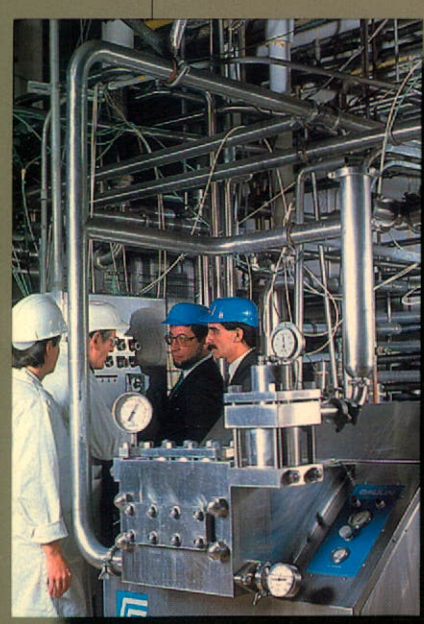


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**AGROPUR,
COOPÉRATIVE
AGRO-ALIMENTAIRE**

**FORTY-EIGHTH
ANNUAL REPORT
1985-1986**



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HIGHLIGHTS

Net sales (in \$ thousands)

Industrial Milk Division	510,808
Fluid Milk Division	256,322
Farm Supply Division	24,999
Sub-total	792,129
Transactions between divisions	(20,552)
TOTAL	771,577

Number of employees at October 31, 1986:

2,437

Milk collections (in thousands of litres)

Industrial milk	845,068
Fluid milk	227,967
TOTAL	1,073,035

Officers

Michel Lemire
President

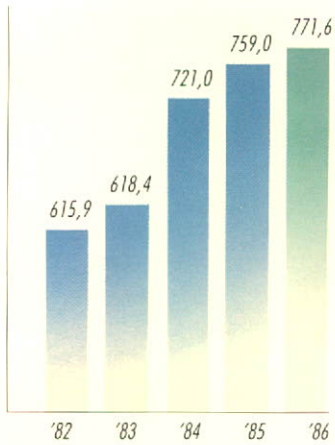
Raymond St-Cyr
Vice-President

Reynald Charest
General Manager

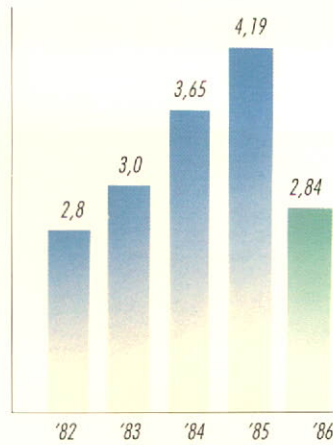
André Gauthier
Corporate Secretary

R. Claude Ménard
Manager, Financial Services
and Treasurer

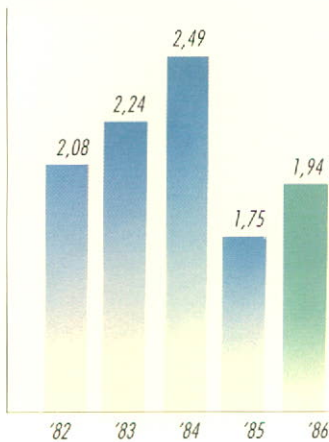
LAST FIVE YEARS AT A GLANCE



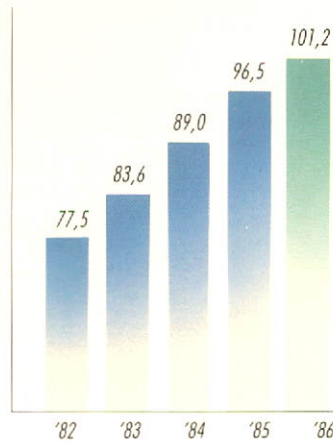
SALES
(IN \$ MILLIONS)



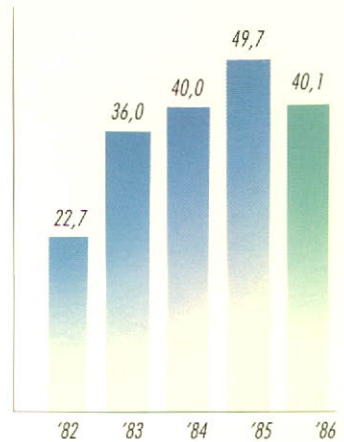
EARNINGS DISTRIBUTED TO MEMBERS
(IN \$ MILLIONS)



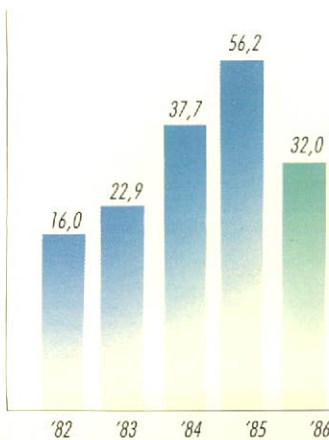
AVERAGE PRICE COMPLEMENTS PER HECTOLITRE
(IN \$)



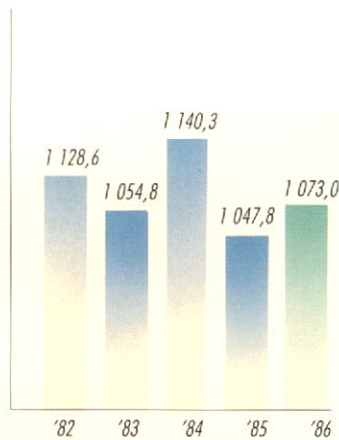
EQUITY
(IN \$ MILLIONS)



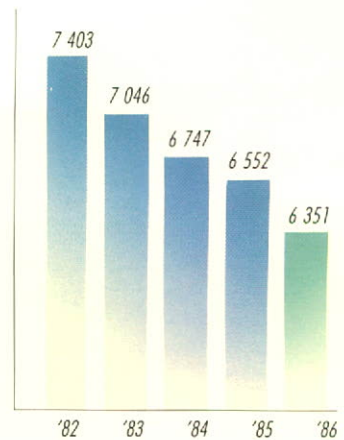
WORKING CAPITAL
(IN \$ MILLIONS)



LONG-TERM DEBT
(IN \$ MILLIONS)



MILK COLLECTIONS
(IN MILLIONS OF LITRES)



NUMBER OF MEMBERS

MESSAGE FROM THE PRESIDENT

Dear Members:

This past fiscal year, in general, proved fairly satisfactory from a number of viewpoints. Although many companies in the food sector experienced sagging sales under the weight of competition and related difficulties of many kinds, we at Agropur have every reason to take pride in our achievements.

Despite the difficult conditions under which we had to operate during the year now ended, we consolidated our market position, launched several new products, expanded our sales penetration in areas where we were already established and made breakthroughs into new markets. Last, but far from least, we ended the fiscal year with an interesting operating surplus.

The obstacles we had to surmount this past year, however, serve to remind us once again that nothing can ever be taken for granted in the agri-food industry. We must remain constantly on our guard if we do not want to lose the ground we have conquered with such great difficulty.



Well aware of this fundamental truth, your Board of Directors continues to work hard to iron out the difficulties and meet the challenges which crop up incessantly, in order to ensure the steady and constant growth of our Coopérative.

INTERNAL COMMUNICATIONS

The beneficial effects of the past year's success were not limited to the financial results, however. It gave your Directors an opportunity to focus on a subject which becomes increasingly important the more we grow and prosper: communications, both internal and external.

Nowhere else does the human aspect take on more significant dimensions than in a farm cooperative, where communication is a daily reality. Members, Directors, managers and employees all must coordinate their efforts in pursuit of a much vaster objective: the common good. Communication is an

indispensable tool in order to harmonize the wishes of thousands of individuals: that is why we took a number of steps throughout the year to forge even closer links between members and employees.

Our desire for collaboration is not limited to those two groups, however. We also established closer links than ever with the other cooperatives, the general public, our customers, suppliers and the organizations working in our sector.

We have several achievements to our credit in this respect. Among those worth mentioning are the following: the meetings that our new General Manager, Reynald Charest, held with employees to promote good relations between management and workers; the plant visits made by the Directors; the regional meetings where members elect delegates and learn the results achieved during the past fis-

cal year; the Solidarity Committee, which plans and prepares the Animators' Meetings and ensures that our organization's growth continues to be based on the great cooperative principles; the Assemblies of Animators themselves; the "Open House Day" at the Fromagerie de Notre-Dame-du-Bon-Conseil, which attracted several thousand visitors; the gifts to charitable organizations, which reached new highs this past year; the training sessions for couples; the meeting with the Mouvement Des-jardins management people – another good example of intercooperation; the setting up of employer-labour committees inside our plants... In short, all this and more is part of our ongoing and overall strategy aimed at making ourselves better known to the general public as well as to get a clearer perception of grassroots opinions and the viewpoints of various intervenors who form an integral part of our milieu and whose decisions influence our development.

As a result of all these moves and activities, we have acquired a more acute social conscience regarding the social environment in which we work and grow. By being better informed, we obviously are in a position to take more objective and rational decisions.

BOARD OF DIRECTORS' ACTIVITIES

This has been another particularly busy year for all members of your Board of Directors. They attended 18 Board meetings, the Agropur Annual General Meeting, 15 regional meetings, 7 Executive Committee meetings, 4 meetings of the Solidarity Committee and 41 meetings of the Animators.

As in the past, your Directors continued their plant visits to familiarize themselves with our Coopérative's physical facilities and processing capacities, so that they will be able to make the most appropriate and enlightened decisions. Plants visited during the past year were those at La Pérade, Trois-Rivières, Louiseville, Plessisville, St-Germain and Laiterie Vic-to, located in Victoriaville.

DAIRY COOPERATIVES CONGRESS

Your Directors also took part in the Annual Congress of the Dairy Cooperatives in November 1986. "Les ressources humaines... en coopération?" was the theme, an especially appropriate choice to emphasize the crucial importance of the human factor within a cooperative enterprise.

The richly informative talks given by the guest speakers for the most part dealt with the roles, collaboration and participation of human resources within a cooperative, whether at the level of the members, Directors, managers, employees or the numerous partners with whom we deal on a regular basis.

The consensus which emerged confirmed the decision taken by your Management some time ago to place the emphasis on communications, thereby creating harmony among the various elements that make up our Coopérative.

The visual symbol of this Congress, a lectern, was a remarkably appropriate choice, since it reminded everyone that a cooperative is like an immense orchestra in which everyone has a precise part to play, and in harmony.

Just as the conductor of an orchestra blends the talents of a group of different musicians to make them play in unison and in perfect synchronization, so the head of a cooperative enterprise skilfully directs a multitude of various talents to create a healthy, harmonious and productive work climate in which all are able to give their best.

The lessons learned during this Congress once again reveal a truth that we sometimes tend to forget in the heat of action: the road to success involves recruiting, training, associating and mobilizing human competences to the maximum. Enterprises which follow those great basic principles will be the ones which continue to grow, forge ahead and make their mark in the years ahead.

SCHOOL MILK PROGRAMME

You have all heard talk about the changes the Quebec government intends to make in the school milk programme.

Following the protests which were raised on all sides, Quebec asked the dairy companies to help it find a formula which would make it possible to continue free distribution of milk in the Province's schools, for one year.

After numerous consultations, the dairy cooperatives involved in distributing milk to the schools reached a common agreement to collaborate in a programme under which the school children would continue to receive free milk five days a week, as in the past.

Agropur agreed to share in this investment because of its importance in instilling the habit of milk consumption in our children. In that way, we provide them with a source of calcium that is indispensable to their growth but, even better, we enable them to acquire a taste for a healthful and essential food.

GOVERNMENT'S LONG-TERM DAIRY POLICY

On the national scene, the outstanding event of the year was undoubtedly Federal Agriculture Minister John Wise's January 1986 announcement of the adoption of a long-term dairy policy.

This long awaited Federal government decision restores the major elements which have contributed to the success of Ottawa's dairy policy in the past. The Dairy Cooperatives Council expressed its unanimous satisfaction with the Department's decision.

Some uncertainties persisted at this time, however. The question of butter marketing costs had not been resolved, among other matters.

In February 1986, participants in Quebec's dairy industry agreed on a formula for transferring all butter marketing costs to consumers, because the government refused to assume them under the new programme. Attempts were made in March 1986 to rally the entire Canadian dairy industry behind this consensus reached in Quebec, but they all failed, for one reason or another.

On the other hand, commencing in April 1986, important changes to the Canadian Dairy Commission butter and skim milk purchase policy compelled the Coopérative Fédérée de Québec, which represents the dairy cooperatives, to ask for a decrease in the price of Class V milk.

By this dramatic gesture, the dairy cooperatives once again wanted to make their Quebec partners and the entire Canadian dairy industry aware that the erosion of prices paid to producers following the changes announced by the Canadian Dairy Commission represent a real danger.

In a statement published in October 1986, the Régie des marchés agricoles du Québec (Quebec Agricultural Marketing Board) recognized the validity of the stand taken by the dairy cooperatives on this question and emphasized that: "There is no doubt that the new Canadian Dairy Commission policy for the period from April to August last, if it had been maintained, could have endangered the entire industrial milk price support structure for producers".

During that four-month period, the dairy cooperatives as a whole suffered a rude shock when they had to submit to the indignity of a demand for a price decrease, in order to rebuild a Quebec consensus around this crucially important question. That gesture bore fruit, however, because last August 1st a review of the situation demonstrated the legitimacy of the cooperatives' claims.

Since that time, the revenue of Quebec producers is now fully protected once again.

CANADIAN DAIRY COMMISSION MANAGEMENT CHANGES

Some important changes were made in the Canadian Dairy Commission management team during 1986.

Both Gilles Choquette and Elwood Hodgins retired after serving Canada's dairy industry for many years. We wish to thank them publicly for all they have accomplished for us.

We wish to express our satisfaction with the appointments of their successors, as announced by Federal Agriculture Minister John Wise at the end of July. Roch Morin and Kenneth McKinnon are now President and Vice-President, respectively, of the Canadian Dairy Commission.

We are convinced that they both have all the necessary ability and experience for their new duties. Once again, we extend our congratulations and we assure them of our full and wholehearted cooperation.

FREE TRADE

Another matter which obviously monopolized a good part of our time and attention this past year involved the free trade talks between Canada and the United States.

The agricultural sector was the first to mobilize itself against this policy. Discussions were followed by impact studies and the preparation of briefs. Finally, pressure groups were created to get across the viewpoint of those whose work on the farms is the principal source of earnings. As a result, the pressure on the agricultural sector is beginning to diminish.

We should not be lulled into thinking that the threat has been eliminated, however. That is why I would not want to ignore a fact which came to light in the study on the Canadian dairy industry made by Yvon Proulx for the Union des Producteurs agricoles (U.P.A.).

Mr. Proulx's analysis of the figures demonstrates that during the seven years covered by this study, Quebec producers of industrial milk were the best remunerated in the country. That is a fact which deserves to be much better known.

It is obvious that any move towards free trade with the United States would be extremely damaging for the Canadian dairy industry as a whole, and for Quebec's dairy enterprises, in particular. Canada's farmers are simply not able to compete head-on with the United States government and the subsidies which it hands out so generously.

AGREEMENT BETWEEN THE FÉDÉRATION DES PRODUCTEURS DE LAIT AND THE DAIRY COOPERATIVES

The most eagerly awaited event here certainly involved the results of the first year of the agreement between the Fédération des Producteurs de Lait and the dairy cooperatives.

It should be recalled that this agreement was imposed on the farm cooperatives as the result of an arbitrary decision by Quebec's Agricultural Marketing Board, and became effective on August 1, 1985.

I believe it is fair to say that during this period, Agropur and the Dairy Cooperatives have done everything humanly possible to iron out the difficulties inherent in the application of this agreement, rather than setting up obstacles of any kind.

We knew that the Fédération des Producteurs de Lait had already signed an agreement with the Dairy Industry Council. We also became rapidly aware that there were clauses in this agreement which were incompatible with those in the dairy cooperatives' agreement.

We have always agreed to supply milk to companies manufacturing fresh dairy products. However, the ambiguity introduced by the dairy producers' Federation has permitted several non-cooperative companies to request milk for manufacturing mild cheddar, or sometimes even old cheddar, by pretending to produce fresh cheddar.

There was quite a gap in 1985-1986 between amounts of milk actually delivered and the predicted volumes. For example, the cooperative plants were short by many million litres of milk to complete what is called the "compensable reference volumes". This worrisome situation was certainly predictable to a certain extent, because the agreement provides for monetary compensation.

However it now seems that the dollars just aren't there when they should be!

Following the pressures brought to bear by the dairy cooperatives, a tripartite committee was set up with representatives from the Coopérative Fédérée de Québec, representing the dairy cooperatives, the Dairy Industry Council and the Fédération des Producteurs de Lait.

The three parties agreed to the Agricultural Marketing Board's suggestion to appoint a mediator-arbitrator.

We are awaiting further developments in this matter at the time of writing.

MILK TRANSPORTATION

All this leads us to speak of another matter which threatens to become a problem unless it is given immediate attention: milk transportation.

We all know that for several years now the dairy cooperatives, such as Agropur, have devoted much effort and energy to rationalize the milk transportation systems in their respective territories. But there is obviously still much more work to be done.

Under the mandate given to the Milk Transportation Rationalization Committee set up in the autumn of 1985, discussions have already commenced between the milk producers' Federation and the dairy cooperatives.

We reiterate here our willingness to reorganize the transportation system in our milk collection basin, in collaboration with all those involved in any way with this matter.

Milk transportation is an essential component of the links between the member and his cooperative. Your Board of Directors will insist on complete respect for Clause 2.04 of the agreement between the milk producers' Federation and the dairy cooperatives. This Clause clearly specifies that the cooperatives themselves must transport the milk produced by their members.

NEW MEMBERS

The Agropur Directors decided two years ago to temporarily suspend efforts to recruit new members, after the agreement between the Fédération des Producteurs de Lait and the dairy cooperatives movement came into effect.

However, our Coopérative must continue to grow. To that end, your Board has given a special committee a mandate to study some formulas for admitting new members. Certain changes in our selection criteria have been suggested and adopted to take into account the new context in which we must evolve.

FARM SUPPLY DIVISION

During my message last year, I told you that better days were coming for this Division and that we had reason to believe that we could look ahead to an appreciable recovery this year.

To our great disappointment, however, our hopes were not realized. This Division recorded another deficit for the fiscal year just ended.

The figures show quite good progress in the farm machinery sector, which has not been the case for several years now. However, these results were not enough to permit the Farm Supply Division as a whole to reach the profitability threshold.

Faced with this situation, your Directors decided to set up a committee specially mandated to suggest solutions to the problems encountered by this Division.

"C" CLASS PREFERRED SHARES

During our last Annual General Meeting, I urged the producers to redeem the "C" class preferred shares, which I said matured in the 1985-1986 fiscal year.

The overlapping of the civil and fiscal years created a certain amount of confusion at the accounting level, however. So it should have been said that the shares "mature during the 1986-1987 fiscal year" instead of "during 1985-1986".

Now that we are on this subject, I want to stress once again how important it is for the producers to complete their purchase of the common shares representing their equity in the Farm Supply Division. The redemp-

tion of these "C" class preferred shares offers an excellent opportunity for all those who have not yet done so, to convert to common shares and increase their participation in this Division's authorized capital.

For another thing, if all members of the Farm Supply Division would support their Coopérative when making their purchases of all kinds, this Division would obviously not be in its present difficulties.

DAIRY EQUIPMENT SERVICE

As a result of a series of measures we adopted during the year, the Dairy Equipment Service reported more encouraging operating results than those of the previous fiscal year.

Dairy equipment is indispensable to the members, and our first and foremost goal is to provide them with the most efficient possible service at the lowest possible cost.

COOPERATIVE INVESTMENT PLAN

I am extremely pleased to report that members operating individual farms participated actively in the Cooperative Investment Plan this past year.

Following a number of requests, the provincial government decided to make this programme's admission criteria more flexible. Farmers who operate as a company can now join this Plan.

We all have every reason to be happy with this de-

SPECIAL AWARD FOR COOPÉRATIVE FÉDÉRÉE DE QUÉBEC

During the year, the Coopérative Fédérée de Québec received the Canadian Government's highest award granted to a Canadian company for outstanding achievements in the export field.

A plaque commemorating this event was sent to the Coopérative Fédérée by Ottawa's Foreign Trade Minister, the Hon. Pat Carney.

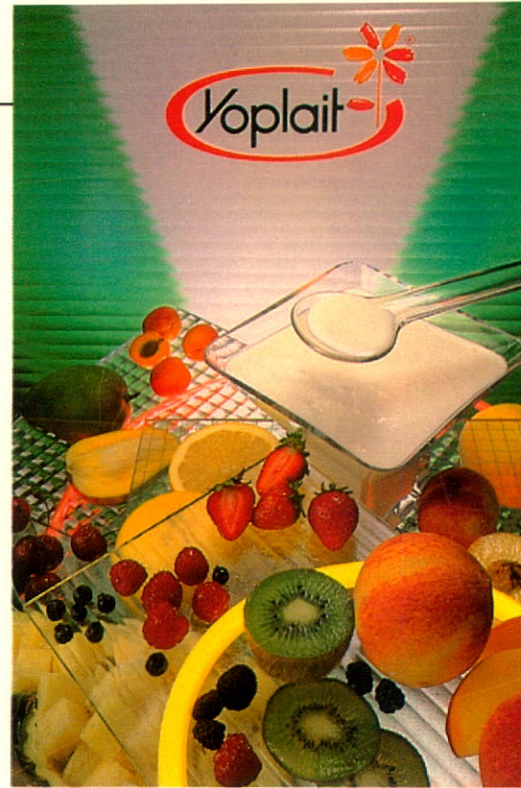
The Agropur Directors congratulate the Coopérative Fédérée de Québec on this honour, which is a source of pride for all of us.

PRODUCT ADVERTISING

Although the quality of our products is beginning to be recognized the world over, we should never forget this one fundamental fact: our sales volume depends above all on our domestic market performance.

That is why we again made direct investments totalling millions of dollars to stimulate demand for Agropur products here in Quebec and in other provinces. This is in addition to the statutory amount of 59 cents per hectolitre of milk which each producer contributes to the Dairy Bureau of Canada to encourage Canadians to consume more dairy products.

Collectively, we spend substantial amounts of money in product marketing, advertising and promotion. However, on the individual level, every member and employee can be of tremendous help in stimulating demand for Agropur products in each community by ask-



Yoplait yogurt earned itself yet another Lys d'Or awarded by the ministère de l'Agriculture, des Pêcheries et de l'Alimentation of Quebec.

ing for them when we go grocery shopping.

Agropur has a "buying force" of more than 30,000 consumers, when you count the families of our more than 6,300 members and 2,500 employees. When 30,000 consumers request, buy and consume Agropur products every week, this helps to create a strong increase in demand.

This increased demand will result in a growing presence of Agropur products in the dairy counters of grocery stores everywhere. That, in turn, will quickly translate into additional purchases by the general public.

Every one of us will benefit, when we "talk it up" for Agropur!

CONCLUSION

As you can see, the twelve months now ended have been packed with events of every kind.

We had to fight our way through every day of this turbulent year. Fight to have our agreements respected. Fight to defend our rights. Fight to preserve the benefits we worked so hard to gain. Fight to make our mark in an increasingly super competitive market.

However, the results achieved this past year are rich rewards for all the efforts expended.

In closing, I wish to thank the members of the Board of Directors for their faithful attendance at our meetings and their constant support. It is quite obvious that their foresight and sage advice have been of inestimable help for the smooth running of our Agropur operations.

Specially warm thanks go to our General Manager, Reynald Charest, and to all members of the Coopérative's top management team. They did a gigantic amount of work during this past year, and the way they improved Agropur performance was a real **tour de force**.

Special thanks also go to our employees. Through their hard work and persistent efforts, they were the unsung but vital artisans of the results we achieved during the year.

Finally, I wish to extend my warmest personal thanks to all members, and your families, for the support you gave me every day of the year. This Coopérative exists for you, and because of you, and the interest you show in our collective enterprise not only ensures our success: it is a guarantee of continued growth and greater prosperity in future.

Michel Lemire

MICHEL LEMIRE

President

AGROPUR AND COMMUNICATIONS

As a business enterprise collectively owned by its more than 6,300 members, by their own free will, Agropur, Coopérative agrolimentaire has had a very precise role to play from the very first day of its existence. As outlined in its statutes: "Agropur must successfully manage the processing and marketing of the raw material coming from its members' farms and, after that, it must process and market any other product forming part of the agri-food industry range, either in Canada, the United States, or elsewhere in the world."

Added to this first vocation, there is also a corollary objective: to improve the economic and social well-being of all its members.

To achieve the goal, the Coopérative markets its products in a rational, efficient and profitable manner. It meets this challenge by using all available modern techniques of marketing, advertising and promotion.

Finally, the Coopérative ensures that its members adapt constantly to rapid changes in a world that is in constant flux. Voluminous quantities of agricultural, technical and financial information are made available to members from many sources.

Communications play a central and decisive role, whether in convincing consumers to buy Agropur products or in providing appropriate information to the member-owners.

COMMUNICATIONS WITH MEMBERS

The principal objectives of member communications are to reinforce the feeling of belonging to the Coopérative and to provide members with all the information they require to manage their farming operations with maximum efficiency.

This latter aspect is of crucial importance. It is so vital that the Coopérative set up a **Member Relations Service** just a few years after it was founded, with the primary objective of coordinating all activities involving relations between members. In 1978, the **Communications Service** was formed, to establish a more fruitful dialogue between Agropur management and the producer members.

Among the numerous achievements of these two basic services, we should first point out **Agropur-Nouvelles**, the monthly newsletter filled with information and data of every kind. This avidly read publication suggests ways to increase the profitability of family farm enterprises; recommends modern

production techniques; explains the milk payment stubs; discusses documents developed by the Coopérative, and so on. Finally, it runs articles of a pedagogical nature on the cooperative vocation of Agropur.

This newsletter is complemented by **technical information meetings**, which are held regularly to provide more general information to users of the Farm Supply Division services.

Other meetings are organized and run by the ten **cooperative counsellors**. These pragmatic, experienced and competent men and women are well aware of the problems facing farm operators and keep the members fully informed on numerous topical matters. As required, these cooperative counsellors will meet members personally, discuss their specific situation and try to find concrete solutions to their particular problems.

As examples of the heavy load of knowledge these cooperative counsellors must acquire to carry out their duties, we might mention that some of them took part this year in agronomic



Agropur-Nouvelles, the monthly newsletter, is a vitally important information tool for members.

refresher training days; in a dairy cattle symposium; as well as a course on bovine mastitis given by the veterinarians of the Quebec Agriculture Department. In addition, they all attended an audio-visual techniques training day. They also worked to identify suppliers of the various Agropur processing plants, in order to help the Committee specially formed to analyze the impact of the new marketing agreement on the rationalization of milk transportation and the signing up of new members. All these activities gave the counsellors an opportunity to collect a wealth of invaluable information enabling them to assist the members even more efficiently.

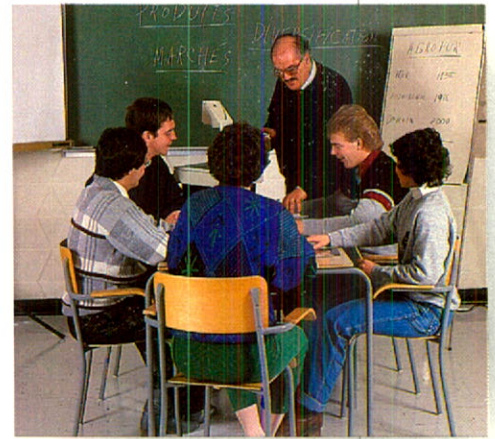
The Coopérative's desire to back up its members in every way it can doesn't stop there, however. Other gatherings, such as the **Assemblies of Animators**, are held on a regular basis to provide even more detailed advice.

These animators' meetings comprise one of the vital cogs in the busy Coopérative machinery, and provide an essential link between management and members. Some meetings have been called to explain the validity of resolutions adopted by the Board of Directors, and to listen to grassroots level advice from the members. Some deal with topics of a very complex nature, such as integrated cultivation techniques, or experiments with new varieties of grains.

But the information distributed by the Coopérative is not just agricultural, technical or administrative in nature. It also includes

culture. It sometimes takes on a more personal dimension.

An interesting example of this is provided by the **sessions for couples**. This programme was introduced with the goal of filling in some of the gaps in knowledge about the cooperative movement. Its primary objective is to explain to new members, and their spouses, the democratic internal functioning of Agropur; to share with the



The Farm Youth Training Programme is another method of communications developed by Agropur to keep in close touch with members and future members.



Another programme developed by the Coopérative is the sessions for couples, in which new members and their spouses learn the great principles of solidarity and gain a sense of true belonging in their jointly owned enterprise.

members the great principles of solidarity which animate the enterprise; and to strengthen their feeling of belonging to the Coopérative.

The farm **cooperative youth training programme** is another of these personally oriented activities for members.

This training is designed especially for young people who wish to prepare themselves for taking over the family farming operation when the time comes, or who have ambitions to start up a dairy operation of their own. These sessions explain the principles of the cooperative

movement, and provide the young people with all the information they need to make a free and knowledgeable decision to join this great movement, one of the most admirable manifestations of human solidarity.

This list would not be complete if we failed to mention the **regional meetings**. Fifteen of these meetings are held each year, enabling the members to sit down together to exchange views, fraternize, and elect their delegates to the Annual General Meeting.

An innovative feature of the 1986 regional meetings was the "Agropur Table". Almost all the foods served during these events were processed or manufactured by the Coopérative, enabling a great number of participants in these meetings to discover for themselves the extraordinary diversity and remarkable good taste of the products turned out by their collectively owned enterprise.

As can easily be seen by all the above, Agropur is extremely active in member communications. But its achievements in the areas of communications with its employees, the general public and organizations of every kind are also well worth mentioning.

COMMUNICATIONS WITH EMPLOYEES

Agropur's success from the beginning has been solidly founded on the motivation and mobilization of its personnel. That is why communications with employees are of such great importance.

Distribution of information at this level begins with the bi-monthly, **La Voix Lactée**, which contains news of a general nature about the Coopérative, along with an account of activities in the workplace. It generally begins with a personal message from the General Manager.

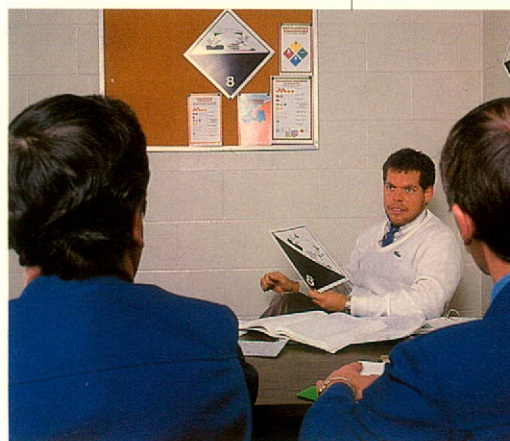
At all times, Agropur strongly encourages its employees to take part in community activities by providing financial support for **social clubs** they set up in the various plants. Through these clubs, employees organize dances, theatre nights, Christmas trees and parties for the children of employees, and so on.

In addition to activities of a social nature, Agropur also encourages employees to form, and join, **sports clubs**. The Coopérative makes substantial contributions to help employees set up hockey, softball, and clubs of other kinds. It also sponsors inter-plant games and competitions, as well as meetings between Agropur teams and those from other companies.

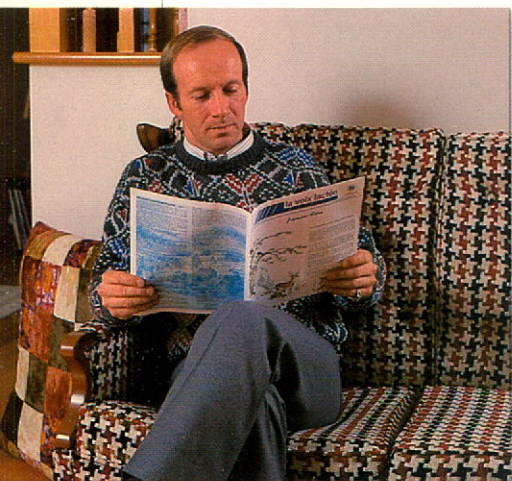
The **staff training programme**, also financed by the Coopérative, has another objective: to encourage employees to expand and perfect their technical knowledge. One of the best examples of the work done in this field is cer-

tainly the "initiation to data processing" programme, which saw more than a hundred employees register and complete a course on the use of micro-computers.

During the year, new **employer-employee committees** were set-up in order to promote exchanges between personnel and management, establish more harmonious relations and to create an atmosphere



All Agropur truck drivers must take driving technique and safety courses before they get behind the wheel.



The employee newsletter, La Voix Lactée, is another of the Coopérative's popular communications tools.

of healthy, agreeable mutual trust.

Another similar initiative was the **productivity improvement programme**, established two years ago in the Fluid Milk Division. It has now extended throughout the enterprise.

In closing, we should mention the **meetings with executives**, an initiative of Mr. Reynald Charest, General Manager, through the collaboration of the Human Resources service. This project, the aim of which was to establish greater dialogue with personnel, has resulted in a host of interesting suggestions.

COMMUNICATIONS WITH THE GENERAL PUBLIC

This is another extremely important element in the overall Agropur scene. Communications with the general public are fundamental, because they help to create a positive image of the Coopérative in consumers' minds and improve their perception of the quality of our products. Everything we do to accomplish that quite obviously stimulates demand.

Advertising heads the list of these activities. During this past fiscal year, the Coopérative invested more than \$ 4 million in various media to convince consumers of the excellence and good taste of Agropur brands.

Agropur ran commercials on television and radio; published advertisements in the daily newspapers, weeklies and magazines; printed and distributed superb colour posters; got its messages across regularly on billboards, bus cards and other media.

Specialized advertisements were also published in various professional magazines to create interest in Agropur products in certain very specific target markets, such as: buyers for the large institutions and grocery supermarket chains; food brokers; catering firms; restaurant and hotel chains, etc.

The advertising programme also included **institutional advertising** designed to make Agropur as a whole better known to the general public.

In the public relations sector, **press conferences** were organized each time Agropur launched a new product for consumers.

During the past fiscal year we introduced Champfleury cheese, new flavours of yogurt, and some other products. Print and broadcast media representatives attended these product launches in large numbers. Their interest in these events was shown by the numerous Agropur **news releases** and **background articles** published in the dailies and weeklies and other print media in all regions of Quebec.

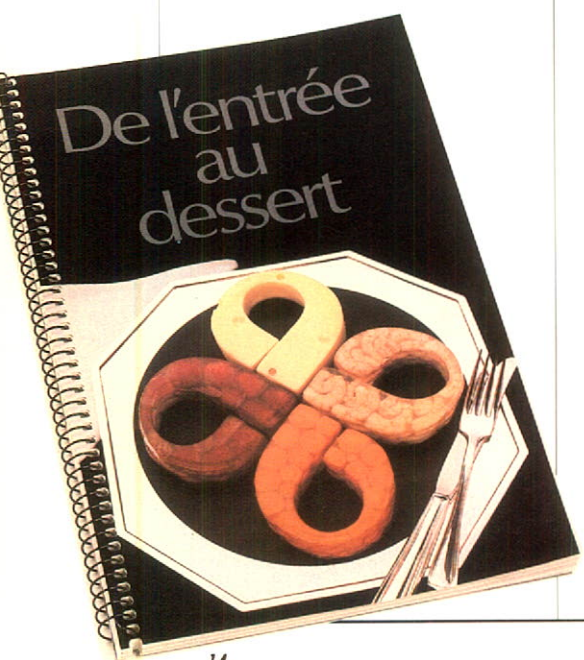
These communications with the general public sometimes involved more promotional aspects. For instance, during the year the Coopérative printed 50,000 copies of a recipe book entitled "**De l'entrée au dessert**" which featured dairy products. It proved to be a tremendous success.

Agropur also published "**Offrez-vous ce plaisir**", a booklet explaining how to organize a wine and cheese tasting party. This useful little guide was greatly appreciated by the public.

Another initiative which presented an image of the Coopérative as a responsible and caring corporate citizen, with the well-being of the community at heart, was the **missing children messages** printed on litre cartons of Québon milk, and distributed widely. This socially motivated advertising attracted considerable attention and many favourable comments.

As part of its programme of communications with the general public, Agropur took part in 25 **trade shows and exhibitions** during 1986, including International Food and Agriculture Week, as well as various other shows in Montreal, Toronto, Quebec City, Drummondville, Trois-Rivières, St. Hyacinthe and Halifax.

Finally, in order to make a direct impact on consumers, Agropur's marketing services regularly organize **product sampling** sessions at various points of sale such as supermarkets and grocery stores, public markets, etc. These sampling activities are always an immense success, enabling grocery shoppers to discover for themselves the excellence of Agropur brand products.



COMMUNICATIONS WITH ORGANIZATIONS OF ALL KINDS

Communications with social and charitable organizations, an indispensable complement to public communications in general, take several forms at Agropur.

In the first place, we should mention that the **gifts of money and in kind** made to more than 400



The World Folkloric Festival in Drummondville received a generous grant from Agropur during this past year.



Les Grands Ballets Canadiens, one of the numerous cultural organizations sponsored by Agropur during the year.

philanthropic groups and charities totalled \$ 100,000 during the year.

In the **cultural sector**, Agropur again sponsored the World Folkloric Festival at Drummondville, and gave financial support to such groups as Les Grands Ballets Canadiens, Les Petits Chan-



The University of Montreal's l'École des Hautes Études Commerciales (H.E.C.) also received a grant from Agropur during the fiscal year.

teurs de Granby, and La Nouvelle Compagnie théâtrale.

In the **pedagogical sector**, the Coopérative gave grants to the National Nutrition Institute, l'École des Hautes Études Commerciales (H.E.C.) of the University of Montreal, Laval University in Quebec City, and to the St. Hyacinthe Veterinary Medicine Foundation. Agropur also contributed financially to the festivities organized to celebrate the 150th Anniversary of the St. Hyacinthe School of Veterinary Medicine.

In the **economic sector**, the Coopérative encouraged a number of activities by the Chambre de

Commerce de Montréal and the Chambre de Commerce de Granby.

In the **community sector**, Agropur made monetary contributions to the Granby Hospital Centre Foundation, the Quebec Cerebral Palsy Association, the Jean Lapointe Telethon and the Ste. Justine's Hospital Foundation. Numerous other charitable organizations such as Centraide, Aliment-Aide and les Oeuvres du Cardinal Léger also receive substantial gifts each year from the Coopérative.



Agropur makes substantial monetary donations each year to community organizations such as the Granby Hospital Centre Foundation and Ste. Justine's Hospital Foundation.

In the **social sector**, we also participated in the Granby Gastronomic Festival, the activities of the Ordre des hôtes fromagers, and in the Quebec Special Olympic Games.

Finally, the Coopérative played a particularly active role in the **sports sector** during this past year. Under its ongoing **Relève Yoplait** programme, Agropur sponsored athletic training courses for more than 600,000 young people in Quebec schools. In addition, **40 marathon runs** were sponsored, helping to make the names Agropur and Yoplait solidly entrenched in the minds of hundreds of thousands of consumers.



"La Relève Yoplait" is another of the many sports activities sponsored by Agropur.

In another area of its ongoing work with children, Agropur sponsors **Fafoin**, a friendly puppet character who visits schools around the province to make the youngsters aware of the necessity for healthful eating.

Finally, the General Manager gives **regular talks** to various Chambers of Commerce and other economic organizations. Last year, Reynald Charest addressed the Montérégie, Granby and St. Léonard Chambers, as well as the Société d'aménagement de l'Outaouais and the National Dairy Council of Canada. These talks were of great help in promoting the Agropur reputation in these select but extremely influential circles of business people and decision-makers.

Once again this year, Agropur provided some welcome support for the Quebec Golden Age Foundation.

CONCLUSION

All the above is just a rapid, but incomplete, roundup of Agropur's multiple activities in the communications field.

For lack of space, we had to omit numerous aspects such as **communications with suppliers**, and **communications with customers**. These are vital in our overall programme, because they keep Agropur constantly in the minds of buyers from the big food store chains, other agri-food industry companies, food brokers, independent grocers, etc.

For Agropur, communications are more than just an economic aspect. As a social, humanitarian and pedagogical instrument at one and the same time, communications enable the Agropur Board of Directors and Administrative Committee to achieve their financial objectives without in any way neglecting those more noble goals of cooperation, solidarity and mutual assistance.

That is why, for a full 48 years now, communications have been a constantly used tool at Agropur. They are essential both to keep our enterprise growing and to ensure the economic and social well-being of all the members and employees.



Skiers from many countries competed for trophies during last winter's World Ski Cup finals at Bromont. Once again, Agropur was closely associated with this important event.

The Public Relations Service also inaugurated the **Jacques Lemaire Hockey Training Programme**.

Designed for amateur hockey coaches, in collaboration with the Quebec Ice Hockey Federation, the programme has been remarkably successful. Actively supported by hockey great Jacques Lemaire, this initiative has now spread all across Quebec.



**FINANCIAL
REPORT**



*CONSOLIDATED
BALANCE
SHEET
OCTOBER 31, 1986*

ASSETS

1986 **1985**
(in thousands of dollars)

	1986	1985
Current assets		
Cash	\$ 2 959	\$ 12 351
Accounts receivable (including members \$ 4 137 000; 1985 — \$ 5 836 000)	50 684	43 358
Income taxes	617	975
Inventories (note 4)	42 309	44 550
Current portion of investments	2 127	2 164
	98 696	103 398
Investments (note 5)	3 013	4 136
Fixed assets (note 6)	85 681	89 787
Other asset	12 013	13 276
	\$ 199 403	\$ 210 597

In behalf of the board

Michel Lemire

_____, Director

Raymond St. Jacques

_____, Director

*CONSOLIDATED
BALANCE
SHEET
OCTOBER 31, 1986*

LIABILITIES

1986 1985
(in thousands of dollars)

Current liabilities		
Accounts payable (including members \$ 14 796 000; 1985 — \$ 13 861 000)	\$ 57 444	\$ 52 162
Current portion of long-term debt (note 7)	1 164	1 490
	58 608	53 652
Long-term debt (note 7)	32 048	56 278
Deferred income taxes	7 539	4 149
<i>EQUITY</i>		
Members' equity (note 8)	80 810	79 420
Equity of the Coopérative		
Net earnings	9 442	7 761
Reserve	10 956	9 337
	101 208	96 518
	\$ 199 403	\$ 210 597

*CONSOLIDATED
STATEMENT
OF EARNINGS
YEAR ENDED
OCTOBER 31, 1986*

	<i>1986</i>	<i>1985</i>
	<small>(in thousands of dollars)</small>	
Gross revenue	\$ 771 577	\$ 759 001
Cost of sales	653 262	655 715
Gross profit	118 315	103 286
Operating expenses		
Selling	68 497	60 017
Administrative	16 811	15 289
Interest on long-term debt	4 960	4 875
Interest income and other income, net (including \$ 657 000 (1985 — \$ 562 000) of patronage refunds from Coopérative Fédérée de Québec)	(1 431)	(1 425)
	88 837	78 756
Earnings from operations	29 478	24 530
Other income (expenses)		
Gain on disposal of fixed assets	60	167
Amortization of goodwill	(1 612)	(1 544)
Devaluation of assets	(3 000)	—
Write-off of an investment project, including the development of new technology	—	(1 841)
	(4 552)	(3 218)
Earnings before the following items	24 926	21 312
Price complement to members	(15 244)	(13 801)
Earnings before income taxes	9 682	7 511
Income taxes of subsidiaries	240	(250)
Net earnings	\$ 9 442	\$ 7 761

*CONSOLIDATED
STATEMENT
OF RESERVE
YEAR ENDED
OCTOBER 31, 1986*

	<i>1986</i>	<i>1985</i>
	<i>(in thousands of dollars)</i>	
Net surplus for the preceding year	\$ 7 761	\$ 5 473
Patronage refunds	(2 840)	(4 188)
Net transfer to reserve	4 921	1 285
Deferred income taxes	(3 347)	(333)
Transfer of capital	45	—
Balance, beginning of year	9 337	8 385
Balance, end of year	\$ 10 956	\$ 9 337

**CONSOLIDATED
STATEMENT
OF CHANGES
IN FINANCIAL
POSITION
YEAR ENDED
OCTOBER 31, 1986**

	1986	1985
	<i>(in thousands of dollars)</i>	
Operating activities		
Net earnings	\$ 9 442	\$ 7 761
Charges to earnings not involving use of funds:		
Depreciation of fixed assets	11 223	10 818
Amortization of other assets	1 732	1 591
Devaluation of assets	3 000	—
Deferred income taxes	43	(398)
Gain on disposal of fixed assets	(60)	(167)
	25 380	19 605
Net change in other items (note 9)	(408)	(17 194)
	24 972	2 411
Financing activities		
Additional financing	16 000	29 500
Reduction of long-term debt	(40 556)	(12 402)
	(24 556)	17 098
Investment activities		
Purchase of fixed assets	(9 661)	(16 786)
Proceeds on disposal of fixed assets, before asset write-off of \$ 2 000 000	361	653
Grants	243	1 478
Goodwill and other assets	(469)	(890)
Investment and advances	1 123	(746)
Investment in subsidiaries	—	(10 100)
	(8 403)	(26 391)
Activities with the members		
Issue of preferred shares	11 406	10 351
Payments on common shares	21	14
Redemption of preferred shares	(10 037)	(6 419)
Transfer of members' equity to the reserve	45	—
Patronage refunds	(2 840)	(4 188)
	(1 405)	(242)
Decrease in net cash	(9 392)	(7 124)
Net cash, beginning of year	12 351	19 475
Net cash, end of year	\$ 2 959	\$ 12 351

Net cash is defined as cash on the balance sheet.

*NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986*

1 - ACCOUNTING POLICIES

a) Consolidation —

The consolidated financial statements include the accounts of Agropur, Coopérative agro-alimentaire and its subsidiaries.

b) Inventory valuation —

Inventory is valued at the lower of cost (mainly first-in, first-out basis) and net realizable value.

c) Fixed assets and depreciation —

Fixed assets are recorded at cost net of applicable government grants and investment tax credits related to fixed assets of the Coopérative.

Depreciation is calculated on the diminishing balance method over the estimated useful life of the assets concerned except for the building and production equipment of the cheese plant in Granby and the production equipment of the feedmill in Granby and of the plant in Brossard on which depreciation is calculated using the straight-line method.

d) Other asset —

Other asset is mostly composed of goodwill which includes the excess of cost of investment in subsidiaries over their fair value at dates of acquisition as well as purchased goodwill which is amortized on a straight-line basis over a ten-year period. It also includes the cost of dairy rounds which is amortized on the diminishing balance method at the rate of 10% applied to the cost price less a 50% residual value.

e) Income taxes —

Income taxes of the Coopérative cannot be finally determined before approval of the patronage refunds at the annual general meeting of members. Therefore, income taxes on the net earnings for the year of the Coopérative are accounted for after the approval of the patronage refunds and reported in the statement of reserve.

Income taxes are recorded on the tax allocation basis. Deferred income taxes arise principally from the fact that depreciation claimed for tax purposes exceeds that recorded in the accounts.

2 - STATUTES OF INCORPORATION

Agropur, Coopérative agro-alimentaire is constituted in accordance with an authorization from the Gouvernement du Québec dated August 29, 1938.

3 - EARNINGS

Cost of sales and operating expenses presented in the consolidated statement of earnings include an expense of \$ 11 223 000 (1985 — \$ 10 818 000) for depreciation of fixed assets.

**NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986**

4 - INVENTORIES

	1986	1985
	<i>(in thousands of dollars)</i>	
Dairy products		
Raw materials and products in process	\$ 1 077	\$ 1 446
Finished products	29 960	31 347
	31 037	32 793
Farm equipment and supplies	2 075	1 568
Maintenance supplies and other inventories	9 197	10 189
	\$ 42 309	\$ 44 550

5 - INVESTMENTS

	1986	1985
	<i>(in thousands of dollars)</i>	
Coopérative Fédérée de Québec, at cost	\$ 2 358	\$ 2 227
Others	655	1 909
	\$ 3 013	\$ 4 136

NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986

6 - FIXED ASSETS

	Cost	Accumulated depreciation <small>(in thousands of dollars)</small>	1986 Net value	1985 Net value	Rates
Land	\$ 4 159	\$ —	\$ 4 159	\$ 3 957	—
Buildings	57 651	19 138	38 513	39 371	5 %
Production equipment	94 318	59 290	35 028	39 527	10 and 20 %
Sales equipment	648	567	81	97	20 %
Transportation equipment	16 353	9 846	6 507	5 462	30 %
Office furniture and equipment	2 320	1 679	641	656	20 %
Computer equipment	1 130	378	752	717	20 %
	\$ 176 579	\$ 90 898	\$ 85 681	\$ 89 787	

**NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986**

7 - LONG-TERM DEBT

	1986	1985
	<i>(in thousands of dollars)</i>	
Agropur, Coopérative agro-alimentaire		
* Loans at cost of funds plus 3/4%	\$ —	\$ 7 000
* Bank loans at prime bank rate	—	14 500
* Loan at prime rate maturing in 1991**	9 000	10 000
Bank acceptances, at cost of funds plus 3/8%	—	10 000
Bonds, 8¼%, Series A, maturing in 1988	574	861
Bonds, 14¼%, Series C, maturing November 15, 1987	750	5 000
Bonds, 12¾%, Series D, maturing June 1, 1988	2 000	2 000
Bonds, 11.4%, Series E, maturing from 1988 to 1993	10 000	—
Bonds, 9.95%, Series F, maturing in 1991	6 000	—
Notes payable unsecured, 9.35% and 10¾%, maturing in 1988	1 150	1 209
Balance on purchase of shares of subsidiaries, 9½%, 12½% and prime bank rate less 2½%, repayable until 1996	1 694	2 072
Other loans, 8% to 13¼%, repayable until 1991	2 025	2 397
	33 193	55 039
Subsidiaries of Agropur, Coopérative agro-alimentaire		
* Bank loans, prime bank rate	—	2 500
Other loans, 7½% to 14½% and prime rate	19	229
	19	2 729
	33 212	57 768
Current portion	1 164	1 490
	\$ 32 048	\$ 56 278

* These loans are secured by the pledge of \$ 35 000 000 principal amount of Bonds, Series B, bearing interest at the prime rate and repayable upon demand. The Bonds, Series B, have been issued to be pledged under the terms of agreements securing borrowings of the Coopérative contracted or to be contracted under the terms of Revolving Loan Agreements with one chartered bank and other financial institutions. Under the pledge agreements, it may occur that the principal amount of the Bonds pledged be in excess of the amounts borrowed and, should this be the case, the right of the borrowers in the Bonds pledged will be limited to the actual amount of the borrowings.

** The Société de Développement Industriel du Québec has agreed to pay for 75% of the interest exceeding the rate of 11%.

The Bonds are secured under the terms of a Trust Indenture between the Coopérative and Fiducie du Québec and dated November 15, 1982. The Trust Indenture provides for certain undertakings of the Coopérative in connection with the issue of additional Bonds, certain financial tests and a negative covenant which prevents the Coopérative from pledging its assets.

Repayments of principal (in thousands of dollars):

1987 — \$ 1 164; 1988 — \$ 5 904; 1989 — \$ 2 483; 1990 — \$ 1 162; 1991 — \$ 10 090; and \$ 12 409 subsequently.

**NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986**

8 - MEMBERS' EQUITY

The members' equity of the Coopérative is variable and unlimited as to the number of shares which may be issued. Each share has a par value of \$ 10 except for preferred shares D and E which have a par value of \$ 1 each.

Voting rights are restricted to holders of qualifying common shares and such rights are limited to one vote per member.

The common shares and the preferred shares B are not redeemable but are convertible into preferred shares which may be redeemed under certain conditions.

The preferred shares A are redeemable by resolution of the Board of Directors and the preferred shares C are redeemable at par value no later than 10 years after issuance.

The preferred shares D and E are issued under the Cooperative Investment Plan, at the members' request, under the conditions pertaining to the preferred shares A and B respectively. According to the terms of the Plan, these shares are redeemable, at their par value, by resolution of the Board of Directors beginning the fourth year following their issue providing that the Reserve has increased by 50% of the amount of the redemption.

At year-end, the members' equity issued and fully paid was as follows:

	<i>1986</i>	<i>1985</i>
	<i>(in thousands of dollars)</i>	
Common shares	\$ 2 252	\$ 2 318
Preferred shares A	62 924	63 759
Preferred shares B	12 386	11 215
Preferred shares C	1 065	1 080
Preferred shares D	1 311	307
Preferred shares E	230	30
Preferred shares	642	711
	\$ 80 810	\$ 79 420

During the year, the members' equity has changed as follows:

	<i>1986</i>	<i>1985</i>
	<i>(in thousands of dollars)</i>	
Balance, beginning of year	\$ 79 420	\$ 75 474
Issue of preferred shares as payment for price complements	11 406	10 351
Payments on common shares	21	14
Redemption of preferred shares A	(8 899)	(5 532)
Redemption of preferred shares	(1 138)	(887)
Balance, end of year	\$ 80 810	\$ 79 420

At October 31, 1986, common shares subscribed but not issued and fully paid amounted to \$ 136 661 (1985 — \$ 125 738).

*NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986*

9 - NET CHANGE IN OTHER ITEMS

	1986	1985
	<i>(in thousands of dollars)</i>	
Accounts receivable	\$ (7 326)	\$ (1 031)
Income taxes	358	67
Inventories, before devaluation of \$ 1 000 000	1 241	(2 989)
Prepaid expense	37	(1 009)
Accounts payable	5 282	(12 232)
	\$ (408)	\$ (17 194)

10 - CONTRACTUAL OBLIGATIONS

Lease commitments aggregated approximately \$ 251 000 as at October 31, 1986 (1985 — \$ 507 000). The lease expense for the year ending October 31, 1987 will be approximately \$ 77 000.

11 - CONTINGENCIES

The Coopérative is in litigation with the Fédération des Producteurs de Lait du Québec. Under the terms of the milk marketing agreement with the Fédération des Producteurs de Lait du Québec, the Coopérative has filed a claim amounting to \$ 3 412 211 with respect to the period beginning August 1, 1985 to July 31, 1986. The Fédération des Producteurs de Lait du Québec is contesting this claim and the dispute has been referred to the Régie des Marchés agricoles du Québec.

This dispute will be dealt with by the mediation board which was created on December 3, 1986.

As at October 31, 1986, the Coopérative had received \$ 797 537 with respect to its claim; the Coopérative has decided to account for the amounts effectively received on a cash basis during the current operations.

Compensations will be included in earnings in the period in which they will be received.

12 - POTENTIAL TAX BENEFITS

The Coopérative is eligible for an investment tax credit of approximately \$ 2 484 000 which can be used until 1993.

Also, a wholly-owned subsidiary of the Coopérative has losses of approximately \$ 5 413 000 for federal tax purposes and \$ 1 273 000 for provincial tax purposes which can be used to reduce future taxable income. These losses expire from 1987 to 1993. That same subsidiary is eligible for an investment tax credit of approximately \$ 249 000 which expires in 1992.

*NOTES
TO CONSOLIDATED
FINANCIAL
STATEMENTS
OCTOBER 31, 1986*

13 - ALLOCATION OF NET EARNINGS FOR THE YEAR

On December 17, 1986, the Board of Directors accepted to recommend to the annual general meeting that patronage refunds totalling \$ 2 905 000 be distributed to members out of the net earnings for the year. If this recommendation is adopted at the annual general meeting, net earnings for the year will be allocated as follows:

(in thousands of dollars)

Net surplus for the year	\$ 9 442
Patronage refunds recommended	2 905
Balance allocated to reserve	\$ 6 537

The resulting deferred income taxes calculated on the income of the Coopérative will be approximately \$ 4 450 000 of which \$ 800 000 are deferred income taxes.

14 - TRANSACTIONS WITH MEMBERS

The proportion of the transactions that the Coopérative has carried out with its members within the meaning of Section 45 of the Regulation respecting the application of the Cooperatives Act amounted to 89.3% during the year.

**EARNINGS
BY DIVISION
OCTOBER 31, 1986**

	Industrial Milk Division		Fluid Milk Division	
	1986	1985	1986	1985
	<i>(in thousands of dollars)</i>			
Gross revenue	\$ 510 808	\$ 505 952	\$ 256 322	\$ 241 642
Cost of sales	449 473	453 387	201 487	193 494
Gross profit	61 335	52 565	54 835	48 148
Operating expenses				
Selling	27 383	20 048	38 871	37 450
Administrative	9 552	8 809	6 679	5 893
Interest on long-term debt	4 688	4 234	365	641
Inter-division interest	(3 684)	(3 131)	3 365	2 857
Interest income and other income, net	(833)	(864)	(119)	(136)
	37 106	29 096	49 161	46 705
Earnings (loss) from operations	24 229	23 469	5 674	1 443
Others				
Gain (loss) on disposal of fixed assets	52	11	13	156
Amortization of goodwill	(1 088)	(956)	(524)	(588)
Devaluation of assets	—	—	(3 000)	—
Write-off of an investment project, including the development of new technology	—	—	—	(1 841)
Earnings (loss) before the following items	23 193	22 524	2 163	(830)
Price complement to members	15 244	13 801	—	—
Earnings (loss) before income taxes	7 949	8 723	2 163	(830)
Income taxes of subsidiaries	114	137	126	(387)
Net earnings (net loss)	\$ 7 835	\$ 8 586	\$ 2 037	\$ (443)

Farm Supply Division		Elimination of Inter-Division Transactions		Consolidated	
1986	1985	1986	1985	1986	1985
		<i>(in thousands of dollars)</i>			
\$ 24 999	\$ 29 086	\$ (20 552)	\$ (17 679)	\$ 771 577	\$ 759 001
22 903	26 513	(20 601)	17 679	653 262	655 715
2 096	2 573	49	—	118 315	103 286
2 243	2 519	—	—	68 497	60 017
580	587	—	—	16 811	15 289
—	—	(93)	—	4 960	4 875
226	274	93	—	—	—
(528)	(425)	49	—	(1 431)	(1 425)
2 521	2 955	49	—	88 837	78 756
(425)	(382)	—	—	29 478	24 530
(5)	—	—	—	60	167
—	—	—	—	(1 612)	(1 544)
—	—	—	—	(3 000)	—
—	—	—	—	—	(1 841)
(430)	(382)	—	—	24 926	21 312
—	—	—	—	15 244	13 801
(430)	(382)	—	—	9 682	7 511
—	—	—	—	240	(250)
\$ (430)	\$ (382)	\$ —	\$ —	\$ 9 442	\$ 7 761

4

AUDITORS' REPORT

To the Members of
Agropur, Coopérative
agro-alimentaire
and its subsidiaries

We have examined the consolidated balance sheet of AGROPUR, COOPÉRATIVE AGRO-ALIMENTAIRE AND ITS SUBSIDIARIES as at October 31, 1986 and the consolidated statements of earnings, 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 the Coopérative as at October 31, 1986 and the results of its operations and the 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.

The comparative figures presented were reported upon by other auditors.

Mallette, Benoit, Barlauger, Rondeau & Associés

Chartered Accountants

Montreal,
December 17, 1986

REPORT BY THE GENERAL MANAGER



Fellow Members:

Agropur, Coopérative agro-alimentaire, reported total sales of \$771 million during the fiscal year just ended, for an increase of 1.7% over the previous 12-month fiscal period. Earnings from operations increased by 20.2 per cent, reaching \$29,478,000 for the year.

Volume of milk from the producers to our Industrial Milk Division plants was down by 2%, which was evidently reflected in lowered production. By contrast, Fluid Milk Division deliveries rose by 3.6% following increased sales of milk and by-products. A difficult year for the Farm Supply Division, however, with sales dropping to \$25 million, compared with \$29 million in fiscal 1984-1985. This decrease was due mainly to lower sales of hog feed

after we abandoned the practice of raising hogs under contract.

A new organizational structure was set in place at the Industrial Milk Division during the year. There are now four separate sectors, each possessing greater operating independence than in the past. There were also important changes at the top management level in the Fluid Milk Division.

Finally, I should mention that a new Public Relations Service was created during fiscal 1985-1986, to coordinate all the institutional communications activities of the Coopérative. Its role is to project a uniform and constant corporate image for our enterprise and to develop appropriate strategies to achieve our objectives.

INDUSTRIAL MILK DIVISION

Milk collections directly from producers, as well as complementary purchases, both decreased in fiscal 1985-1986. Greater demands for milk by the Fédération des Producteurs de Lait, under the new agreement with the dairy co-operatives, had negative repercussions on the volume processed by our Industrial Milk Division, which was down by 3.6% compared with the previous year.

The higher prices agreed upon for different classes of milk, additional financing and milk transportation costs, as well as lost earnings resulting from sales we were unable to realize by reason of this agreement, were all factors which contributed to the Division's reduced earnings from operations.

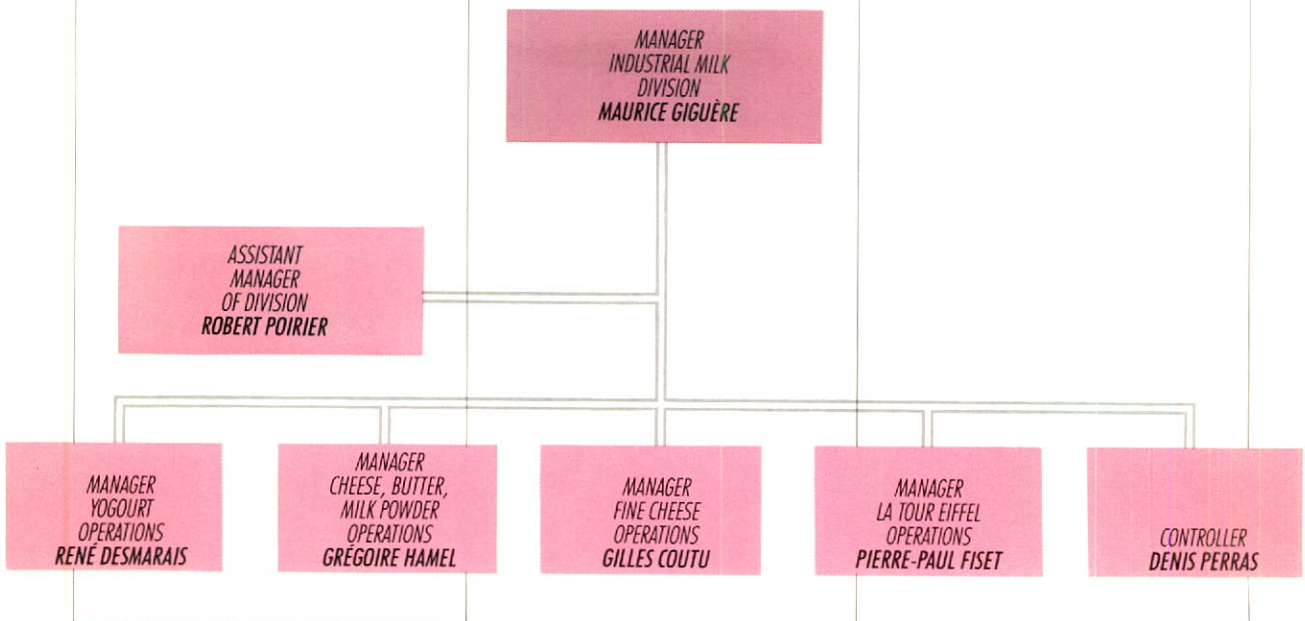
Capital Investments

The year brought little to report in the way of capital investments, with major projects much less numerous than in the past. Different support services have been hard at work to reduce maintenance expenditures and pave the way for major projects being planned for 1987. These include the installation of new equipment in some plants with the goal of reducing production costs, lowering energy expenses, eliminating losses and improving productivity in various manufacturing processes.

As mentioned a few moments ago, the Industrial Milk Division was restructured and now consists of four separate operating sectors: "Yogourt", "Fine and Specialty Cheeses", "Cheese, Butter, Milk Powder and Evaporated Milk", and "Charcuterie La Tour Eiffel".

The main objective of this new and much more decentralized structure is to eliminate some of the administrative load. All operating and related activities in each sector, from buying raw materials to the development of marketing and promotional strategies, are now under the responsibility of a Director of Operations. This increased freedom of action gives each sector a certain degree of independence, and allows it to operate much the same as a small or medium sized business.

Following are the results of Industrial Milk Division operations for last year, sector by sector.



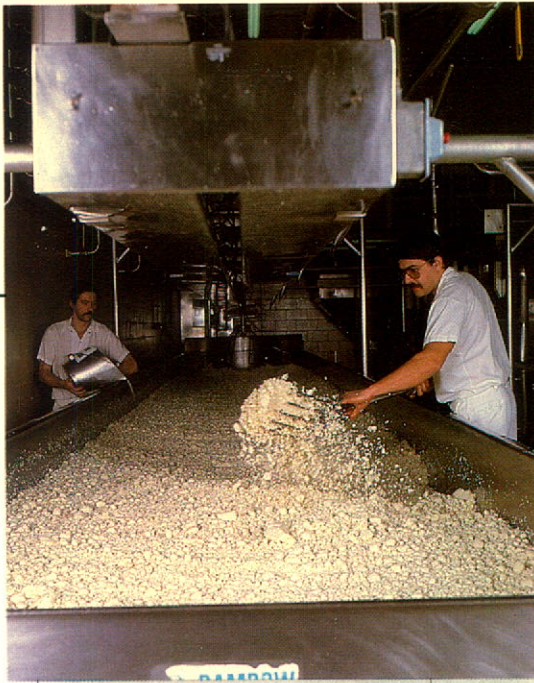
YOGOURT

Sales of this group of products climbed by an interesting 23% in 1986. However, net earnings from operations were virtually identical with those of the previous fiscal year.

Two factors help to explain this situation. First of all, a yogurt price war during the last six months of the year battered discount margins. Secondly, the cost of introducing Yop, the new liquid yogurt, in Ontario and Western Canada was relatively substantial. Otherwise, results would have been appreciably better than in the previous fiscal year.

The Ontario market continued to be a source of great satisfaction. Our market share is growing regularly and our sales performance is improving year by year.

In short, the year ended on an optimistic note for the yogurt sector. Yop, the liquid yogurt launched during the year, was an outstanding success right from the start. Yoplait consolidated its market position in all parts of Canada. Everything is now in place for continued growth and new sales summits in the years ahead.



The Fromagerie de Granby can produce more than 26 million kilograms of cheddar cheese annually.

SPECIALTY CHEESES

Operating results in this sector were more encouraging than in the preceding fiscal period; in fact, the last four months of the year have indicated a positive trend.

Various factors contributed to this improved performance. Prominent among them were: a 4% sales increase; a firming trend in retail prices; important productivity increases in manufacturing and packaging techniques; marked economies achieved through a rationalization programme implemented during the year. Finally, major changes were made in the marketing structure for this group of products.

To this must be added the fact that a new cheese, Champfleury, was introduced to the public dur-

ing the year. I am truly pleased to point out that this new soft cheese, unique of its kind, was developed by our own technical team. Its originality is equalled only by the popularity it has enjoyed with consumers right from the day it first hit the dairy cases.

It should also be pointed out that some of our fine and specialty cheeses have made interesting breakthroughs on the United States market.

We have every reason to be satisfied with the results achieved this past year, and the future looks promising for the specialty cheeses sector.



CHEESE, BUTTER, MILK POWDER AND EVAPORATED MILK

In this subdivision, 51% of the year's milk collections were used for manufacturing bulk cheeses. It is interesting to note that the volume of cheese sold by the Coopérative Fédérée de Québec increased by 23% during the year, while export sales also grew considerably.

On the export scene, large quantities of cheddar were shipped to Algeria, Japan and Trinidad, while sales of mozzarella cheese to South America increased in a notable way.

Butter sales were up by 7% over the previous year, as a result of reduced evaporated milk sales abroad. Shipments to Algeria, for example, dropped by 50% during the past year.

Whole milk powder sales through the Canadian Dairy Commission surged substantially. This product is also regaining favour on the domestic market, with very favourable effects at the sales level.

CHARCUTERIE LA TOUR EIFFEL

The news was also most encouraging in our fine delicatessen sector this past year.

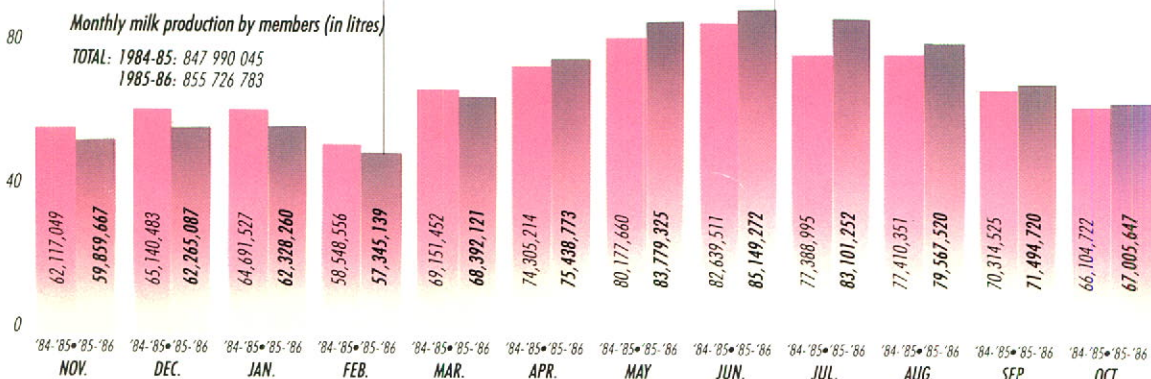
Sales were up by more than 30% and the acquisition of the Orfil's assets, adjacent to our existing facilities, provides us with the necessary space to increase our production at the desired rate. This sector has also made a breakthrough into the Ontario and United States markets, and initial sales figures indicate that

these markets have very promising potential.

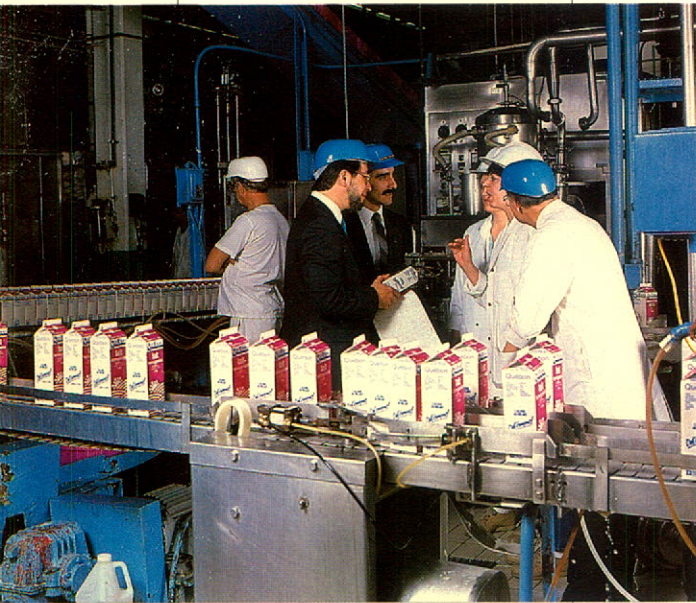
During fiscal 1985-1986, the former owners of Charcuterie La Tour Eiffel, the Morzadec brothers, left Agropur to take up new careers. Their departures had been expected, and the new team now in place is ready to meet the challenges in the fine delicatessen products sector.



La Charcuterie La Tour Eiffel, acquired during the previous fiscal year, produced some extremely interesting operating results in 1985-1986.



FLUID MILK DIVISION



The Productivity Improvement Programme, which was tried out so successfully last year in the Ville Saint-Laurent plant, will be in operation in most of 39 Agropur work sites during the next fiscal year.

Milk collections by the Fluid Milk Division totalled 228,000,000 litres in 1985-1986, up by 3.6% over the previous fiscal year.

Division sales rose by 6.1%, to reach \$256 million. This appreciable increase is due primarily to improved ice cream sales, which were up by 15%. In addition, sales of fluid milk and by-products increased by an indicated 6% during the year.

Some other decisive factors help to explain the encouraging results achieved by the Fluid Milk Division during the year. Among others, they include: a general increase in Division activities; improved productivity in the Brossard plant and the absence of equipment running-in expenses which were such a burden on last year's operations. Finally, the exceptional teamwork displayed by all the Division's managers and employees merits special mention and praise.

Administration

There were some important top management changes in the Fluid Milk Division during the year now ended.

Jacques Bourgault became the new Division Manager in February 1986. He was previously Assistant Manager of the Division, and in charge of distribution. Pierre Claproud was appointed Administrative Manager. There were also personnel changes at the head of the production, distribution and technical departments.

Turning to a less pleasant topic, we unfortunately had to endure a long strike by office staff of the Ville Saint-Laurent plant during the year. This work stoppage lasted seven months. However, this event had positive results. It generated stronger collaboration between executives and the

employees of the various services of the division. This new cooperation has generated an improvement of productivity and efficiency.

Also, during 1986, the decentralization of certain administrative activities has been initiated at the Fluid Milk Division. This policy increased the responsibilities of the regional operation Managers and created a more rational sharing of the workload. This new latitude will permit the Division to react much more rapidly to market challenges.



**NET SALES,
FLUID MILK DIVISION
(IN THOUSANDS OF \$)**

MILK AND BY-PRODUCTS

Sales reported by this new subdivision increased by 2.7% compared with the previous fiscal year, due primarily to our intensified efforts to market by-products. Furthermore, the City of Quebec and neighbouring regions have been part of our distribution routes since September 1986. This territorial expansion has obviously had favourable repercussions on our operations.

This sector's results are extremely pleasing. The only shadow on the scene is less than satisfying performance of the Purfruit juice brand. Sales have stagnated despite the product's high quality and the introduction at the beginning of the year of two new and innovative flavours: Apple-Raspberry-Blackberry and Apple-Raisin. Division management is now studying this problem.

ICE CREAM

Ice cream sales increased by 9.4% in volume during fiscal 1986. This far from negligible growth in consumption is due primarily to the continuing success of Québon brand ice creams, which have long been recognized for their superior quality, excellent taste and wide range of flavours.

The Division launched seven new frozen specialties on the market during the past year, helping to improve this sector's results even further. Thanks to its constant innovations and strong marketing efforts, Agropur more and more is affirming its leadership in this highly competitive frozen specialties field.

Five new "Maître Glacier" dairy bars were opened during the year: one each in Trois-Rivières, Beauharnois, St-Eustache, Magog and at La Ronde. The Division now operates 44 "Maître Glacier" dairy bars in Quebec province.

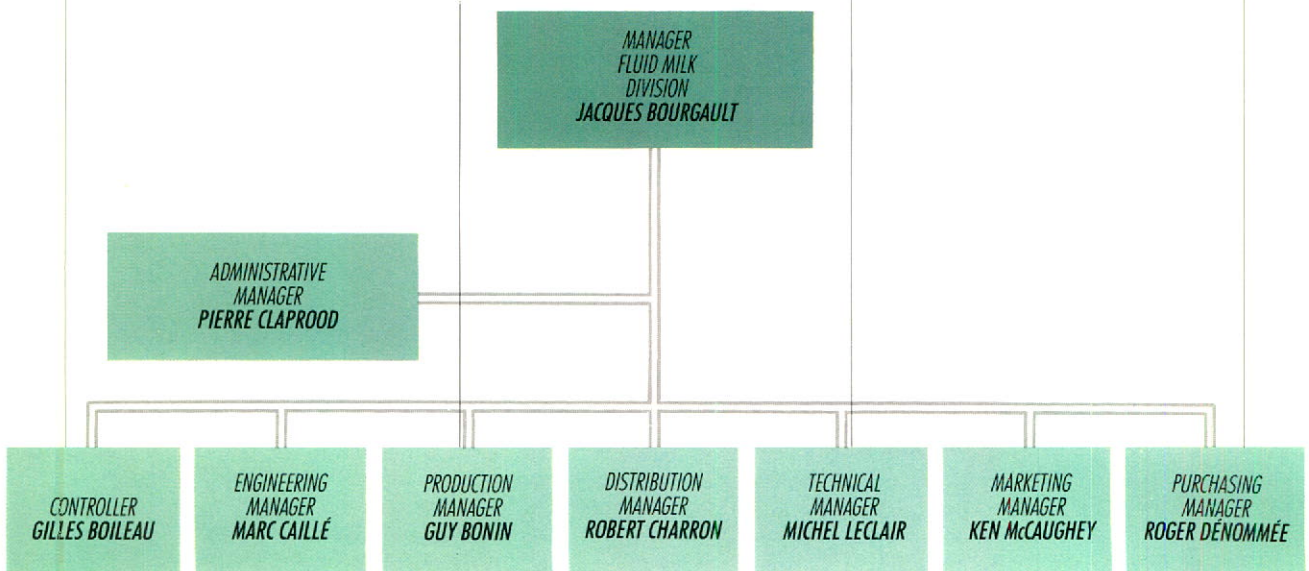
Production and Distribution

Some important progress was made during the year in mastering the technology of products with distant expiry dates. Some equipment has been upgraded to meet the new needs, while mechanics and electricians in our plants have been given special training. These various measures have limited the growth of

operating costs in our Saint-Laurent and Montreal North plants.

The dairies in Sherbrooke, St-Bruno, St-Jean, Ste-Thérèse, Victoriaville and Trois-Rivières continued to turn in satisfactory performances, while supplying an important support to the St-Laurent plant.

In August 1986, Division Management decided to centralize all ice cream storage and distribution activities under one roof. A long-term lease was signed on a large warehouse in Montreal. This new refrigerated warehouse space will be available for use starting in March 1987, and will make it possible to rationalize distribution activities even more.



Technical and Engineering Services

The Technical Service was extremely busy during these past 12 months. The emphasis has been on research and development of new products, which are fundamental factors in the future growth of our Coopérative.

Different provisions have also been adopted to strengthen and tighten quality controls. Consumers are more and more demanding these days and they don't hesitate to switch brands when a product no longer lives up to their expectations in every manner. That is precisely why we must do our best to give them full and entire satisfaction.

The Engineering Service again played an active role in carrying out all large projects undertaken during the year. It devoted special attention to the difficult problem of cutting down energy costs by reducing waste and losses. The Service's accomplishments in this area have helped to lower general expenditures.

SOFT DRINKS AND JUICES

Excellent results were achieved in the juice sector, corresponding to our expectations in every way.

The soft drinks sector does not yet meet expectations, however. Rivella, in particular, has proved disappointing, and studies are now underway to find a solution for this brand's future.



Roger N. Giroux, Manager of the Agropur Control and Research Centre, in conversation with Robert Poirier, Assistant Manager of the Industrial Milk Division.

FARM SUPPLY DIVISION

In my message last year, I told you that we could seriously consider the possibility that this Division would become profitable in the near term. Those hopes have not materialized, unfortunately, and sales actually dropped by four million dollars, down to \$25 million. Once again, earnings from operations ended up on the negative side.

A sharp drop in feed sales after we abandoned hog raising under contract was one of the major causes for this slump in the Division's activities. Other factors also played a part, however, including a drop of about \$8 per ton in the average price of livestock feeds and a decrease of about \$22 a ton in the average price of fertilizers. The final blow was a \$110,000 increase in the Division's insurance premiums which further added to its woes.

It is quite obvious that serious problems hamper the growth of the Farm Supply Division. Measures intended to find a final solution to this question are now under consideration.

FEEDS AND FERTILIZERS

This Division delivered 8,000 tons of hog and poultry feeds to the Centre agricole coopératif de l'Estrie in Sherbrooke during the year. This contract quite obviously helped to reduce losses in this sector.

Sales of seed grains increased by 6.3%, feed grains by 22.6%, and farm chemicals sales by 8.3%.

Sales of fertilizers were slightly lower than in fiscal 1985. A bitter price war sharply reduced the earnings from operations usually achieved in this sector.

FARM MACHINERY

This Service reported much better results than in 1984-1985, following staff reductions announced during the previous fiscal year. Even though sales were almost identical with the year before, the operating deficit was reduced from \$225,000 to only \$33,000. That represents remarkable progress.

It should finally be noted that the new farm machinery marketing policy introduced by the Coopérative Fédérée de Québec has been a great help in improving performance in this sector.

FARM ACCESSORIES

The Granby branch continued to show an interesting trend towards profitability by emphasizing the marketing of products for the home and garden.

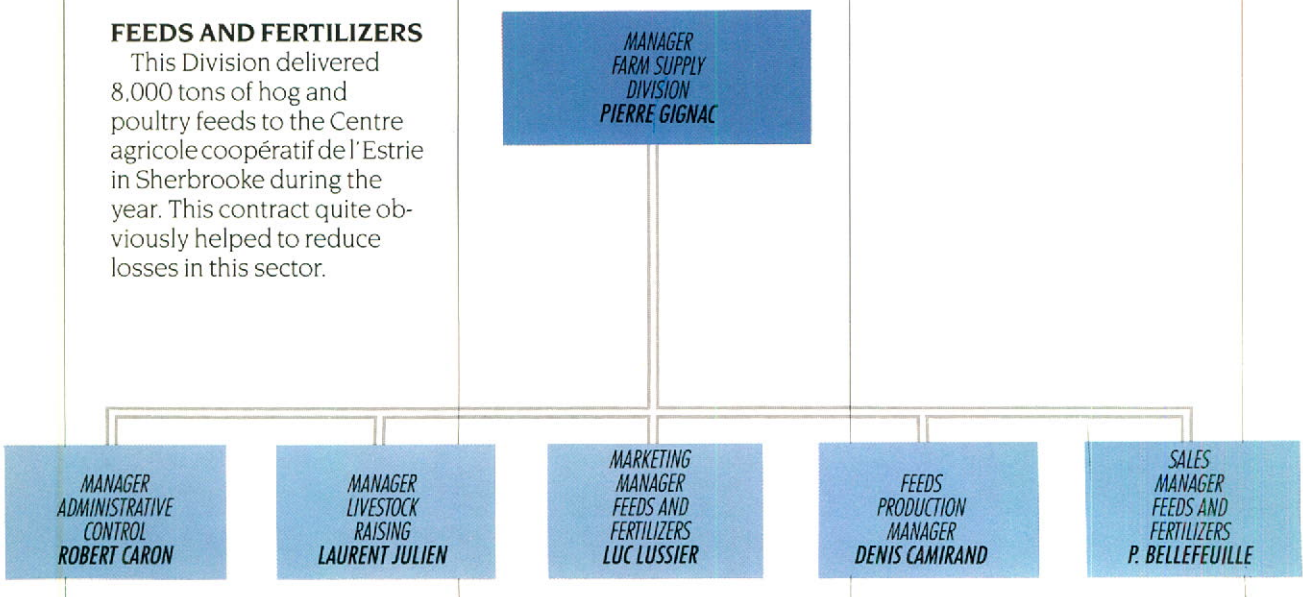
The Henryville branch reached the profitability threshold, while St. Germain showed a slight improvement.

Marieville reported results lower than had been forecast, and we plan to give it all the attention necessary in 1987 to improve matters.

VETERINARY SERVICE

Sales of veterinary drugs slumped dramatically in all four branches, as a result of the new provincial regulations. From \$270,600 in 1984-1985, drug sales were down all the way to \$54,200 in 1985-1986.

Nevertheless, we wish to continue offering unexcelled services to all Division members with a competent veterinarian available to them at all times.



AGROPUR, SYMBOL OF QUALITY

The year just ended was also characterized by an unprecedented number of awards, trophies, prizes and honourable mentions we received for the quality of our manufactured products.

For instance, at the Semaine internationale de l'agriculture et de l'alimentation, in Montreal, the new Yop drink was crowned Grand Champion and winner of the "Food Oscar", the highest distinction that can be awarded in this domain. Agropur also won four medals at the Monde-Sélection de Bruxelles, in Belgium, for the excellence of its different products.

Champfleury, our new cheese, was proclaimed Grand Champion at the 1986 Canadian National Exhibition in Toronto, and also captured first prize among all categories of cheese entered at the Exhibition. Gouda d'Oka cheese was also awarded first prize in its category.

Champfleury also played a star role at the Pacific National Exhibition in Vancouver, where it won first prize in the soft cheese class. Agropur cheddar also placed among the top three winners. It should be noted that a very great number of manufacturers from all parts of Canada participated in this contest.

At the end of the year, Agropur also captured six Lys d'Or, out of a total of twelve up for competition, for the following products: cheddar cheese, milk powder, yogourt, Granger fluid milk, Mont St-Bruno vanilla ice cream, and Emmenthal

cheese manufactured in our Verchères plant. Lys d'Or are, as everybody knows, the highest awards given by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation of Quebec.

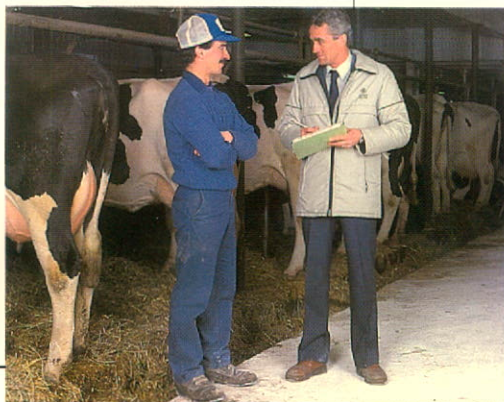
And those are only a few of the honours captured by Agropur in the course of this past year!

All these awards confirm once again the excellence of the products made and marketed by our Coopérative, and provide a fitting tribute to all those who work incessantly to improve the quality and good taste of our products in all our modern plants.

PUBLIC RELATIONS SERVICE

This new Service is now busy coordinating all activities involved in creating the overall corporate image of our enterprise. This includes institutional sponsorships, participation in trade shows and exhibitions, as well as preparing and placing corporate and institutional advertising.

Agropur's cooperative counsellors are pragmatic, competent and experienced people who help the members find concrete and appropriate solutions to their numerous problems.



MEMBER RELATIONS SERVICE

The cooperative counsellors continued to play an active role during the past year, sitting down with the members to help them find solutions to their problems, and lending them a helping hand in every way possible.

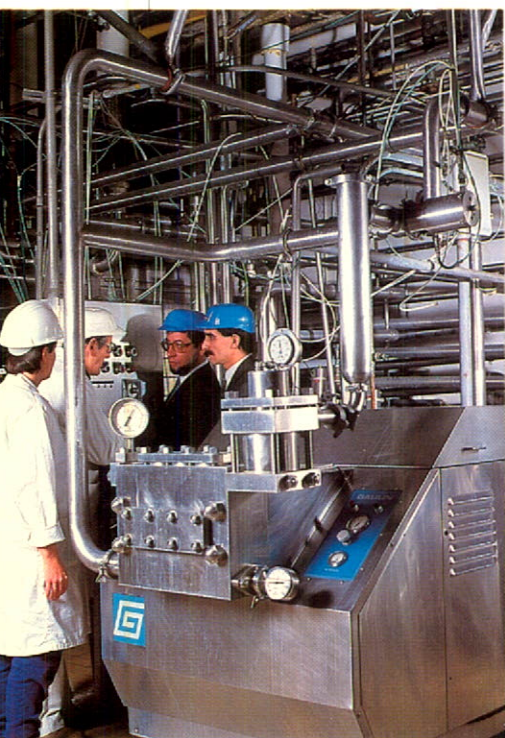
They also participated in several regional meetings of the members and organized various activities such as the training sessions for couples and the farm cooperative youth training programme. Those meetings attracted an interesting number of participants once again this past year. Finally, the cooperative counsellors collaborated in the organization of an inter-cooperative meeting between Agropur and the Mouvement Desjardins, which was held in Lévis last September.

The Communications Service was also very active during the year. Among other things, it coordinated the organization of the Annual General Meeting, the regional assemblies and the Assemblies of Animators. It also organized the "Open House Day" at the Fromagerie de Notre-Dame-du-Bon-Conseil last September 6 and 7. Finally, it continues to supervise the publication of the Agropur-Nouvelles newsletter. Above all else, this publication is a mine of information for members on all cooperative, technical and economic matters.

HUMAN RESOURCES SERVICE

As of October 31, 1986, the Agropur team numbered 2,437 employees, working in 39 locations. The acquisition of a milk distribution system in Quebec City during the year, increased business from our sales offices in Ontario, British Columbia and United States, along with increased activity at some of our processing plants, have all helped our work force grow.

Several executives and salaried employees participated in refresher training courses on various subjects.



The teamwork displayed by all the Fluid Milk Division managers and employees merits special mention and praise.

As one example, more than 100 employees took a personal computer initiation course at the Granby CEGEP, and Bois-de-Boulogne CEGEP, in Montreal.

Eleven collective agreements involving 451 employees were renewed during the year. Only one of those negotiations, with office personnel in Saint-Laurent, involved a relatively lengthy work stoppage. But the dispute was eventually settled to the satisfaction of all parties.

At the work safety level, 1985-1986 saw a prevention programme set up in all our establishments, in conformity with the requirements laid down by the provincial Workplace Health and Safety Commission.

Still on this subject, I wish to call attention to the constant increase in the cost of work related accidents. Furthermore, the accumulated deficit of the Workplace Health and Safety Commission, now stands at more than \$500 million. Both these factors have a direct effect on the contributions we must make to that government organization. Those contributions will soar by a staggering 48% during the coming year, to a total of \$2.4 million. That is a truly substantial amount, and we must take all possible steps to reduce workplace accidents.

During the year, 22 meetings were held for the purpose of allowing me to talk informally with Agropur executives and obtain a broader knowledge of the challenges of all kinds which we face. These talks enabled us to establish much more open lines of communication between all levels of the Coopérative.

The meetings with the General Manager have convinced the upper management of the necessity of doubling our efforts to continue the programme aimed at improving productivity.

It is becoming more and more obvious that communication is one of the vital keys which open the doors to the future, in any enterprise. That is precisely why Agropur Management places such preponderant emphasis on communications with its employees.

A LOOK AT THE FUTURE

Various projects were developed in 1985-1986 to stimulate the future growth of the Coopérative. Several of them will be implemented in 1987.

For example, appreciable amounts of money will be allotted to improve capacities of various Yoplait production lines in order to satisfy steadily increasing market demand.

Another project is aimed at enlarging the variety of frozen specialties we offer the public, with production line investments planned for the Saint-Laurent and Montreal-North plants.

Finally, several changes are in the works to increase productivity in some of our Industrial Milk Division and Fluid Milk Division plants.

Despite stiff competition in the food sector, which becomes livelier every day, I am convinced that our Coopérative will continue on the road it has mapped out for itself and that our operating results will reach new peaks in 1987.

Thanks to the wholehearted collaboration of all Agropur personnel, thanks to the diversification of our production, and thanks finally to our marketing efforts, we find ourselves in a better position every day to create greater consumer awareness of ourselves, increase our market shares everywhere we now do business, and capture new markets.

The new organizational structures set up during 1986 will enable us to face the challenges of the future with renewed confidence.

In closing, I wish to express my gratitude to our President, Michel Lemire, and to the Board of Directors for their wise advice and enlightened decisions. I also wish to thank all the members of the Cooperative. Your solidarity is essential to the continued growth of the enterprise.

I want to thank all my loyal collaborators on our management team for their efforts. They have never failed me, despite the numerous difficulties we must face every day, and a work load which keeps on growing heavier.

Finally, from the bottom of my heart I thank those dedicated employees who work for Agropur at every level. We shall continue to move onward and upward with the loyal participation of each one of you.



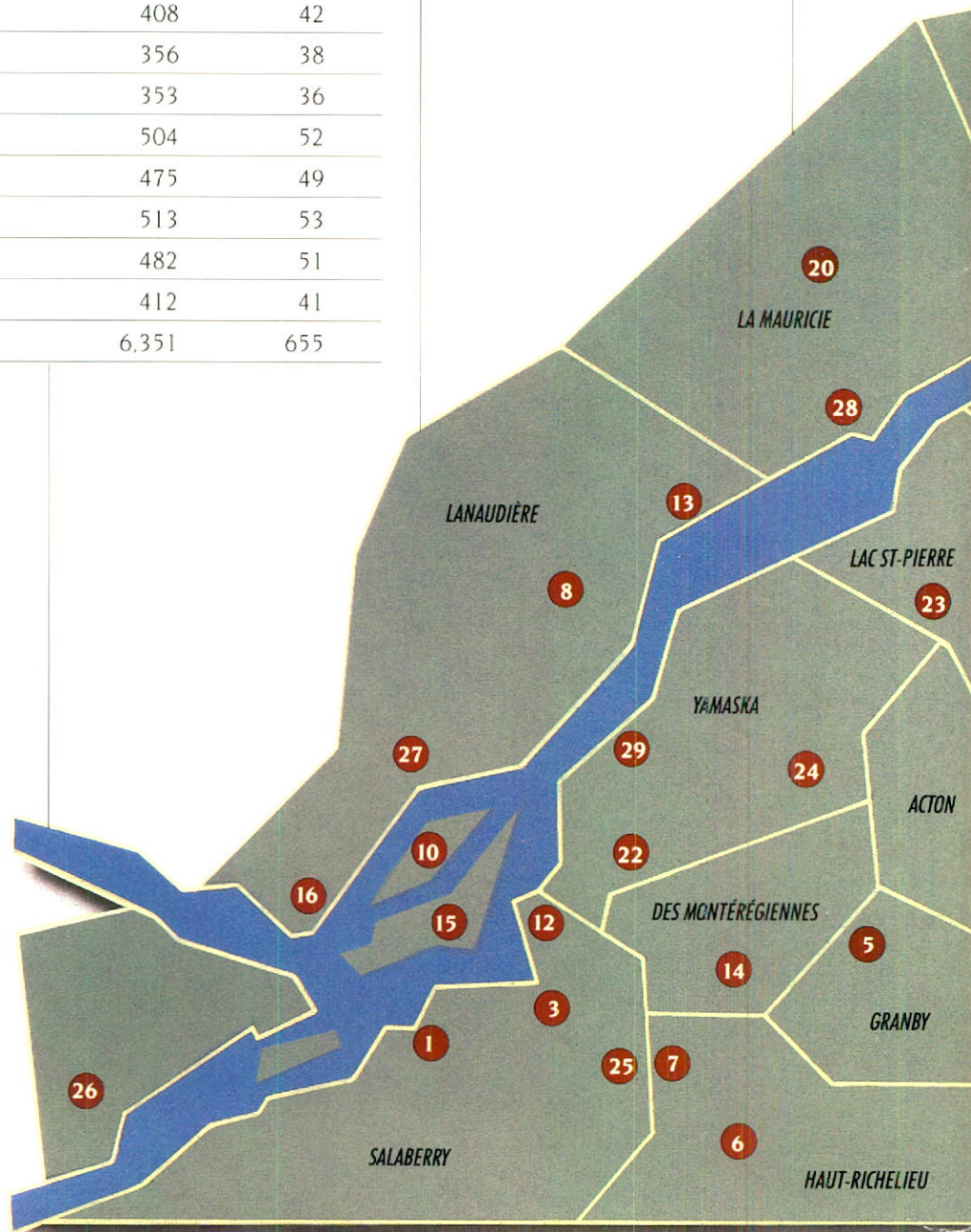
REYNALD CHAREST

General Manager

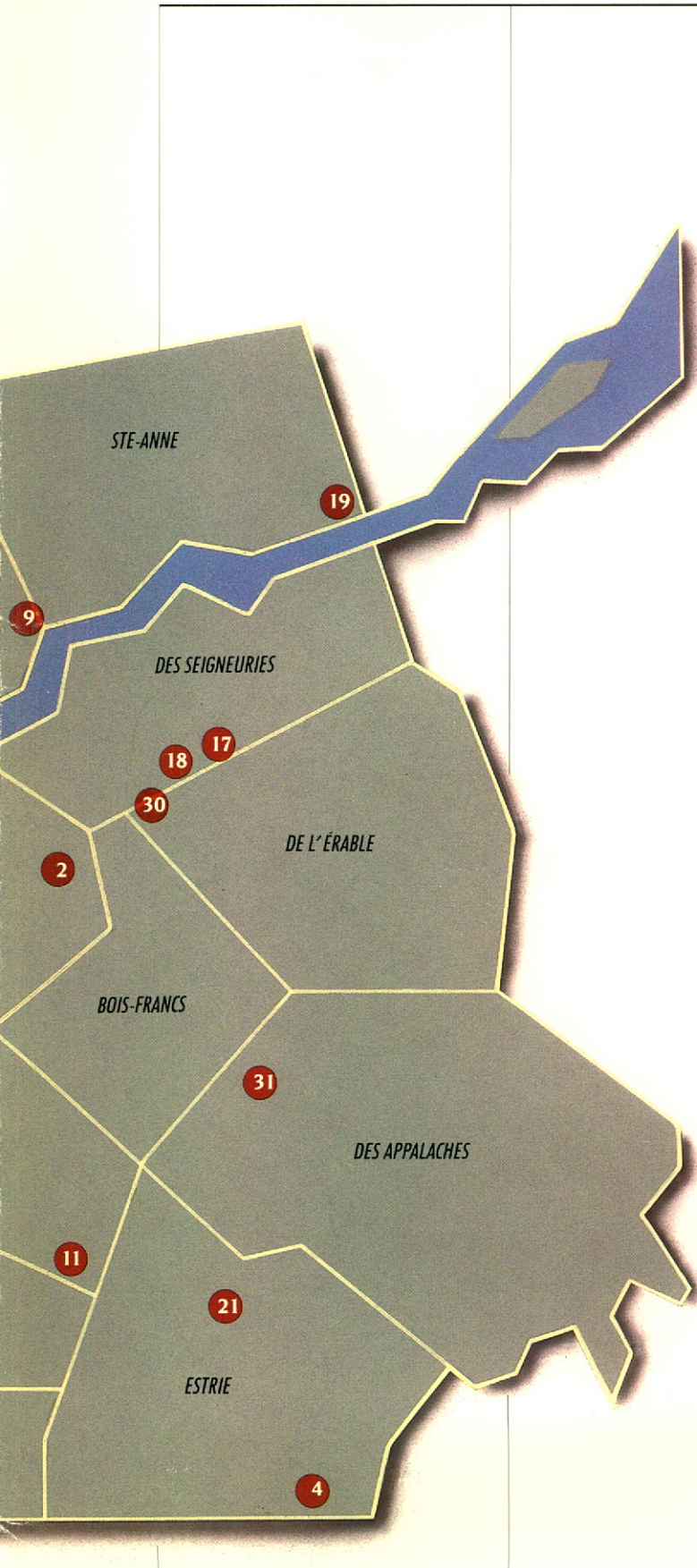
MEMBERS BY REGION

Region	Members	Delegates*
Salaberry	329	33
Lanaudière	445	44
La Mauricie	442	46
Ste-Anne	424	45
Des Seigneuries	394	41
De l'Érable	414	43
Lac St-Pierre	400	41
Bois-Francs	408	42
Des Appalaches	356	38
Estrie	353	36
Haut-Richelieu	504	52
Granby	475	49
Acton	513	53
Des Montréalésiennes	482	51
Yamaska	412	41
TOTAL	6,351	655

* Elected during the 1986 regional assemblies.



FACILITIES BY REGION



1. Beauharnois
2. Bon-Conseil
3. Brossard
4. Coaticook
5. Granby: Head Office
Yogourt plant
Cheese plant
Farm Supply
Division
Mill
Dairy Equipment
Service
Main garage
Warehouse
6. Henryville
7. Iberville
8. Joliette
9. La Pérade
10. Laval
11. Lawrenceville
12. Longueuil
13. Louiseville
14. Marieville
15. Montreal: St-Laurent
Montreal-North
Anjou
Kik Cola
Bottling plant
Orange Maison
Bottling plant
16. Oka
17. Plessisville: Plant
Warehouse
18. Princeville
19. Québec
20. Shawinigan
21. Sherbrooke
22. St-Bruno
23. St-Germain
24. St-Hyacinthe
25. St-Jean
26. St-Polycarpe
27. Ste-Thérèse
28. Trois-Rivières
29. Verchères
30. Victoriaville
31. Weedon

OUTSIDE QUEBEC

Toronto
British-Columbia
Howell (N.J., U.S.A.)

ADMINISTRATIVE COMMITTEE



Maurice Giguère
Manager,
Industrial Milk Division

Jacques Bourgault
Manager,
Fluid Milk Division

Pierre Gignac
Manager,
Farm Supply Division



R. Claude Ménard
Manager,
Financial Services and Treasurer

Raoul A. Blouin
Manager,
Member Relations

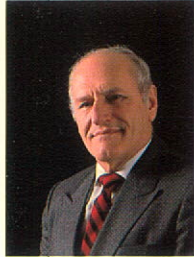
Roger Bourgault
Manager,
Human Resources

André Gauthier
Corporate Secretary

Reynald Charest
General Manager



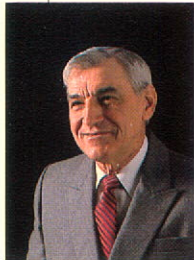
BOARD OF DIRECTORS



Michel Lemire*
President

Raymond St-Cyr*
Vice-President

Clément Favreau*



Philippe Véronneau*

Jacques Cartier*

Roger Beaudry



Roger Béliveau

Léonard Boulais

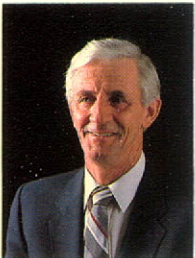
Harold Crochet



Claude Dumontier

Claude Girard

Jean-Paul Guimond



Paul-Henri Leduc

Lauréat Michaud

Gérard Montour



*Member of the Executive Committee



agropur

**AGROPUR,
COOPÉRATIVE
AGRO-ALIMENTAIRE**

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