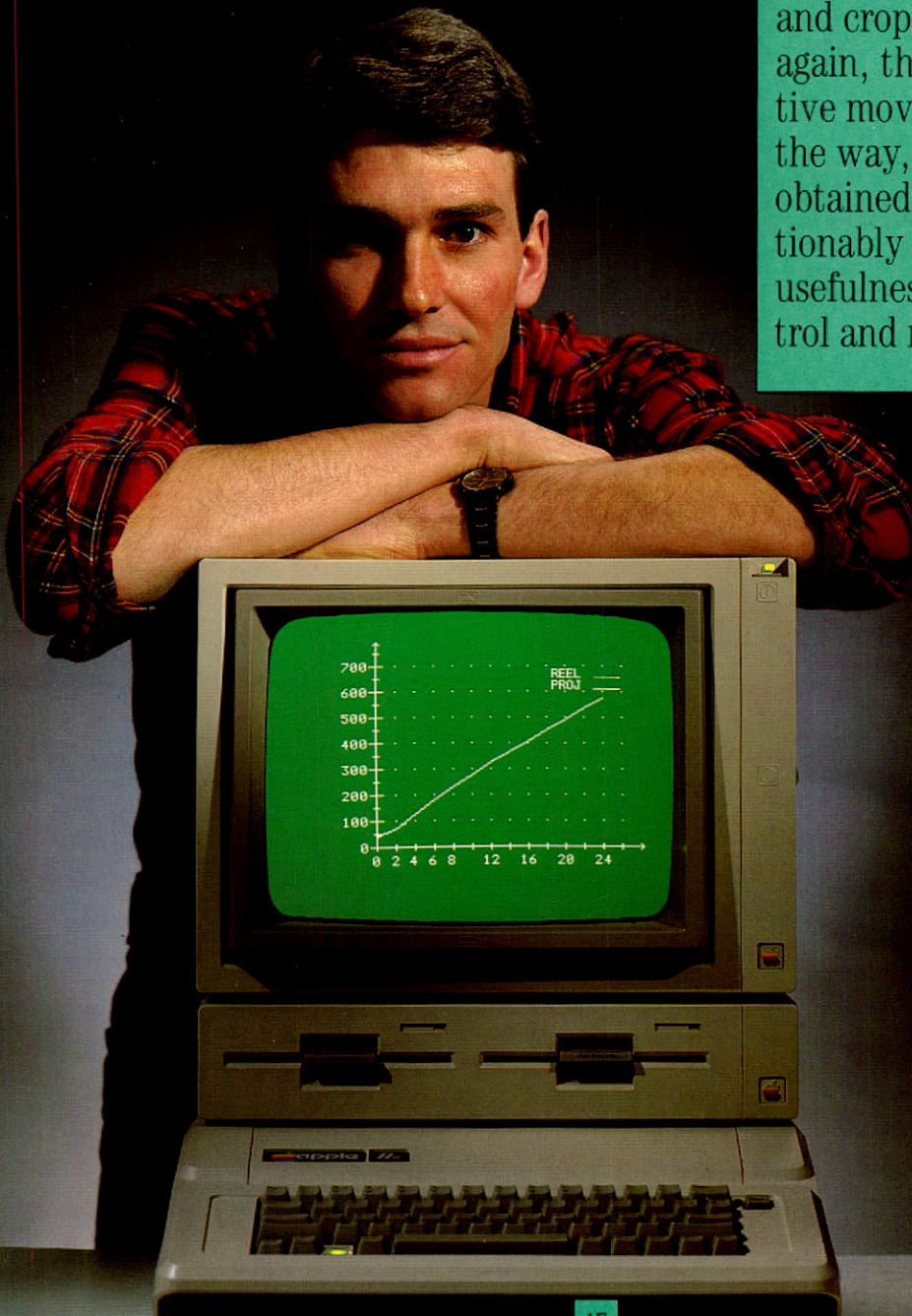
We have examined the consolidated balance sheet of Coopérative Fédérée de Québec as at October 31, 1984 and the consolidated statements of operations, general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards 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, 1984 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 24, 1985.

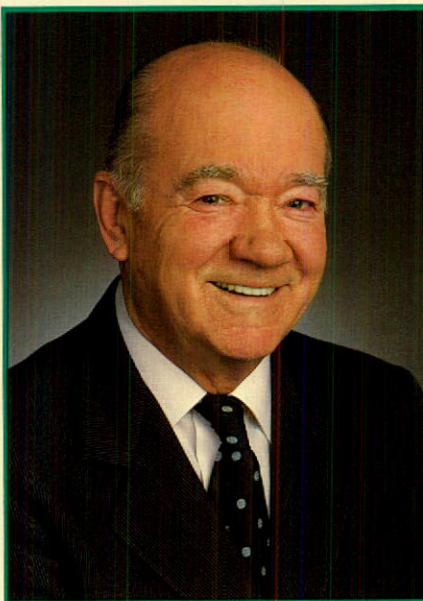
Computerization, the latest and most dramatic new advance in agricultural technology, is now being offered to farmers active in both animal and crop sectors. Once again, the farm co-operative movement is showing the way, and the results obtained to date unquestionably demonstrate the usefulness of this new control and management tool.



This has been a good year for Coopérative Fédérée. Market conditions were generally favourable throughout the greater part of the financial year and our Federation made steady progress. Conditions were so satisfactory during the first six months, in particular, that we can easily rate that period as one of the best in our recent history. Although the second half was not quite so promising, it also produced positive results. Overall then, the financial year ended with net earnings comparable to the best ever recorded by our Federation.

All operations did not benefit to the same degree, of course, although the same thing can also be said about all stages of this large and complex agri-food industry. Results in some primary production sectors did not reward the efforts of producers, and there were also disappointments in some secondary sectors. But the good performances turned in by major operating activities more than made up for the setbacks experienced elsewhere, so that the overall picture was bright.

Sales totalled \$1,157 billion, up by 6.7% over the previous year's \$1,084 billion and a trifle below the 1981-82 figure of \$1,217 billion. Almost all departments and divisions reported higher sales.



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Gross earnings of \$145.5 million, representing 12.6% of sales, compared with \$139.4 million, or 12.8% of sales, for the previous year. Total expenses at \$131.6 million, or 11.4% of sales, compared with \$127.2 million, or 11.7% of sales in 1982-83, increased by 3.5% which is acceptable in view of prevailing conditions.

Earnings from operations, after extraordinary items but before income taxes and patronage refunds, totalled \$13.8 million, or 1.2% of sales, compared with \$10.6 million the year before and \$5.7 million in 1981-82. That figure represents a 30.1% increase over the previous year.

MEAT PACKING DIVISION

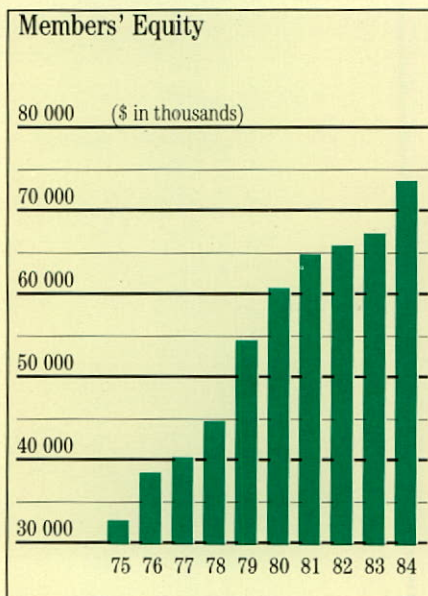
During the year, the Meat Packing Division operated three slaughtering plants and two distribution centres. Two plants are owned by the Federation and the third is leased. Cured and processed products distributed by the Division are produced under contract by specialized firms.

The 1982-83 financial year was extremely profitable for the Division, due to a combination of exceptional circumstances. This past year must be regarded as normal. Sales reached \$296.8 million, or 2.6% above the previous year, while volume was up by 4%, with a total production of 310.5 million pounds.

Export sales were up slightly, showing a 4.8% increase over 1982-83. The United States market continued to hold first place in terms of volume,

which grew by more than 23% during the year. Japan remained in second place, although it reduced its purchases in Canada last year, with the United Kingdom third. The balance of sales abroad was shared among a dozen other countries. It should be noted that export dollar sales were down by 5.1%, compared with the year before, due to lower prices.

Total hog receipts rose to 1,749,308, an increase of 4.7% over the previous year and a new high for the Division.



POULTRY DIVISION

The Poultry Division operates three abattoirs, a processing plant, a hatchery, a distribution centre and a few poultry farms.

After some difficult years resulting from problems encountered in trying to strike a fair balance between supply and demand, the Poultry Division

had a profitable year. This reversal is mainly attributable to a better balance between supply and demand, improving market conditions and improved margins for the industry's secondary sector.

Sales totalled \$169 million, up by 12.5% over the previous year, while volume increased by 1.8%. The Division thus maintained its position in the industry.

Our Federation is now processing more and more new poultry products. It is also giving increasing attention to particular market needs, often of an institutional nature, which will eventually develop into important and stable sales volume.

A better response to evolving market needs generally involves increased expenditures and the need for new equipment. Once again, however, we should point out that all the steps taken in recent years to mechanize plant operations not only result in improving the competitive quality of our enterprise, but also help it adapt more easily to the new demands of that market.

DAIRY DIVISION

Although Dairy Division sales were down slightly this past year, profitability reached a new high. Sales in 1983-84 totalled \$243 million, representing a decrease of 7.7% from the previous year. This lower sales figure resulted from changes in some marketing functions and special export problems.

An analysis of the Division's operations shows a slight increase in butter sales, a substantial decrease in skim milk powder exports as it was impossible to obtain larger quantities of this product from the Canadian Dairy Commission, steady cheese sales, a marked increase in the number of export brokerage transactions, and increased sales of plant supplies.

Excellent result from the cheese operations, a good sales year of plant supplies, tight control over expenses, etc., more than compensated for lesser profits resulting from the shortage of skim milk powder, and allowed the Dairy Division to realize the best earnings in its history.

At the time this report was written, there were still some uncertainties regarding exports, an extremely important activity for this Division. Sales agreements have already been concluded with some countries and negotiations are underway with others. Despite a stiff competition in world trade and the political and other factors which can influence trade relations between countries, we can reasonably hope to maintain exports of dairy products at interesting levels.

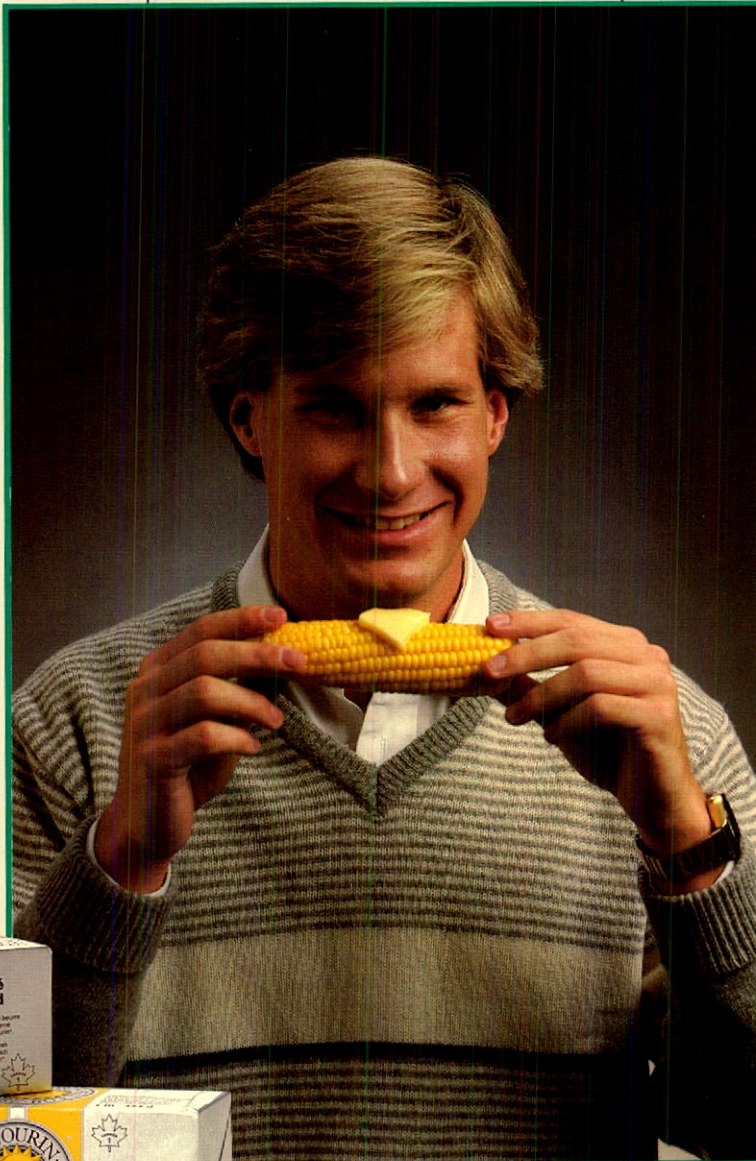
In this perspective, good and continuous relations are maintained with the Canadian Dairy Commission. In addition, the close ties we now have with Francexpa S.A., a large dairy exporting firm in France which has world-wide connections, will allow our Federation to have access to additional markets for Canadian dairy products.

The collaboration of the dairy co-operatives in the production and marketing of high quality butter under the SAVOURIN brand name continues to be a tribute to the quality, competence and leading-edge technology of

our entire dairy co-operative movement. A campaign to capture the Ontario market has been launched. Although the penetration of a new market is a slow, difficult and often costly process, such an expansion into a new territory is a measure of a product's future and long-term success.

The institutional role assumed by the Dairy Division is still a substantial one. It will probably be so for a long time, because this basic farm industry is one of the most complex of all industries. Also, because of its stabilizing role in the farm economies of several regions of the country, the dairy industry is the object of great many interventions by various levels of government. It is difficult to give a precise description of such an institutional role, or to appreciate it fully or fairly. But this role is indispensable so that all those involved in the dairy co-operative movement will be able to accomplish their difficult tasks in the best way possible.

The fine qualities of our SAVOURIN butters have been widely recognized by leading chefs. Consumers are pleased with their fine taste, and farm co-operative members have another reason for pride in their movement.



FRUITS AND VEGETABLES

Fruit and Vegetable Department sales increased by 22% during the year, totalling \$2.2 million. Earnings did not keep pace, however, due to difficult conditions in wholesale markets for these products during the entire year. This Department made a positive contribution, although it was one of the lowest in recent years. As usual, the principal products marketed were table potatoes, seed potatoes, table and seed onions, cabbages, carrots and supplies.

PETROLEUM DEPARTMENT

Petroleum Department sales, at \$212.9 million, were 15.4% higher than in the previous year, although volume increased by only 5.4%. That substantial difference between value and volume reflects the pricing factor.

The price wars which were so common during the preceding year were not as general and severe in 1983-84, and income returned to a more normal level.

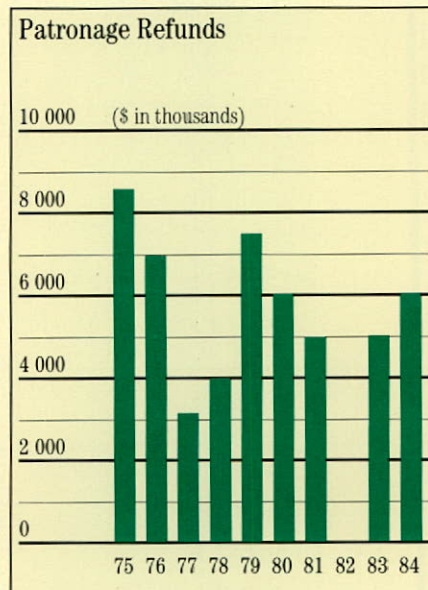
The trend towards lower demand for most petroleum products is now well known. That trend is continuing, but at a slower pace. In that context, our Federation is recovering nicely from its setbacks in recent years, as evidenced by last year's gain in sales volume.

The improvement and maintenance of margins created a more favourable environment for the Department in the 1983-84 financial year. But it should also be noted that this extremely competitive and volatile industry presents some marketing risks. Despite everything, even while facing

the industry's inherent difficulties, the Petroleum Department made a suitable contribution to the overall results achieved by our Federation.

FEEDS AND FERTILIZERS

Sales of the Feeds and Fertilizers Division climbed to \$270 million, for a substantial 23% increase over 1982-83. The gross margin was 7.3% higher than in the previous year, while expenses rose by 6.3%, for a net result better than was recorded the year before.



Grain Department sales were one-third higher than a year ago, at \$108 million. Volume increased by only 17.2%, however, with prices the main factor explaining the wide gap. This higher volume resulted primarily from a substantial increase in grain purchases outside the province, following poor 1983 grain crops in Quebec. Gross earnings were better, and since expenses remained at virtually the same level as the year before, a greater profit was realized.

The Department still operates the grain drying plant at Napierville. Its operations were limited to drying buckwheat last Fall. As a result, income was insufficient to cover expenses. It must be pointed out once again that the presence of a great number of dryers on farms, and two other industrial installations in the vicinity, creates a very aggressive competitive situation. As a result, the plant's capacity is greatly under-utilized.

Livestock feeds are undergoing constant changes everywhere in the Western world, due to new discoveries in animal nutrition, technological progress and structural changes in farming operations. But these feeds still play a leading role in supplying the livestock industry and are always an integral part of the business activities of farm supply co-operatives throughout North America, particularly in regions with farming operations similar to those in Quebec.

We should expect that this will be the prevailing situation for some time to come, even though all of us, farmers and livestock feed experts alike, must recognize and understand that this industry will undergo profound changes in a more or less distant future.

Feeds Department dollar sales increased by 14.5%, compared with the preceding year. Volume, however, was up by only 2.5% for concentrates and pre-mixes, and by 4.5% for complete feeds.

Reversing the situation of the previous year, sales of concentrates for cattle increased by 6%, but on the basis of equivalent in complete feeds, the increase was 9%. If a less restrictive dairy policy and a poorer quality of forage crops had some effect, we must

also recognize the dynamic quality of the programmes put forward by our Federation, the introduction of new products, along with a breakthrough in the livestock feeds market at the farm.

Hog feeds volume was down by about 1.5%, while there was an increase of almost 12.5% in the volume of poultry feeds, as a result of higher poultry production and a greater penetration of this market.

Higher sales and gross earnings that increased much more than expenses allowed the Department to make a much better contribution than in 1982-83.

Sales volume of livestock health products remained stable, as higher sales corresponded almost exactly with price increases. Since better gross margins were realized and expenses remained at about the same level as in the preceding year, this Department also made a better contribution.

Hatchery Department sales increased by almost 13.6% in dollar value. Volume was up substantially, with 1.1 million more broiler chicks sold than in the previous year. Greater use of poultry production quotas encouraged growth of the broiler chicks market. We should also mention that pullet sales decreased slightly, for the first time in seven years, but this operation continues to produce interesting results. While the 1982-83 financial year proved to be rather deceptive, 1983-84 was more reassuring as its contribution is one of the best in its history.

The Fertilizer Department turned in a good performance in terms of both sales and volume. Sales increased by 22%, and volume by 12.3%. But the results did not match this growth. A substantial loss was reported, contrarily to the situation in the preceding year. It should be noted, however, that it is the first time in six years that this Department has had an operating loss.

That loss was due to an inadequate gross margin as a result of price wars and substantial discounts granted to buyers. These competitive price reductions have been growing steadily

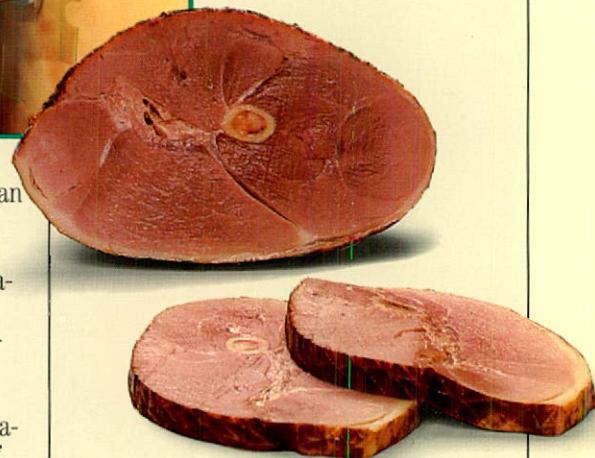
Farm Chemicals Department volume rose strongly, with sales up by 23.3%. Three factors were responsible for this situation: an increase in cereal acreage, a greater interest shown by several co-operatives, and a greater market penetration due to more dynamic marketing policies. The vitality of this Department should also be stressed: in addition to producing the best contribution in its history, it is also becoming increasingly important in the crop products sector.

Seeds Department sales increased by 12.3%. Increases in volume by product were: 3.2% for forage seeds, 22.8% for seed grains, 40% for grass seeds, and 13.6% for seed corn. But financial results failed to match these performances, as a result of a very strong competition, especially in forage seeds. While the Department's contribution was lower than in 1982-83, it was still better than in prior years.



in recent years, and the discount per ton was three times higher in 1984 than it was in 1981.

During this last year, our Federation set up a storage and-distribution centre for fertilizers and basic ingredients, in Ville Ste-Catherine. With a capacity of 28,000 tons, it proved its usefulness during its first year in operation by reducing handling expenses of products coming from outside of Quebec, either by rail or water.



Another type of advanced technology is being tested at our Princeville slaughtering plant, to grade hog carcasses by electronic sound, with data entering directly into a computer.

AGRICULTURAL SUPPLIES

Reporting sales of \$33.1 million, a rise of 10.7% over 1982-83, the Agricultural Supplies Department turned in its best performance in the last 10 years. Retail hardware sales were down by about 16%, but an analysis of the wholesale operation shows increases in sales of all products. These increases were relatively modest for dairy supplies, building materials and general farm supplies, but much more encouraging for automotive, electrical and plumbing supplies. But the most spectacular increase is in the hardware line, where sales jumped by 35%.

The overall decrease in retail sales can be explained by the closing of the des Forges Street branch in Trois-Rivières during 1983, and by the transfer of petroleum operations from that same city. The other retail branches reported overall sales increases of 6%, compared with 1982-83. Summing up, the increase in sales and the improvement in gross margins produced a positive result for the Agricultural Supplies Department during the past year.

FARM IMPLEMENTS

Despite a very slight improvement, Farm Implements Department results were negative for a third straight year. They reflect the dismal image of

an industry suffering from the worst crisis in its history. The manufacturers are not better off and, despite the closing of several plants, world production capacity still doubles the total sales reported in 1984.

Sales totalled \$25 million, which was 5% above the previous year's figure. Gross earnings were lower, due mainly to the retail situation, since the figures for the wholesale sector indicate quasi stable gross margins. The reduction in operating losses is attributable primarily to lower interest costs and a sustained effort to cut operating expenses.

RETAIL OPERATIONS

At the end of the year, our Federation operated seven retail branches, the same number as at the end of the previous year. Together, they reported sales of \$81.3 million, or 22.6% more than in the previous financial year. Except for farm implements, volume was up in all sectors. Sales of feeds increased by 12%, while farm chemicals were up by a hefty 34%.

As had been foreseen, results are still negative for the retail operation as a whole, because only two of the seven retail branches made positive contributions. Nevertheless, the actual loss this past year was less than one-third of the 1982-83 shortfall. That shows progress, but there is still a long way to go yet.

Through intensive research and constant quality control, the Quebec farm co-operatives are constantly introducing new top-of-the-line products that benefit their members working in the animal and crop sectors.



FINANCIAL SITUATION

Working capital, after implementing the Board of Directors' decisions relative to patronage refunds and redemption of share capital, at \$50 million at year-end, is down slightly from the preceding year's \$50.3 million. While sales increased by 6.7%, accounts receivable of \$104.6 million as of October 31, 1984, are down by 1% from the \$105.7 million outstanding a year earlier. They represent 9% of sales, compared with 9.8% the previous year.

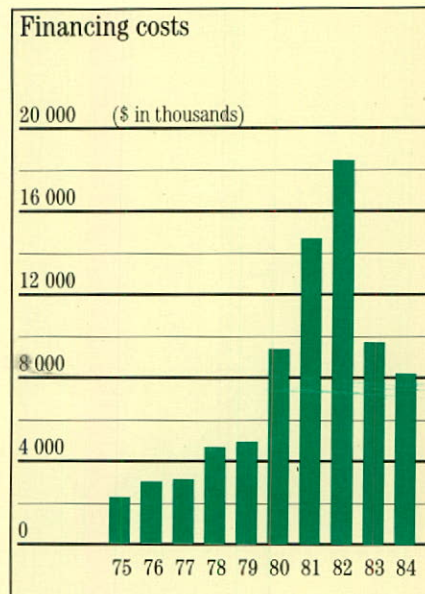
Inventories, at \$70.7 million as of year-end, increased by \$5.3 million, or 8.1%, from the previous year's level, compared with a sales increase of 6.7%. The weighted monthly average of inventories during the year was \$73.3 million, compared with \$74.7 million in 1983 and \$88.7 million in 1982.

At each Annual Meeting, we draw to the attention of the delegates the importance of ensuring that our Federation has a suitable degree of self-financing. Year after year, we point out that increasing the general reserve and the equity remains a foremost objective of the Board of Directors. That was accomplished once again as the 1983-84 balance sheet shows a general reserve of \$42.9 million, an increase of \$6.1 million for the year. This year end equity reaches \$73.4 million, compared with \$67.8 million the year before. The general reserve accounts for 58.4% of the equity.

ADMINISTRATIVE DEPARTMENTS

Our administrative departments, as they quietly fulfill their vital support and back-up roles, do not always receive the credit that is due to them for the great contributions they make to the professional quality of our enterprise.

Our federation's operational units, as well as all those in charge of our member co-operatives, can always count on our administrative departments for the wide and varied range of



services, directed by specialists, that are readily available when needed.

These seasoned experts are a vital factor in the unity and cohesion of the entire co-operative movement.

All enterprises have their highs and lows. This past financial year was one of our Federation's highs. But

outside influences are a determining factor in any kind of success, as several of the year's sectorial results clearly indicate. Aware of the importance of these outside factors, management in each sector made maximum use of the most favourable elements, or worked to offset the unfavourable ones, as the case may be. At the Federation and among the individual member co-operatives, it seems clear that those in charge have taken the best possible advantage of an environment which, on the whole, proved to be favourable this past year.

In closing, tribute must be paid to all members of the farm co-operatives, to our Directors, managers and colleagues who work together within the Federation, the member co-operatives, and sometimes outside of the actual co-operative structures. It is first and foremost in this great human fellowship that we find all the reasons to feel profound satisfaction when results are good, as well as the will to keep on going when times are most difficult. To all those, whether in the front ranks or working so diligently "behind the lines", we say a sincere and warm "thank you".

Louis-Philippe Poulin
Chief Executive Officer.

