



COOPÉRATIVE
FÉDÉRÉE
DE QUÉBEC



Annual
Report
1985

*Towards
excellence...*

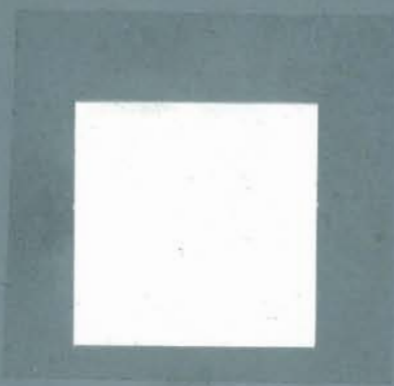


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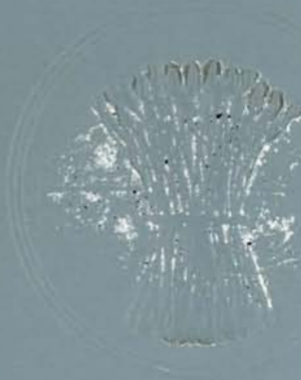
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Ce rapport est disponible en français en vous adressant au trésorier, Coopérative Fédérée de Québec, Case postale 500 - Station Youville, Montréal H2P 2W2



Towards excellence...

Excellence has always been a prime goal of the Quebec farm co-operative movement. It has been evidenced again during the past year by its achievements.



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COOPÉRATIVE FÉDÉRÉE DE QUÉBEC

Annual Report 1985

	1985	1984
HIGHLIGHTS <i>(in thousands of \$)</i>		
Sales	\$1 138 101	\$1 159 760
Savings before patronage refunds and income taxes	11 653	13 839
Net savings	5 239	6 057
Accounts receivable and inventories	170 539	175 282
Current assets	175 730	179 777
Additions to fixed assets	10 272	8 857
Working capital	56 514	50 010
Fixed assets, at cost	95 788	91 130
Fixed assets, net	45 161	43 345
Total assets	238 969	240 048
Long-term debt	36 759	32 247
Members' and Co-operative's equity	78 378	73 399

REPORT FROM THE PRESIDENT

It gives us great pleasure to present you our report for the 1984-85 financial year, as well as a few comments on the main events which marked the farm and co-operative scene during these twelve months.

THE YEAR IN AGRICULTURE

While harvests were generally good in 1985, the agricultural year was a disappointing one from the standpoint of profitability. Net income was down. Farm assets decreased in value. Debt service swallowed up a large portion of the farm income. That helps to explain why many farmers are finding themselves in financial difficulties.

As has been the case so often in recent decades, farmers performed feats of valour as they had to invest to attain greater productivity while the economic context was calling for prudence, rather than expansion.

To all this, we must add our concern regarding the developing situation on export markets, particularly in the United States. All of you have noted that the protectionist tide is running strongly south of the border. This protectionist tide was expressed by the imposition of a surtax on Canadian pork, which in no way improved the current mood of our hog producers. One can easily imagine that the American farm policy could lead to greatly intensified competition on international markets.

Despite all those pessimistic words, one consoling factor is that overall the Quebec farmer is as well off as his colleagues in the rest of Canada and in the United States. But this is a very meagre consolation indeed, and we hope that the situation will improve in coming months.

FUTURE FARMERS AND RURAL YOUTH

The problems facing young farmers, which we have stressed in our reports these past two years, have not disappeared. That is why we are returning to this hotly debated issue. You will

recall that the Federation has officially supported the repeated appeals made by the Quebec Farm Youth Federation to government authorities regarding their problems, especially those faced by young farmers in getting established. There have been some improvements, but the fact remains that, in order to ensure the survival of our agricultural industry, other policies must be adopted to help

these future farmers. It will be unfortunate, and in fact scandalous, if competent, ambitious and resourceful young farmers have to change their orientations because the problems confronting them are not looked at soon enough, or the proper solutions are not brought to bear.

The question of future farmers also relates to the future of our co-operatives. In recent years, and especially during our latest provincial tour, we were pleased to note how the Boards of Directors of our co-operatives were being rejuvenated. But we should not think that the problem has been solved. Ensuring a constant supply of properly trained young directors is a major challenge that we will have to face in upcoming years. The future of our movement depends on how well young people understand the co-operative movement. We must make sure that our message gets through to them. They can acquire this understanding through the training we agree to give them, and by the way we welcome them in our ranks.

RELATIONS WITH THE FARMERS UNION

In his report to the 1985 Quebec Farmers Union Annual Meeting, the President of the Union (U.P.A.) termed our Federation the "great partner". He also mentioned the work done jointly and the results achieved. We are pleased to emphasize that we share the U.P.A. President's satisfaction over this close collaboration.

During the past year, several dossiers dealing with the defense of the interests of Quebec farmers have been the object of joint studies and representations.

During the year, the first milk marketing agreement was implemented. This followed lengthy and often arduous negotiations, and required an arbitration by the Quebec Farm Marketing Board to implement this initial agreement. As the President of the Co-operative Dairy Industry Council said recently: "It is too early to give a verdict on the new system". It can only be hoped that once all the problems have been worked out, the system will prove equitable for the dairy co-operatives and their members.

The Professional Commission on Agriculture, made up of six representatives from the farm co-operatives and an equal number from the farmers union, met four times during 1985. Some specific plans were elaborated, notably a common information programme.

For instance during a meeting of the U.P.A. General Council, representatives of our Federation presented an audio-visual on our organization,



followed by discussions and a question period. Shortly afterwards, U.P.A. representatives made a similar presentation at a meeting of the Federation's Board of Directors. This kind of mutual contact is considered essential in order to develop a spirit of close collaboration between the members of the two movements. Several other important subjects were also brought up, and there is great optimism about the common benefits which can result.

PROVINCIAL TOUR

For a fourth consecutive year, we made a tour of virtually all regions in the province. Between October 22 and December 12, 1985, we had an opportunity to meet the directors and top management of our member co-operatives. We were accompanied this time by the Manager of our Farm Supply Group, Mr. Jean-Pierre Deschênes. The

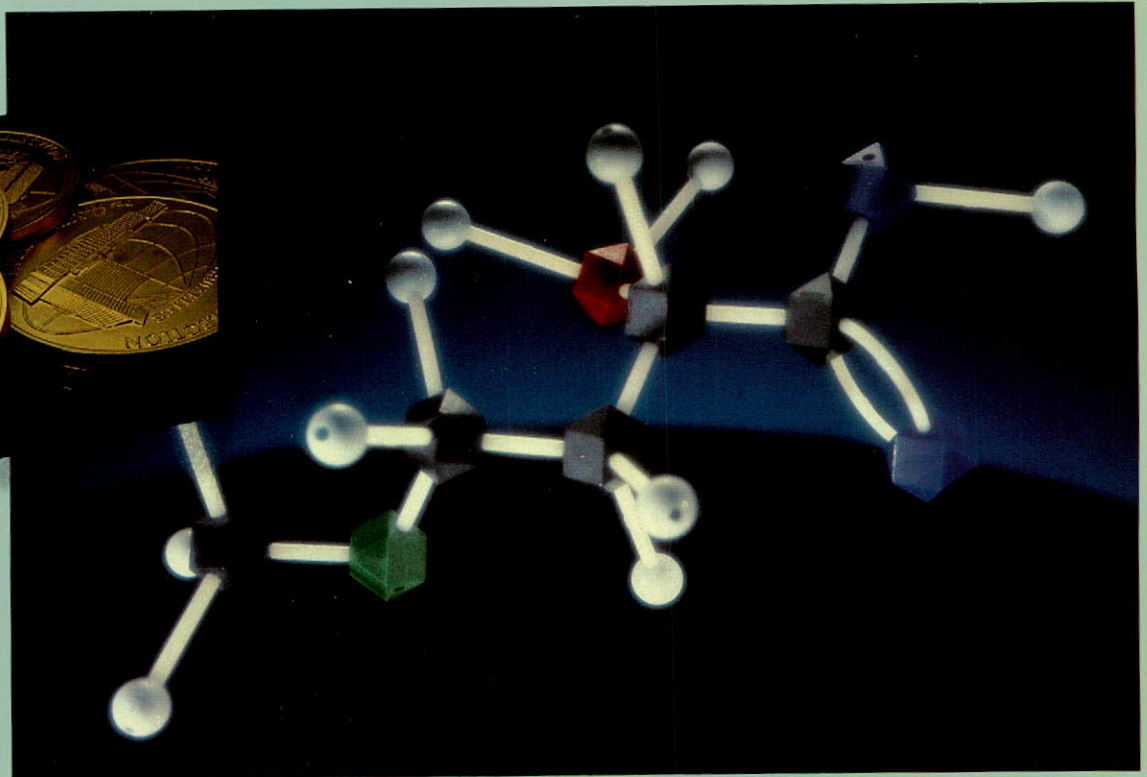
other important matters, including topics touched upon in previous tours. Particular attention was given on training of people as directors of member co-operatives, as well as their roles and responsibilities, the services offered by the Federation to its member co-operatives, and related matters.

As was the case during the three previous provincial tours, the various questions raised reflected the primary concerns of directors of member co-operatives. The directors also took the opportunity to express their opinions frankly and to make suggestions regarding actions our movement should take in order to play fully its role and achieve its objectives. Once again, the value of such meetings was recognized, and everywhere attendants expressed the desire to repeat this experience next autumn.

Quebec's farm co-operative movement is well aware that Excellence is a goal it must constantly strive for.



Co-operative members have achieved excellence, from research at co-operative farms and from new processing methods of farm products. Gold medals won by five Savourin brand butters at the 1985 "World Quality Selections" are further proof of that.



theme of the tour was: "The Farm supply co-operatives, confronted by an evolving agricultural industry and the changing needs of farmers".

We were able to meet more than 400 persons at thirteen meetings. In addition to lengthy discussions on the principal theme, we also dealt with

TRAINING PROGRAMME

The farm co-operative movement is more than ever aware of the efforts it must make to ensure the training and proficiency of its directors and personnel. During the past year, numerous sessions were held on administrative and management procedures

for co-operatives. Those sessions were attended by several hundred people, all of whom will certainly be firm advocates of our human resources development programme.

There is still much to be done in this area, however, and permanent structures have been set up to continue and, if possible, to develop this programme. We always invite our member co-operatives to set up similar programmes. Each of us has an important job to do in this sector, and we hope that every member and every member group will agree to put into it all the necessary resources and efforts.

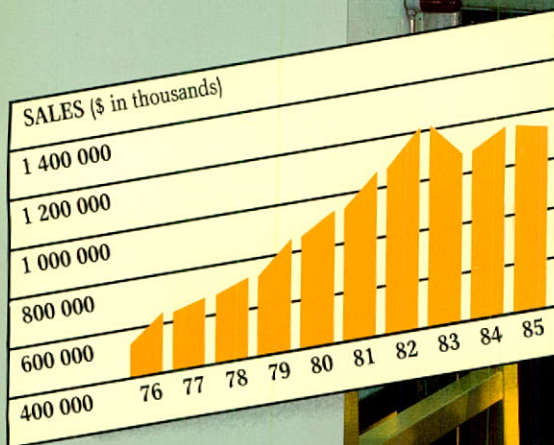
COMMUNICATIONS

Le Coopérateur Agricole, the official organ of our movement, continues to keep its readers well informed about the outstanding happenings on the farm and co-operative scene. It has given itself a

These columns have become preferred reading for Quebec farmers, keeping producers up-to-the-minute on all the latest developments in the sectors covered. Space is also provided in each issue for news about the Quebec Farm Youth Association and the Association of Farm Women Colleagues.

We keep on urging our member co-operatives to pay subscriptions not only for their own members, but also for all farmers in their areas. Some co-operatives have followed our suggestion and we hope that others will soon do the same. Such an initiative can yield valuable dividends.

Agri-Coop the newsletter for co-operative directors and managers, was published four times during 1985. Topics of primary importance to farmers were covered, such as the Co-operative Act, the Co-operative Investment Plan, and credit management.



■ The new distribution centre ensure the rapid and efficient delivery of quality poultry products.



point of honour to cover the principal events in the farm milieu, while continuing to play an important role as a communicator of production techniques. This is undoubtedly why its specialized columns have become so popular with farmers. They cover a wide range of topics: crop planning and post-harvest procedures, animal health and feeding, energy.

INVESTMENT PLAN

The Co-operative movement has been making representations to the Quebec government for some years to set up an investment plan for co-operative members, similar to the Quebec Stock Savings Plan (Q.S.S.P.) from which a great number of taxpayers, and the stock issuing institutions, now benefit.

Those representations finally paid off. During the past year, the Quebec government announced the creation of the Co-operative Investment Plan (C.I.P.). This new Plan will encourage capital investments in those co-operatives, admissible according to well defined criteria. In addition, it will permit members and employees to acquire preferred shares of their co-operative, while enjoying tax benefits similar to those now offered by the Q.S.S.P.

We know that several farm co-operatives, in addition to our own Federation, qualify for this new Plan and we hope that their members and employees will take advantage of the opportunities offered.

EXCELLENCE

This Annual Report emphasizes some of our movement's achievements during 1985. To those accomplishments must be added many others achieved by farmer-producers. While we cannot list them all, we would like to congratulate the winners of the Quebec Agriculture Award of Merit, Canada's Elite Farm Youth, Farm Family of the Year, and of many other competitions, as well as the numerous winners at various agricultural fairs.

We urge them to continue the search for even greater excellence. In any such competition it is only natural to put the spotlight on the winners, but we should never forget all those who took part but failed to win richly deserved honours.

Excellence can also be achieved in social or collective activities. It is quite significant to note that the people who succeed in attaining such a degree of perfection in their everyday task are very often the ones who also excel in our movement's social activities. Far from losing out in any way from all the efforts they expend, these individuals instead are enriched by their experiences and the services they render others. They deserve our admiration.

It gives us great pride to remind you of Mr. Roland Pigeon's induction into Canada's Agricultural Hall of Fame last November. This honour is reserved for those persons who have proved their excellence by contributing in a special way to the development of our agricultural industry. Mr. Pigeon's candidacy was jointly sponsored by the Canadian Federation of Dairy Producers, the Canadian Federation of Agriculture and our Federation. This honour reflects simultaneously on the family of Mr. Pigeon, agriculture in general, and on Quebec's farm co-operative movement, in particular.

Last May, at the 1985 Export Gala, our Federation won a first prize in the conventional secondary

sector for its efforts in promoting exports of pork and dairy products. At a time when the economy urgently needs more exports to help solve the unemployment problem, this success achieved by the Federation is an honour shared by all farm co-operatives and their members.

Later in the year, five Savourin brand butters each received a gold medal during the 1985 "World Quality Selections" competition in Lisbon, Portugal. Savourin butters are produced by Quebec's dairy co-operatives and marketed by the Federation.

Quebec's farm co-operative movement also received several other awards in 1985, once again proving itself to be a leader in the search for new products and new market opportunities. That is an evident sign of dynamism.

THE CO-OPERATIVE SCENE

There were quite a few important and interesting events on the co-operative scene during 1985, including the anniversaries of several member co-operatives. Such celebrations offer us some ideal opportunities to recall the beginnings of these organizations and take a look at how they have grown over the years. It also helps us to remember the work of the pioneers and of those who followed them. Without their contribution, our co-operatives would not be writing today's success stories.

One of the year's most important events, certainly, was the 7th Annual Congress of the Co-operative Dairy Industry. Inspired by the theme of "Ideas, knowhow...and daring!", the dairy co-operative members met on November 27, 1985, to exchange views on a subject of special significance to all of them. An impressive list of guest speakers gave informative talks on productivity, quality, research and development. As in previous years, workshops were also held, where participants could share their viewpoints on the various topics. This proved to be yet another outstanding success in the annals of the Quebec dairy co-operative movement.

"Co-operation: Development Tool", was the theme chosen for the 1985 National Co-operation Week. Once again, we invited our member co-operatives to take full advantage of this opportunity to promote the idea of co-operation. Several of them accepted this invitation so enthusiastically that it became the event of the year, and highly successful.

During the past financial year, our Board of Directors met eleven times and the Executive Committee held fourteen meetings. We take this opportunity to emphasize the excellent work done by these two decision-making bodies. Their con-



stant support was of invaluable help to us in carrying out our duties, and we thank them sincerely.

We also wish to express our appreciation to our managers and employees for the loyal co-operation they gave us this past year. Without their help, our Federation would not enjoy its great success, year after year.

Let us also express our thanks to our co-operatives, their members and employees. Without their loyal support and constant and close involvement in the co-operative scene, our movement could not retain the vitality which in some ways is its "trade-mark". We must remember that, even if the challenges continue to multiply, the important thing is that we take the necessary steps to face them, *together*.

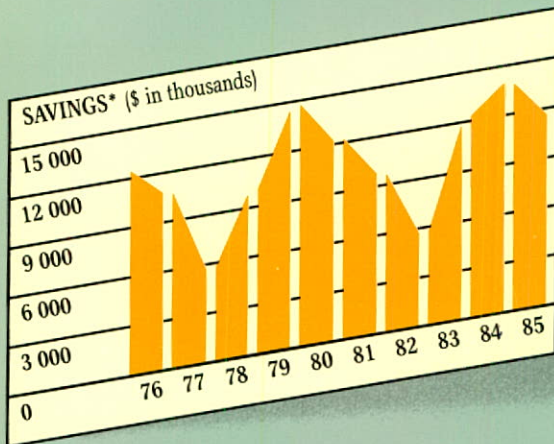
As usual, we shall leave it up to our Chief Executive Officer to give you a detailed analysis of our Federation's activities. However, we would just like to make one point about our 1985 operating results. Even though they were less favourable than

in the preceding financial year, we should nevertheless be fairly satisfied with them considering the major problems which confronted the farm economy in 1985.

The farm co-operative movement was not spared those problems. It proved once again that it was able to face them and also demonstrated that it could produce positive results through the concerted action of all its components. We have often stressed the increasing need for teamwork, and will continue to do so even more, because our movement's future is closely linked with such effort. Together, we have built a noteworthy economic force and together, we can achieve an even more important role in our agricultural economy, while profiting from the material benefits such a role brings with it.



Paul-Émile St-Pierre
President.



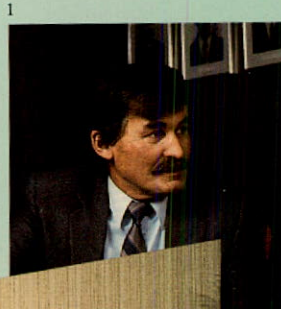
*Before patronage refunds and income taxes.

During the 1985 Export Gala last May, the Federation was awarded the "Exploit" Trophy, the 1st Prize in the category of conventional secondary industries. Two of the Federation's major Divisions - Dairy and Meat Packing - are important exporters.



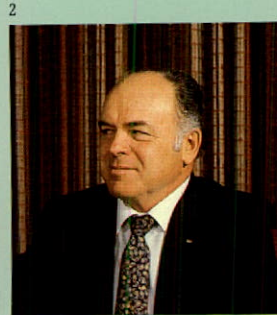
As a direct result of the latter Division's exports, Quebec pork graces the tables of consumers in many countries, especially in the United States and Japan.

BOARD OF DIRECTORS



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From left to right, Paul-Émile St-Pierre, Alphonse-Roger Pelletier and Michel Lemire respectively President, 1st Vice President and 2nd Vice President of the Board of Directors and the Executive Committee (6).

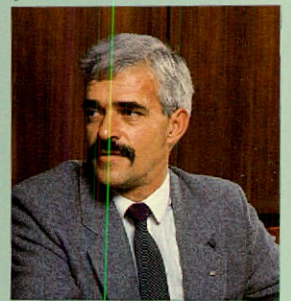


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Lloyd Meyer (1), Léon Désautels (2), Léandre Morin (3), Napoléon Théberge, (standing) and Hubert Doré (4) and Jean-Marie Girouard (5).



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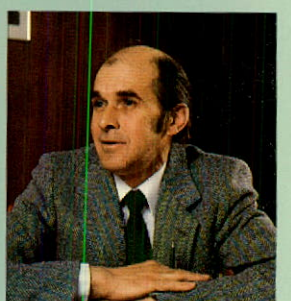


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Jean-Charles Mercier (left) and Paul Massicotte, both members of the Executive Committee (7). From left to right, Roland Lachance, Claude Couture and Paul Dessureault (8) and Bruno Beaulieu (9).



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CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended October 31, 1985

	1985	1984
SALES	\$1 138 101 136	\$1 159 759 789
Cost of sales	981 264 091	1 011 249 011
	156 837 045	148 510 778
EXPENSES		
Salaries and employee benefits	75 425 179	71 108 399
Operating and selling	49 205 159	42 950 768
Administrative	6 644 754	6 088 019
Long-term debt interest	4 495 903	4 325 653
Other financial expenses, net	3 645 034	3 793 164
Depreciation	6 778 144	6 434 060
Gain on sales of fixed assets	(1 010 150)	(28 720)
	145 184 023	134 671 343
SAVINGS before patronage refunds and income taxes	\$ 11 653 022	\$ 13 839 435
DISTRIBUTION OF SAVINGS		
Patronage refunds (note 7)	\$ 5 000 000	\$ 6 000 000
Income taxes - current	1 432 862	2 087 997
Income taxes - deferred	(18 602)	(305 721)
Net savings	5 238 762	6 057 159
	\$ 11 653 022	\$ 13 839 435

CONSOLIDATED STATEMENT OF GENERAL RESERVE

for the year ended October 31, 1985

Balance at beginning of year	\$ 42 888 189	\$ 36 831 030
Net savings	5 238 762	6 057 159
Balance at end of year	\$ 48 126 951	\$ 42 888 189

CONSOLIDATED BALANCE SHEET

as at October 31, 1985

ASSETS		1985	1984
CURRENT			
Cash		\$ 299 228	\$ —
Accounts receivable		95 788 252	104 580 886
Inventories		74 751 334	70 701 665
Prepaid expenses		4 446 306	3 775 618
Investments - current portion		444 623	719 257
		<u>175 729 743</u>	<u>179 777 426</u>
LONG-TERM ACCOUNTS RECEIVABLE		689 807	697 579
INVESTMENTS (note 2)		16 493 151	15 166 256
FIXED ASSETS (note 3)			
Land, buildings and equipment, at cost		95 787 715	91 130 064
Accumulated depreciation		50 626 319	47 785 455
		<u>45 161 396</u>	<u>43 344 609</u>
OTHER ASSETS (note 4)		895 385	1 061 713
		<u>\$238 969 482</u>	<u>\$240 047 583</u>

Approved by the Board

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

Montreal, January 27, 1986.

LIABILITIES AND EQUITY		1985	1984
CURRENT			
Outstanding cheques, less cash	\$	—	\$ 3 104 233
Short-term loans		53 136 000	56 946 000
Accounts payable		58 319 499	58 343 228
Patronage refunds payable		2 979 500	4 132 588
Redemption of share capital <i>(note 7)</i>		2 094 290	2 334 682
Income taxes payable		185 561	989 464
Current portion of long-term debt		2 501 134	3 916 780
		119 215 984	129 766 975
LONG-TERM DEBT <i>(note 5)</i>		36 759 296	32 247 294
DEFERRED INCOME TAXES		4 616 206	4 634 808
EQUITY			
Members' equity			
Share capital <i>(notes 6 and 7)</i>		30 251 045	30 510 317
Co-operative's equity			
General reserve		48 126 951	42 888 189
		78 377 996	73 398 506
		\$238 969 482	\$240 047 583

COMMITMENTS AND CONTINGENCIES *(note 9)*

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

for the year ended October 31, 1985

	1985	1984
SOURCE OF FUNDS		
Operations		
Savings before patronage refunds and income taxes	\$ 11 653 022	\$ 13 839 435
Expenses not requiring an outlay of funds	5 773 356	6 521 160
	17 426 378	20 360 595
Decrease in investments	568 141	988 233
Disposal of fixed assets	2 848 350	1 200 024
Increase in long-term debt	7 026 615	2 505 220
Shares issued	2 660 687	1 955 043
Decrease (increase) in long-term accounts receivable	7 772	(97 971)
	30 537 943	26 911 144
APPLICATION OF FUNDS		
New investments	1 895 037	3 863 919
Additions to fixed assets	10 272 167	8 857 203
Decrease in long-term debt	2 514 613	3 916 780
Shares redeemed	2 919 956	2 441 695
Patronage refunds	5 000 000	6 000 000
Income taxes	1 432 862	2 087 997
	24 034 635	27 167 594
INCREASE (DECREASE) IN WORKING CAPITAL	6 503 308	(256 450)
Working capital at beginning of year	50 010 451	50 266 901
WORKING CAPITAL AT END OF YEAR	\$ 56 513 759	\$ 50 010 451

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at October 31, 1985

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. Common and preferred shares have a net book value in excess of their 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 over a 10 year period using 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 deferment. The deferred income taxes result in timing differences between the recognition of expenses (mainly depreciation) for accounting and for income tax purposes.

Note 2 INVESTMENTS

	1985	1984
Common and preferred shares:		
Co-operatives	\$ 8 801 590	\$ 8 807 837
Companies	5 299 612	4 154 612
Mortgages and notes receivable, maturing from 1986 to 1996	2 836 572	2 923 064
	16 937 774	15 885 513
Current portion	444 623	719 257
	\$16 493 151	\$15 166 256

Note 3 FIXED ASSETS

	1985		1984	
	Cost	Net book value	Cost	Net book value
Land and improvements	\$ 3 841 086	\$ 3 530 283	\$ 3 748 677	\$ 3 482 086
Buildings	34 914 581	21 867 622	32 991 020	20 949 944
Machinery and equipment	45 149 406	15 915 739	42 015 808	15 089 799
Automotive equipment	11 882 642	3 847 752	12 374 559	3 822 780
	\$95 787 715	\$45 161 396	\$91 130 064	\$43 344 609

Note 4 OTHER ASSETS

	1985	1984
Production licences and rights at amortized cost	\$ 884 780	\$1 045 747
Deferred charges	10 605	15 966
	\$ 895 385	\$1 061 713

Note 5 LONG-TERM DEBT

	1985	1984
Debentures, 9%, 1985	\$ —	\$ 900 000
Debentures, series "D", 9 ⁷ / ₈ %, 1985	—	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 ³ / ₄ %, 1989	500 000	500 000
Debentures, series "K", floating rate, 1988-1990	2 400 000	2 400 000
Debentures, series "L", 14 ³ / ₄ %, 1986-1993	4 100 000	4 500 000
Debentures, series "M", floating rate, 1993	2 000 000	2 000 000
Debentures, series "N", 15%, 1986-1993	1 666 666	1 800 000
Bonds, 8 ⁷ / ₈ %, 1986-1993	—	2 004 000
Bonds, 7 ³ / ₄ %, 1986-1987	—	225 000
Unsecured debts, floating rate, 1987-1992	23 154 000	15 000 000
Term purchase loans, 8 ¹ / ₂ %, 1986-1987	1 356 245	1 672 003
Other	233 519	313 071
	39 260 430	36 164 074
Current portion	2 501 134	3 916 780
	\$36 759 296	\$32 247 294

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

1986 - \$2 501 134; 1988 - \$3 799 221; 1990 - \$3 012 866.
 1987 - \$4 219 807; 1989 - \$2 432 866;

Note 6 SHARE CAPITAL

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

	1985	1984
Preferred shares of \$10 each		
1976 series, redeemable at the latest in 1986	\$ —	\$ 1 779 380
1977 series, redeemable at the latest in 1987	2 628 380	2 658 090
1978 series, redeemable at the latest in 1988	822 420	831 990
1979 series, redeemable at the latest in 1989	988 500	1 002 800
1980 series, redeemable at the latest in 1990	1 856 610	1 880 930
1981 series, redeemable at the latest in 1991	1 585 460	1 677 430
1982 series, redeemable at the latest in 1992	1 799 030	1 829 000
1984 series, redeemable at the latest in 1988	10 400	7 560
1985 series, redeemable at the latest in 1995	505 130	193 938
1986 series, redeemable at the latest in 1996	102 500	—
	10 298 430	11 861 118
Common shares		
Qualifying shares of \$10 or \$25 each, convertible in preferred shares	24 695	24 695
Qualifying shares, class "A", of \$25 each	2 189 650	1 959 600
Class "D", \$25 each	17 672 875	16 595 824
	19 887 220	18 580 119
Partially paid	65 395	69 080
	\$30 251 045	\$30 510 317

Note 7 PATRONAGE REFUNDS AND REDEMPTION OF SHARES

In accordance with the Act incorporating Coopérative Fédérée de Québec, the directors have declared, out of savings of the current year, patronage refunds of \$5 000 000 (\$6 000 000 in 1984). They resolved that these refunds be paid in the following manner:

	1985	1984
Cash	\$ 2 979 500	\$ 4 132 588
Common shares, class "D"	1 918 000	1 673 474
Preferred redeemable shares	102 500	193 938
	\$ 5 000 000	\$ 6 000 000

The directors also resolved to redeem shares for an amount of \$2 094 290 (\$2 334 682 in 1984). The effect of these resolutions is accounted for in the consolidated financial statements.

Note 8 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The remuneration of directors and senior officers amounted to \$1 041 453 in 1985 (1984 - \$994 421).

Note 9 COMMITMENTS AND CONTINGENCIES

- a) Minimum annual rental expenses, as per lease agreements for buildings and equipment, amount to approximately \$1 200 000.
 - b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to approximately \$1 457 000 as at October 31, 1985.
 - c) Coopérative Fédérée de Québec may be liable for additional income taxes of approximately \$621 000 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.
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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, 1985 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.

In our opinion, these consolidated financial statements present fairly the financial position of Coopérative Fédérée de Québec as at October 31, 1985 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.

Malette, Benoit, Boulanger, Rondeau & Associés,
Chartered Accountants

Montreal, January 27, 1986

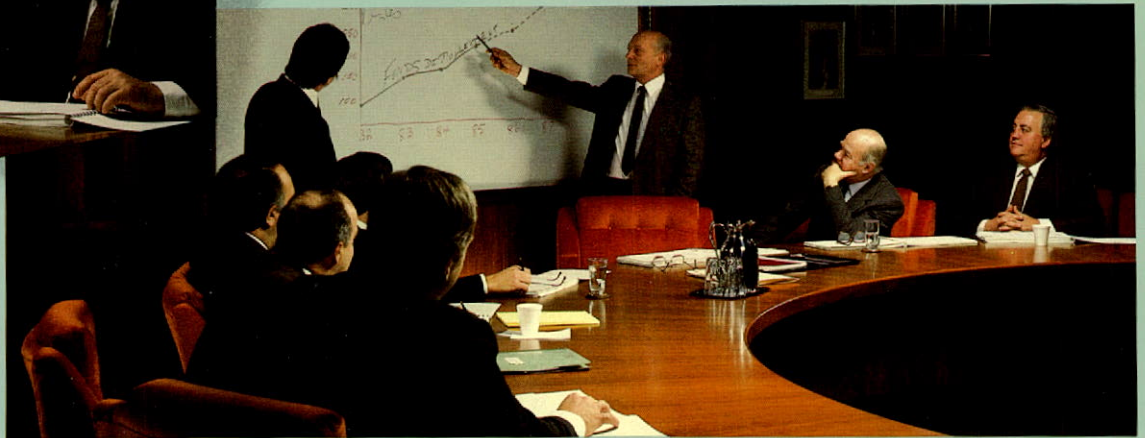
THE MANAGEMENT



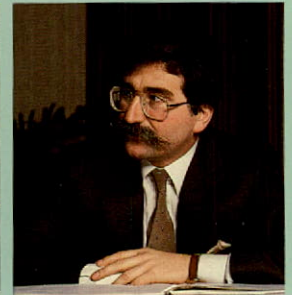
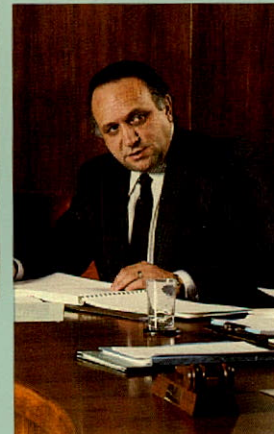
Jean-Marc Bergeron, Manager, Dairy Division (1), Richard Newberry, Treasurer, (left) and Marcel Gingras, Secretary (2).



From left to right, Louis-Philippe Poulin, Chief Executive Officer and Jean-Pierre Deschênes, Manager, Farm Supply Group (3).



Jean-Paul Cadieux, Manager, Human Resources Division (4), Yvon Mercier, Manager, Meat Packing Division (5) and Réjean Nadeau, Manager, Poultry Division.



Coopérative Fédérée experienced some difficulties during the 1984-85 financial year, and overall results are down from the previous year. Those difficulties, for the most part, were related to specific sectors, rather than to the farm situation as a whole. However, the economic climate created by certain agricultural conditions must also be recognized as a factor that affected the Federation's operations.

It also should be realized that our Federation is involved in activities which, with the exception of dairy and possibly poultry productions, do not always provide producers with adequate returns. Other factors contributing to lower savings are a major labour dispute in the Meat Packing Division, the import duty imposed on Canadian pork entering the United States, the imbalance between supply and demand for chicken on the domestic market, the continuing crisis in the farm implement industry and a number of others.

Sales totalled \$1,138 million, compared with \$1,159 million in 1983-84. Among the reasons for this 1.9% decline are the forementioned labour dispute, and lower prices or volumes of certain products.

Gross savings at \$156.8 million, or 13.8% of sales, compared with \$148.5 million, or 12.8% of sales, in 1983-84, increased by 5.6%.

Total expenses, after deducting a \$1 million gain on the disposal of fixed assets, reached \$145.1 million, and represent 12.8% of sales. This is an increase of 7.8% over the previous year. Savings

from operations, before income taxes and patronage refunds, totalled \$11.6 million, or 1.02% of sales, compared with \$13.8 million, or 1.2% of sales, the year before.

MEAT PACKING DIVISION

The Meat Packing Division continues to operate three slaughtering plants and two distribution centres. The Federation owns the Princeville and Vallée-

Jonction plants, and leases the St-Charles-de-Bellechasse facility. The two distribution centres are in Quebec City and Ville d'Anjou.

This past year was far from tranquil for the Division. The first major problem was a serious labour dispute that lasted 16 weeks at the Vallée-

Jonction plant. Needless to say, this situation reduced hog receipts substantially and directly affected sales and profitability.

Moreover, the Canadian hog industry had to wage a tough, year-long fight against the American government's decision to levy an import duty on live hogs and fresh pork cuts from Canada and for a few months Japan decided to cut back on its pork imports from Canada.

As a result, sales were lower than in the two previous years. They totalled \$268 million, or 10% below the 1983-84 figure. Volume at 275 million pounds, declined by some 8%. Despite a drop in sales to the Far East, exports increased by 2.5% over the preceding year. The United States market continued to hold the lead in terms of volume, taking almost 80% of our shipments, or more than 80 million pounds. That represents an increase of nearly 11% over the previous year. Japan remained in second place, but slipped slightly in relative importance. Some fifteen other countries shared the balance of our export volume.

The Division retained its share of Quebec hog receipts during the first half of the year. Unfortunately, the labour dispute changed this situation during the latter half. If it had not been for these labour problems, the Division would have kept the position it has held for some years in the industry.

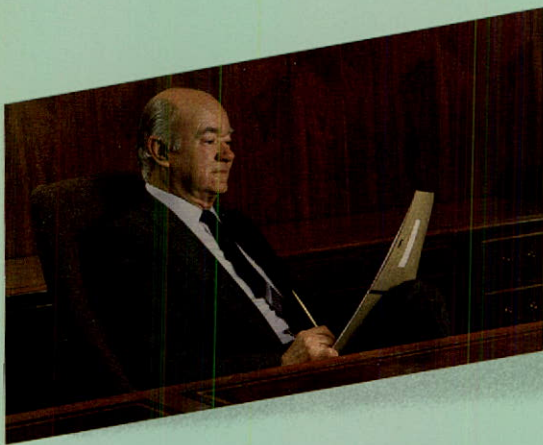
To better its share in Greater Toronto, Canada's top market place, the Division took the necessary steps to serve it more efficiently. It will likely be quite difficult to gain a substantial share of this market, but our Federation believes that there are real possibilities and that it is an opportune time to get a stronger foothold.

POULTRY DIVISION

Poultry Division sales totalled \$185 million, up by 9% over the previous year, while volume increased by about 13%.

While the industry unanimously supported the production increase for turkeys, it was not so in the case of chickens. The secondary sector of the industry was quick to point out that such a big rise in chicken production would have disastrous effects, given the stable nature of the meat market. It would result in a surplus, push down prices, effects being finally beared by the processors. This imbalance between supply and demand put a severe squeeze on margins, causing a considerable drop in earnings.

The Division continued its efforts to rationalize its line of products and to better adapt it to



changing consumer needs. Furthermore it met a strong challenge in launching new turkey products. As the shelves and counters in grocery stores and butcher shops are already well stocked, it takes a great deal of time, money and effort to get more display space for any new product.

Therefore the Division's situation worsened during the past year and reported negative results, in contrast with the previous year's profits from operations.

DAIRY DIVISION

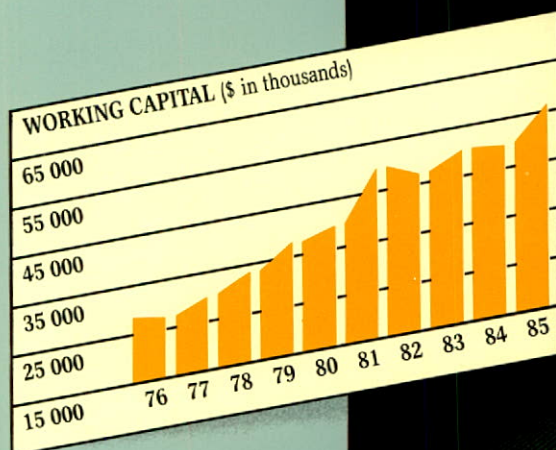
The profitability of the Dairy Division reached a new high, with sales of \$270 million representing an 11% increase over the previous year.

Volumes of most products remained fairly stable, with only a notable increase in exports of cheddar cheese. There were only slight variations on the

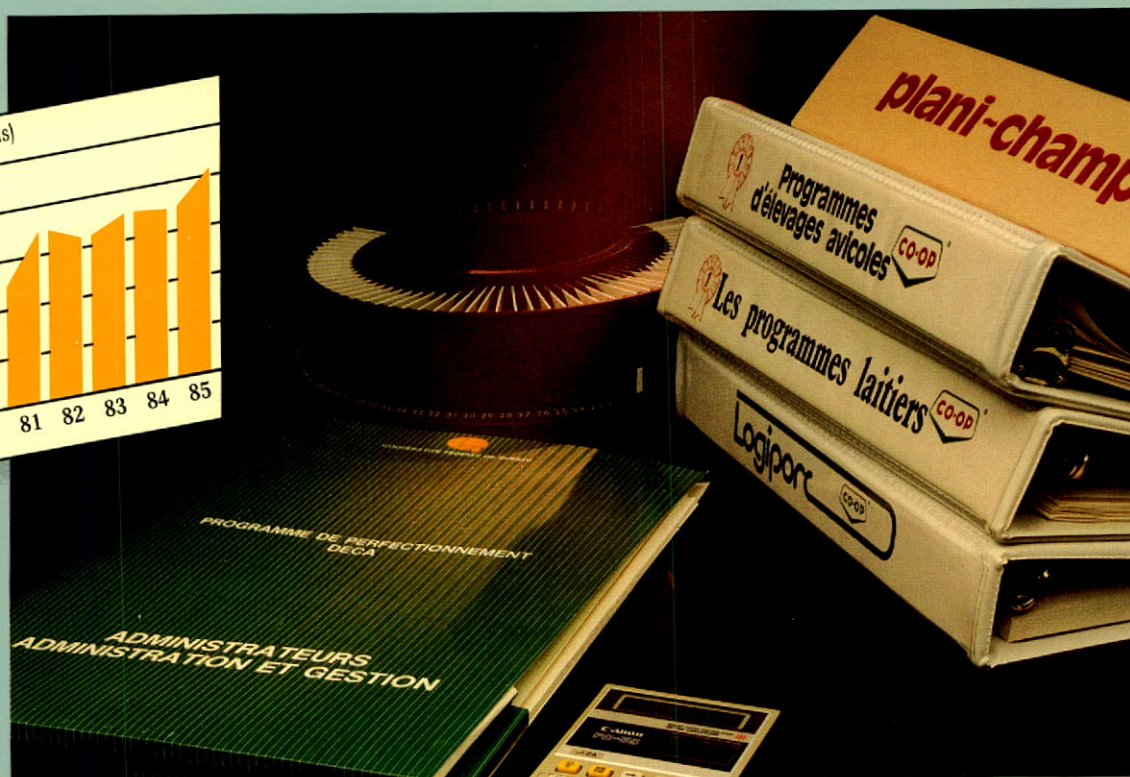
Cheese exports produced varying degrees of profitability, but similar situations prevail in other commercial operations. Importing countries are reaping the benefits of the strong competition between countries with surpluses. However, as long as trade policies allow Quebec products to compete on export markets, our Federation believes that the Dairy Division has a role to play and that it must continue to be active.

We all know that export assistance policies are supported by the producers and the collaboration of the Canadian Dairy Commission. Under those conditions, it becomes difficult to predict the future of exports. But it is certain that over the past few years they have contributed at a relatively modest cost to the improvement of Canada's dairy industry.

In previous Annual Reports, we noted the role



As Federation, Coopérative Fédérée gives active support to member co-operatives and their members in their constant quest for improvement and perfection.



domestic market in sales volumes for cheddar cheese and other products. Sales of butter and skim milk powder were about the same as in the previous year.

Export brokerage transactions increased slightly.

played by the Division in marketing butter under the Savourin brand name, and its success in the Quebec market. Savourin butter sales continue to increase, and this prestigious brand name is now assured of a permanent place on the butter market.

The Dairy Division continues to devote much of its resources and efforts to numerous and varied institutional activities. The dairy industry sets very demanding needs, due to its economic importance, its large contribution to Quebec farm income, and its complexity. The Division is dedicated to filling them the best possible way.

Summing up, the Division had a good year. It maintained its market positions in sales of butter, cheese, skim milk powder and other products sold through brokerage transactions. All in all, the Division recorded the best year in its history.

FRUITS AND VEGETABLES

The Fruit and Vegetable Department reported negative results for the first time in several years. Sales totalled only \$1.8 million, about 18% below the previous year. There was an appreciable reduction in volumes of the leading products. Some secondary products showed increased volume, but not enough to compensate. Therefore, it was a year of lower volume, and very often of lower margins inadequate to cover declining expenses.

PETROLEUM DEPARTMENT

Petroleum Department sales, at \$203.6 million, were down by 6.6% compared to a year earlier. Volume decreased by 14.35%, a decline more substantial than for Quebec as a whole. This situation is due primarily to lower use of bunker oil in our various facilities, the dairy plants in particular, the replacement of heating oil by other energy sources, and lower gasoline consumption. Another factor was the decision to give up certain wholesale activities, as they were not profitable.

Distribution of petroleum products is now handled by eighteen co-operatives acting as agents, ten co-operatives having all operational responsibilities, twenty one distribution centres managed by the Federation, and nineteen gas bars. The relative importance of the different types of marketing channels has been evolving slowly, with increased volume now being marketed by the co-operatives.

Since gross margins remained comparatively stable, overall results were about the same as those of recent years.

Substantial changes were made to the Department's administrative structure to ensure better service to member-users and customers. Various events occurring within the industry in Quebec attracted widespread publicity and created some concern. It is difficult to foresee what will happen considering the deregulation of the Canadian market, international market conditions and a new refinery structure. Nevertheless, we have reason to believe that our Federation can continue to expand this operation, which so far has made a worthwhile contribution.

FARM SUPPLY GROUP

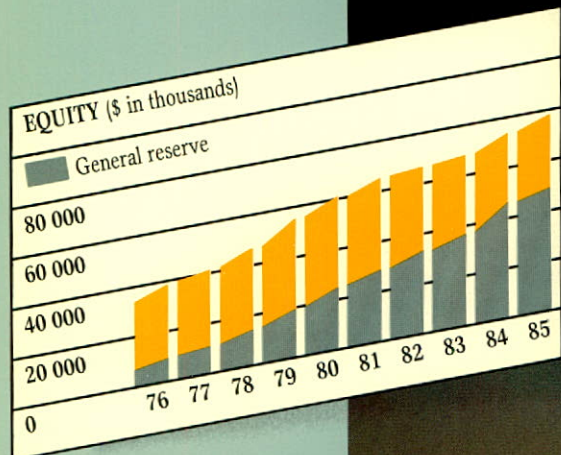
The Farm Supply Group manages eleven activities that have but a single market, the Quebec farms. Sales totalled about \$390 million and, although this amount was down slightly from the previous year, the Group's contribution was slightly better than in 1983-84.

Grain Department sales were down by 10%, due to lower volumes of feeds, especially hog feeds, and the availability of more local grains. While this decline in volume reduced its contribution, its performance was still satisfactory. For the second year, operations at the Napierville grain drying plant were limited to drying and marketing buckwheat. This plant has not yet reached a break-even threshold.

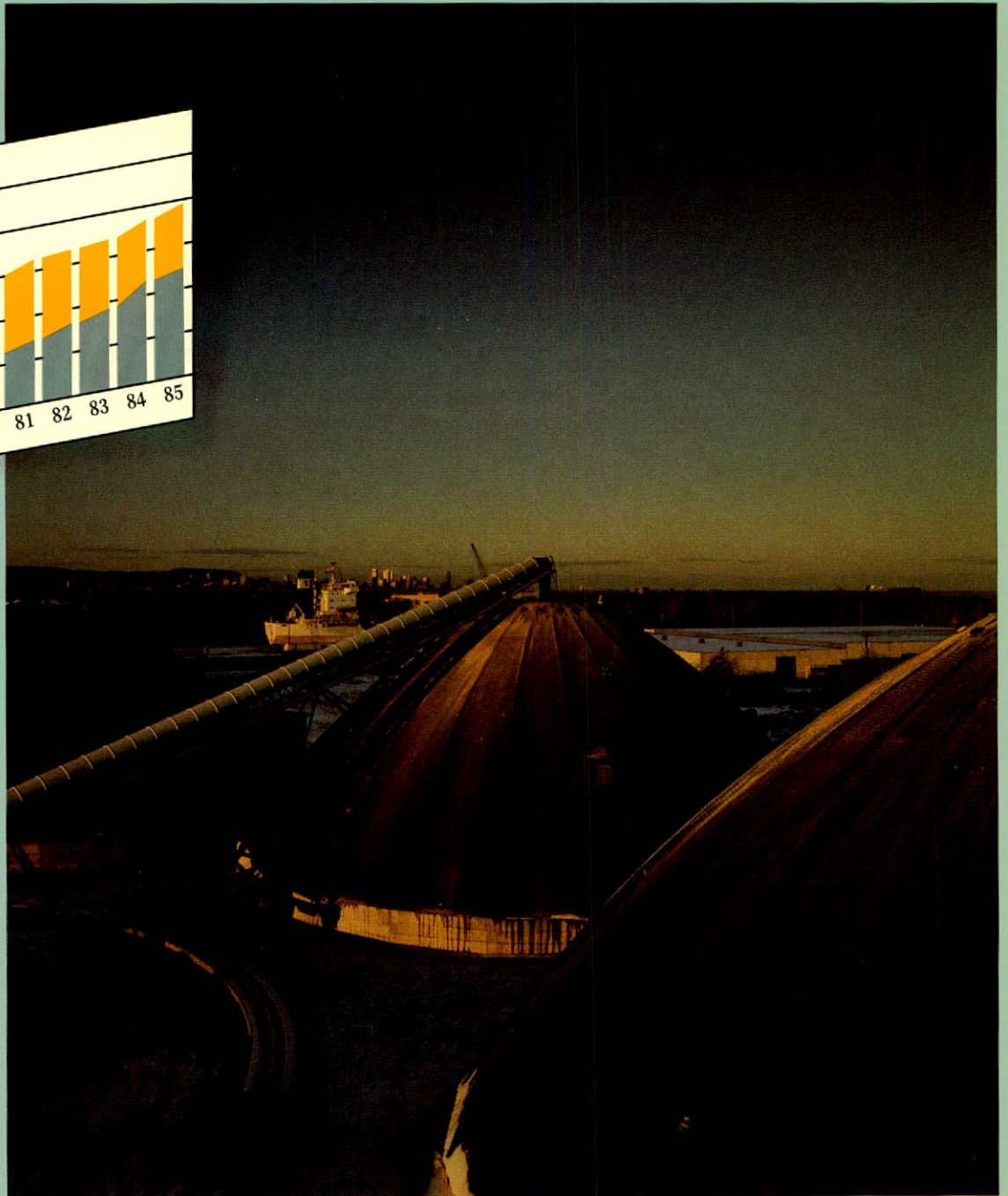
Sales of livestock feeds dropped by 10.5% due to a slight decrease in volume, mainly of hog feeds, and an average price reduction of \$20 per tonne, compared with the previous year. However, the Department's contribution proved to be better than a year earlier, as margins remained stable, and expenses decreased.

Despite lower hog production by farm co-operatives, the Feeds Department maintained its market share, as cattle feeds declined by less than 1%, and poultry feeds rose by more than 6%. Hog feeds volume dropped by 11%. The feed operation is always very important and it continues to make a first-rate contribution to the farm supply co-operatives.

Sales of livestock health products remained at about the same level as in the previous year. As



■ For the Quebec farmers to achieve their crop production goals, the Federation's new storage and distribution facility at Ville Ste-Catherine ensures a steady and reliable supply of fertilizers.



prices increased, volume was lower, due mainly to reduced hog production. Nevertheless, the contribution was about the same as in 1983-84. These operations are now subject to a new legislation. It should soon be possible to know what our Federation's future role will be in the sale of these products.

Hatchery Department operations showed increases in both value and volume, as some one-half million more birds were sold last year. Chick prices remained stable throughout the year, but margins failed to increase enough to compensate for modest higher expenses. The Department's contribution is lower than the previous year's figure.

The Fertilizer Department performed well and volume increased by almost 6%. Sales of raw materials and custom mixes to our member co-operatives increased by about 3%, while sales of

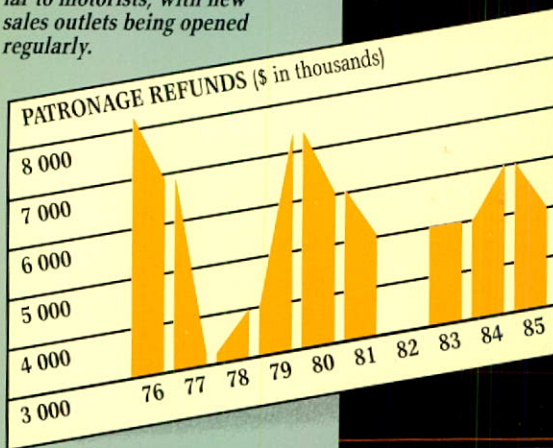
mixed fertilizers were down by almost the same percentage. Lawn fertilizers and nitrogen solutions also showed sales increases.

Gross margins improved, due to a lessening of competition, better control of prices at the farm-gate, and increased volume. Another important factor was that the Ville Ste-Catherine storage and distribution facility completed its first full year of operation. This highly efficient plant, with its capacity of almost 30,000 tonnes, reduces handling costs for products coming from outside of Quebec, either by rail or water.

Combined improved margins and a better control of expenses enabled the Fertilizer Department to have a positive contribution in 1984-85, whereas it registered a loss the previous year.

Agricultural Chemicals Department volume rose strongly, with sales up by 30% for the four major

■ The Sonic name and emblem is increasingly familiar to motorists, with new sales outlets being opened regularly.



■ Selling gasoline is just one facet of the Petroleum Department. Distributing heating oils, diesel and other fuels and lubricants needed by our farmers is an important activity.



families of products that it distributes. Although dollar gross margins increased only slightly, they declined by about 3% in comparison to sales. That drop reflects a very competitive pricing policy aimed at obtaining a greater share of certain high-volume markets.

Expenses increased normally, keeping pace with larger sales volume which required higher inventories. The Department made the greatest contribution in its history. Rising sales of agricultural chemicals illustrate how important have become Quebec's crop productions in recent years. It also shows that farm co-operatives have been constantly increasing their share of the market.

Seeds Department sales increased by 3%. There were lower volumes for forage and grass seeds, but substantial increases for seed grains and seed corn. While the average price of seed corn increased by slightly more than 4%, prices of seed grains, forage and grass seeds were all lower: ranging from a 0.5% decrease for grass seeds, to 6% for forage seeds. The end result was lower gross margins and a lesser contribution than the previous year.

AGRICULTURAL SUPPLIES

A new peak was achieved by the Agricultural Supplies Department as sales increased by 6.3% to reach \$35.2 million. Wholesale operations accounted for this increase, as retail outlets reported about the same level of sales as the year before.

Higher sales were reported for all product lines, with the exception of dairy and automotive supplies. Although the increases were relatively modest for building materials, they were much higher for farm supplies (20%), electrical supplies (26.5%) and plumbing supplies (38%).

While the Department's 1983-84 results were positive, this year's are negative as the slight increase in gross margins due to higher sales was not enough to compensate for higher expenses.

FARM IMPLEMENTS

Farm Implements Department results were negative for a fourth straight year, as there seems to be no end to the crisis in the farm implements industry. The loss was greater than in the previous

year, due to a drop of almost 11% in sales, a price support policy and an inventory writedown aimed at clearing out certain items.

Despite a weak upturn towards the end of the year, it is quite obvious that there still are serious difficulties, at the wholesale, retail and manufacturing levels of this industry. Recent mergers within the industry show the efforts being made by manufacturers to consolidate their positions and avoid further losses. But nobody can tell at this stage whether all these changes will have the desired results of returning the industry to profitability.

RETAIL OPERATIONS

Our Federation operated seven retail branches at the end of the year. Their reported sales of \$83.5 million are slightly more than 2.6% above 1983-84 figures. Sales of feeds and fertilizers continued their upward trends.

These retail establishments were taken over by the Federation following serious difficulties, and it will take time to normalize their situations. Although there has been a notable improvement in the past year or so, the retail operations, as a whole, are still not profitable.

Nevertheless, five of the seven of them reported earnings compared with only two the previous year. This clearly indicates an improving trend. Generally speaking, it has been the experience of several co-operatives that feedmills, crop products and petroleum activities generate earnings, while it is difficult to make profits from sales of farm implements, grain drying and hardware, or even to keep them from operating at a loss.

FINANCIAL SITUATION

Working capital, after implementing the Board of Directors' decisions relative to patronage refunds and redemption of share capital, at \$56.5 million at year-end, is up from the preceding year's \$50 million. Accounts receivable declined for a second year in a row, this year's decline being 8% while sales were down by 1.9%. At \$95.8 million, they represent 8.4% of sales compared with \$104.6 million or 9% of sales a year earlier.



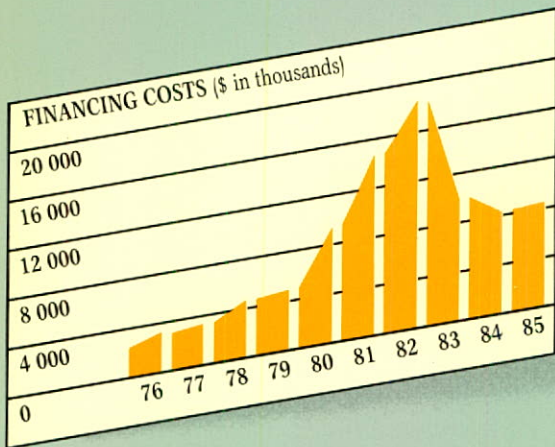
In comparison with 1983-84, inventories increased by \$4 million or 5.7%, to \$74.7 million, indicating a slower turn over.

The general reserve increases by \$5,238,000 to \$48,127,000 and accounts for 61.4% of the equity. Shareholders' equity reaches \$78.4 million at year-end, compared with \$73.4 million the year before.

ADMINISTRATIVE DEPARTMENTS

The people in our administrative departments quietly fulfill their vital support and back-up roles. Their loyal collaboration and ever present professional expertise to the management of our commercial and industrial activities contribute greatly to the professional quality of our Federation. This annual review of our activities provides an opportunity to give them full credit.

In addition, several initiatives of the administrative departments involve participation by member co-operatives. It is extremely gratifying to note their high level of involvement in the training sessions and other activities organized by these departments during the past year.



The last financial year was certainly less satisfactory for our Federation than the previous one. Some of the reasons are outlined in this Report, and while they are relatively few in number, they had a serious impact on our activities. For example, if the Farm Implements Department had had but a break-even result, our Federation would have experienced an exceptionally good year. But the mission of our co-operative, in its present concept, imposes certain constraints which must be respected. Together, we must hope for a rapid end to this major sectorial crisis.

We extend our warmest thanks and appreciation to all those men and women whom we meet in our meetings, who form our decision-making bodies, who work within our operational and administrative structures, and who, when all is said and done, make our movement what it is. Their contributions at all levels, from the grassroots right to the summit, are the guarantee of continuity in an entire network of farm organizations and institutions whose role is today recognized by all. Being useful is a great motivation, and a great reward in itself.

Louis-Philippe Poulin
Chief Executive Officer.

