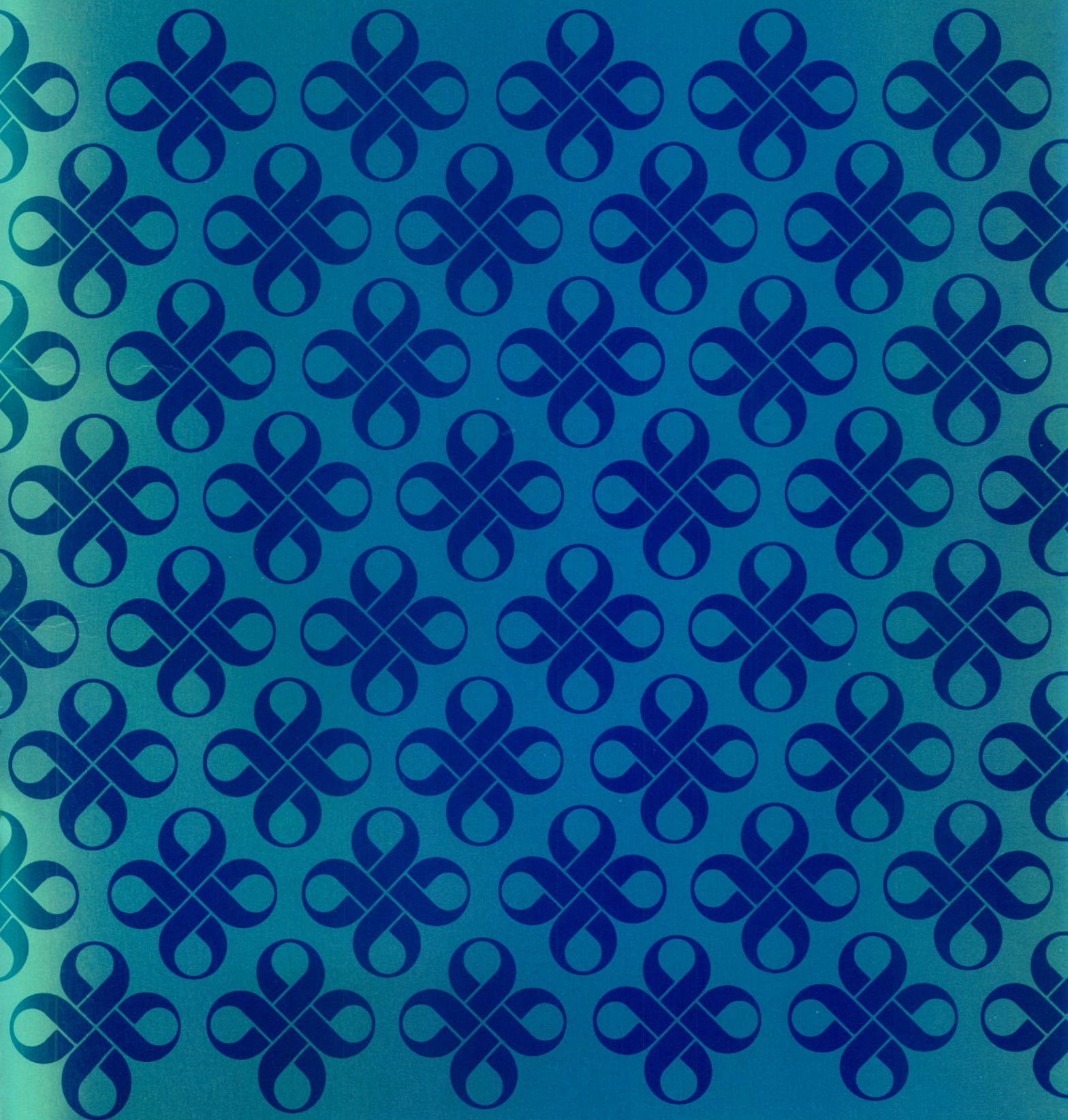


Agropur
Coopérative agro-alimentaire



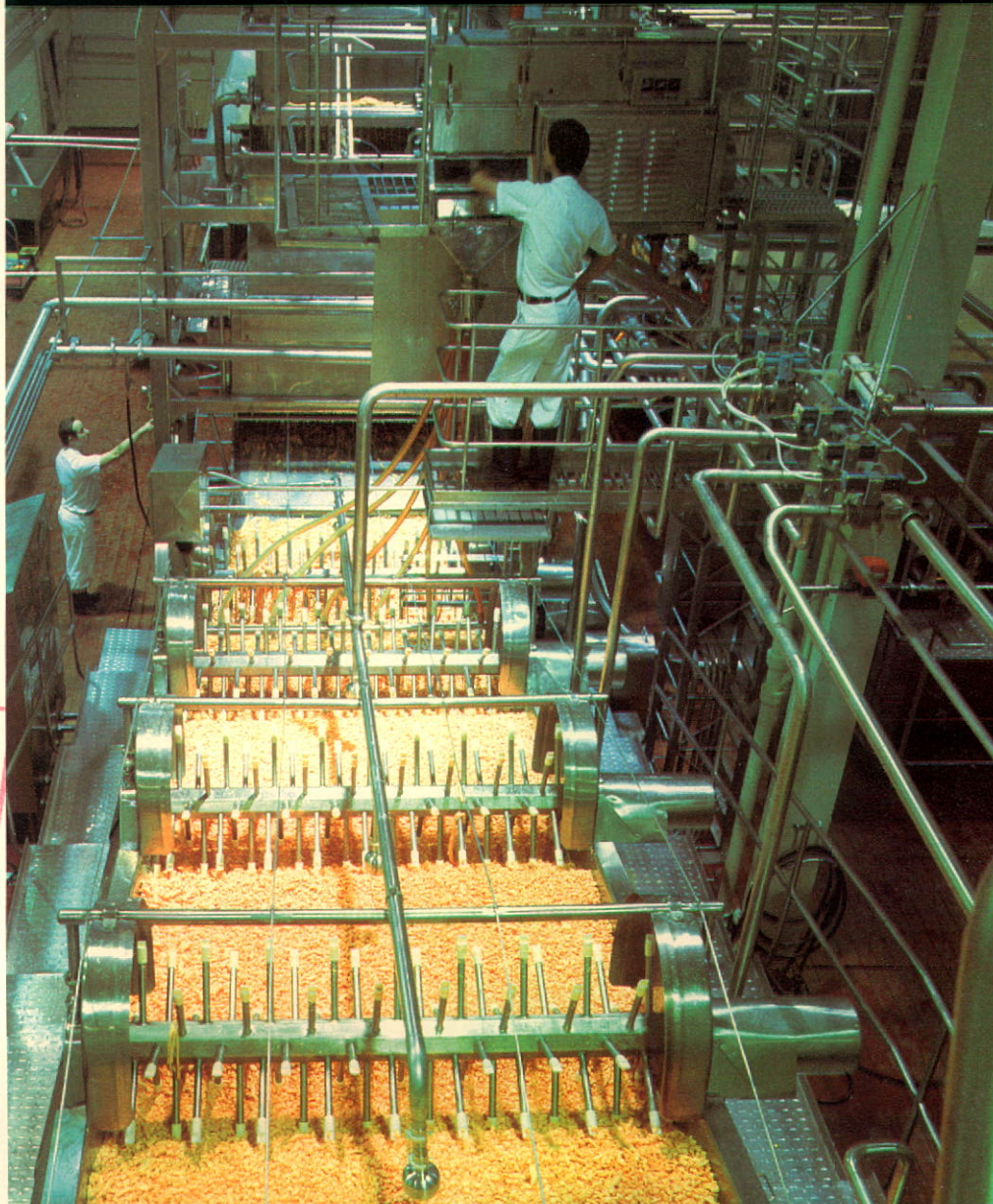
forty-sixth annual report 1983-1984

agropur



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HOWARD ROSS LIBRARY
OF MANAGEMENT
FEB 20 1985
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The Fromagerie de Notre-Dame-du-Bon-Conseil has a daily capacity of 90 000 kilograms of cheddar cheese. Photo shows workers around the cheddarizing tower, which makes cheese by the continuous manufacturing process. This ultra-modern equipment has six times the output of conventional fermentation vats. Only a few such towers exist in the entire world today.

Highlights

Officers

Michel Lemire
President

Lauréat Michaud
Vice-President

Raynald Giroux
General Manager

André Gauthier
Corporate Secretary

Guy Duguay
Treasurer

Net sales (in \$ thousands)

Industrial milk	497,604
Fluid milk	212,962
Farm supply	28,955
TOTAL	721,411 *

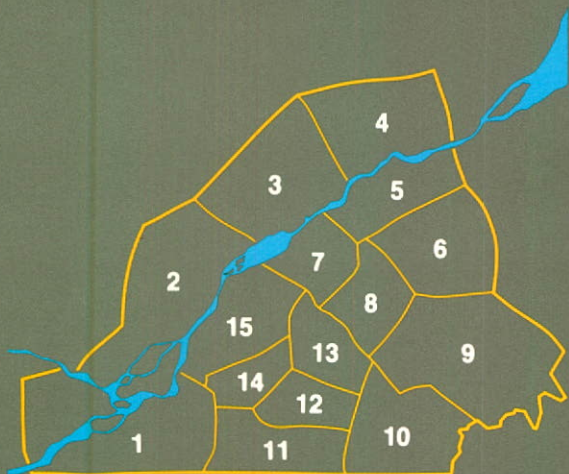
* This figure does not include transactions between Divisions, which totalled \$19 million.

Number of employees 2,212

Milk collections (in thousands of litres)

Industrial milk	929,570
Fluid milk	210,703
TOTAL	1,140,273

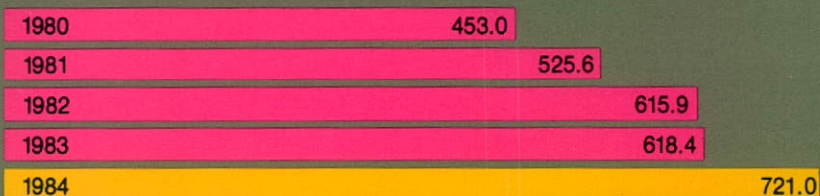
Region	Members	Delegates
1. Salaberry	348	37
2. Lanaudière	445	47
3. La Mauricie	487	50
4. Ste-Anne	462	49
5. Des Seigneuries	422	43
6. De l'Érable	439	45
7. Lac St-Pierre	426	44
8. Bois-Francs	433	45
9. Des Appalaches	393	42
10. De l'Estrie	369	39
11. Haut-Richelieu	533	54
12. Granby	508	52
13. Acton	549	55
14. Des Montérégiennes	524	54
15. Yamaska	409	43
TOTAL	6,747	699



Last five years at a glance

Sales

(in \$ millions)



Earnings distributed to members

(in \$ millions)



Average price complements per hectolitre

(in \$)



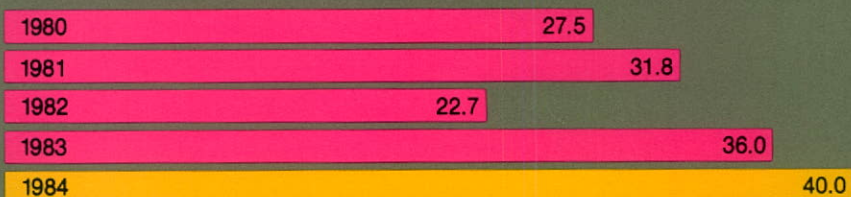
Equity

(in \$ millions)



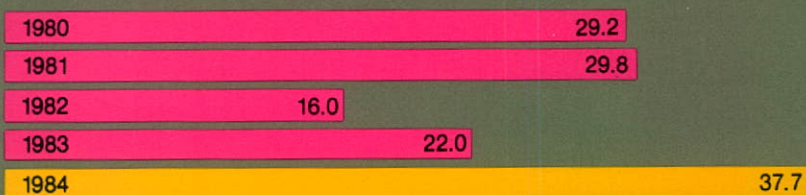
Working capital

(in \$ millions)



Long-term debt

(in \$ millions)



Milk collections

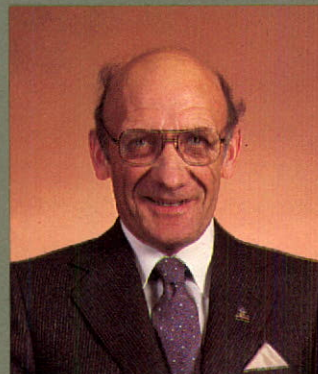
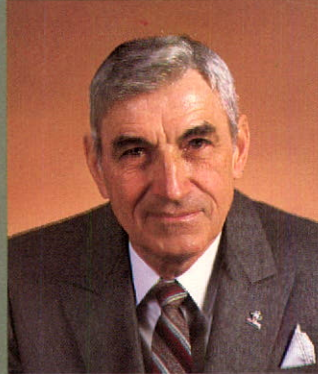
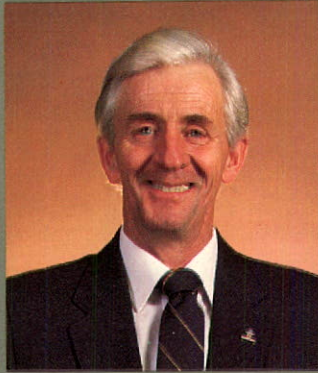
(in millions of litres)



Number of Members



Board of Directors



Michel Lemire*
President
Clément Favreau*
Jacques Cartier

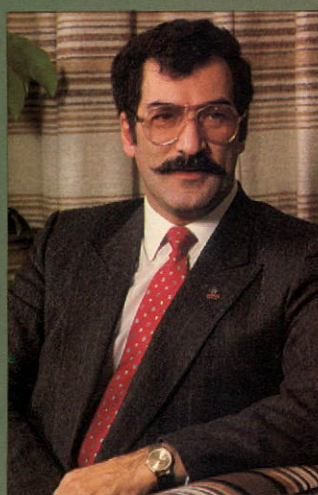
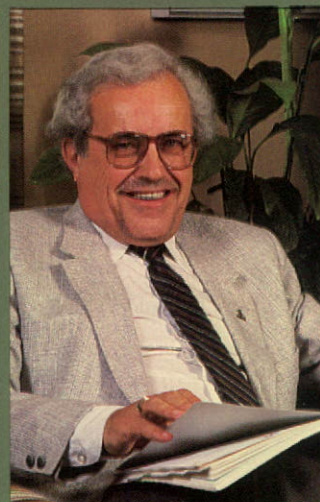
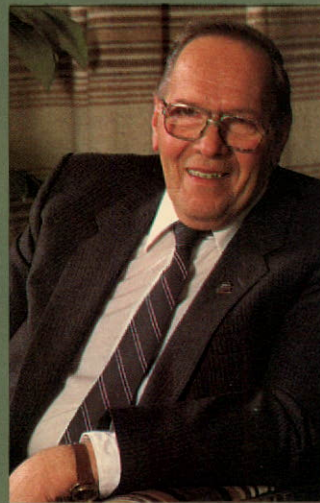
Lauréat Michaud*
Vice-President
Roger Beaudry
Harold Crochet
Paul-Henri Leduc

Raymond Saint-Cyr*
Roger Béliveau
Claude Girard
Gérard Montour

Guy Gaudet*
Léonard Boulais
Jean-Paul Guimond
Philippe Véronneau

* Member of the Executive Committee

Administrative Committee



Raynald Giroux
General Manager

Reynald Charest
Manager,
Industrial Milk Division

Raoul A. Blouin
Manager,
Membership Relations

André Gauthier
Corporate Secretary

Jean Hupé
Manager,
Fluid Milk Division

Roger Bourgault
Manager,
Human Resources

Claude Ménard
Manager,
Financial Services

Pierre Gignac
Manager,
Farm Supply Division

Guy Duguay
Treasurer

Message from the President



Dear Members:

The year just ended, the forty-sixth in our Coopérative's history, was a most rewarding and extremely instructive one in many respects.

As we all saw, it was a very good harvest year. Production was up and, consequently, most members and producers enjoyed substantial increases in their incomes.

Milk collections grew in a most positive way, contributing to a remarkable growth in Agropur sales and our operating surplus.

However, even though 1984 was an excellent year from several viewpoints, we must not forget that there are still many obstacles to surmount and challenges to overcome before we can achieve all our objectives.

As in the past, we are constantly working to iron out these difficulties.

Membership Trends

During this past fiscal year, the number of Agropur members dropped from 7,046 to 6,747, as a result of the consolidation of farms and voluntary retirements.

Our Coopérative now has 904 farms operating under corporate names, of which 674 are corporations and 230 are companies.

Although we had fewer members, this did not have any negative effect on milk collections, which increased by 86 million litres compared with the previous fiscal year, as we reached the highest volume ever in our history.

Board of Directors

Your Board of Directors was especially active during this past year.

Its members attended 17 Board meetings, six meetings of the Farm Supply Committee, five meetings of the Solidarity Committee, two meetings of the Executive Committee, and one meeting of the Presidential Council.

Your Directors also participated in the sixth annual Congress of the dairy cooperatives, as well as the Annual Meeting of the Coopérative Fédérée de Québec.

In addition, Board members made an inspection tour, during which they visited 11 of the plants operated by your Coopérative.

Your Directors visited a number of the Fluid Milk Division facilities, notably the Brossard plant, the Laiterie Samoïsette in St. Jean, the St. Bruno and Ville Saint-Laurent plants, the warehouse on Parkway Boulevard in Ville d'Anjou, the Montréal-Nord ice cream plant, and the Laiterie Léveillé plant in Ste. Thérèse.

That was followed by visits to the Longueuil Distribution Centre, the Oka cheese plant and the De Beaujeu cheese plant in Vaudreuil, all operated by the Industrial Milk Division. The Board wound up its extensive travels with a tour of the Dalpé et Frères plant, one of the most recent acquisitions by your Coopérative.

Visits to all these places gave your Board of Directors the opportunity to become more familiar with Agropur's production capacities. The knowledge so gained guides Board members in their decision-making and helps them find even more appropriate and enlightened solutions to problems.

European Tour

Your Directors also visited Europe during the year to meet the people in charge of the most dynamic and successful dairy cooperatives and private enterprises. This trip resulted in many productive exchanges of views and ideas.

The first stop on the tour was in Switzerland, with a visit to a firm which specializes in the production of a soft drink with a whey base.

While in Switzerland, the Agropur delegation took advantage of the opportunity to visit Orlait, a very large dairy cooperative which, like Agropur, manufactures and distributes Yoplait yogourt.

Your delegates also made a side trip to visit the Directors of three of the 10 French cooperatives that are members of the Sodima group.

The first one visited was the Centrale Laitière de Paris. its President is Mr. Marc Quignon, who is perhaps best known to some of you as the person who initiated the discussions that led to our agreement with Sodima.

Your representatives next met the administrative team of La Clara, a cooperative in Amiens which has had many dealings with Agropur in the past. Finally, they held discussions with top management at Elnor, a powerful dairy cooperative which has its head office at Resson, in the north of France.

This tour, in addition to giving a much more concrete meaning to the word intercooperation, gave your Directors an opportunity to make a closer study of the way cooperatives function in other countries and discover what solutions they bring to the challenges facing them. Numerous matters of crucial importance were discussed, including manufacturing, marketing, advertising, the evolution of consumer tastes, new products, production quotas, the administration of dairy cooperatives, intercooperation and so on.

Refresher Courses

During the year, your Directors also took refresher training, with the goal of managing your Coopérative even better and more efficiently.

The objectives of this refresher training programme, spread over a four-year period, are: ensure that participants have a more thorough and better nuanced idea of the context in which they must function; provide the Directors with the necessary tools to make better decisions; improve interpersonal, professional and institutional relationships; generate the desire among participants to attend other similar sessions and pursue their own independent training activities; and, finally, strengthen the feeling of togetherness and belonging within Agropur and the farm cooperative movement as a whole.

Dairy Cooperatives' Congress

In November 1984, we took part in the sixth annual congress of the dairy cooperatives, as mentioned earlier.

The theme of the 1984 Congress was: "The Dairy Cooperative Movement: a Very Special World". Objectives were to provide everyone with evidence of the strength of the cooperative movement on five continents; point out the multitude of members who deal with their Coopérative every day of the year; and emphasize the diversity of the operating structures and ways of doing things that distinguish the cooperative movement from non-cooperative enterprises in general.

This Congress provided an opportunity to draw an extremely positive picture of the role the dairy cooperative movement plays throughout the world.

Lecturers came from Holland and France to explain to us the scope of the cooperative movement in Europe. Two producers from the United States spoke about the differences that exist between the cooperative movement in Quebec and south of the border.

Shortage of Milk Supplies

In the winter of 1983-84, an agreement was concluded between the dairy cooperatives, the Fédération des Producteurs de Lait and the non-cooperative enterprises regarding milk supplies for manufacturing fresh dairy products, when shortages exist.

During the negotiations leading up to this agreement, we asked the Fédération officials to guarantee us fair and equitable treatment regarding supplies of milk for making fresh dairy products, as well as fluid milk for home consumption.

Following formal assurances to that effect from the parties concerned, we accepted the agreement without hesitation. We informed you of these events during the Animators' Meetings in December 1983.

We are far from satisfied with this agreement. Contrary to the promises that were made at the time, we have not been treated with integrity.



During the period when shortages existed, the Fédération officials did not demand a single drop of milk from certain non-cooperative enterprises, even though the latter dealt with integrated producers and had an obligation to provide their quota to the dairy processing industries.

Despite our protests and the demands made by the Agropur Board of Directors to remedy this situation, the agreement was renewed for the 1984-85 fiscal year. As proof of our good faith, we agreed to participate, but on condition that the Fédération would treat us with greater equity.

Agreement between the Fédération des Producteurs de Lait and the Dairy Cooperatives

You are probably aware that attorney François Hamelin was named as conciliator for the negotiations leading up to the agreement between the Fédération des Producteurs de Lait and the dairy cooperatives. Discussions on the agreement concluded on December 23, 1983.

All involved in those discussions agreed that Mr. Hamelin was not given enough time to complete the task properly. So we joined forces with the Régie des Marchés agricoles (the Agricultural Marketing

Board) in agreeing to give him until mid-March 1984 to finalize the negotiations. At that time, both parties signed the clauses.

However, before the agreement was accepted in its entirety, it was agreed that the representatives of the dairy cooperatives would present the proposed terms to their respective Boards of Directors for approval.

But, even before this could be done, the Fédération des Producteurs de Lait showed an incredible lack of diplomacy by publishing a statement in "La Terre de chez nous" claiming that the agreement had been accepted by all parties involved, and that the problems had definitely been solved.

By publishing this document, the Fédération quite literally mocked the Board of Directors of the cooperatives. Especially since one of the clauses in the agreement, Section 3.06, concerning reference volumes, added even more to the confusion.

At the request of the Fédération, the Régie cut off the debate at the end of October 1984, rendering a declaratory judgment on the subject of Section 3.06.

We are waiting to see what kind of an agreement will be reached with the non-cooperative enterprises, in order to clarify our position.

Even though the land sleeps under its blanket of snow, restoring its vigour for the new growing season ahead, your Coopérative is far from being inactive. During December 1983 alone, the Animators held 12 meetings, getting the opinions of members on various important matters to guide Agropur in its policy-making.

Government's Long-term Dairy Policy

As you all know, Canada has had a new government since last September 4.

Fully aware of their responsibilities, the administrators of your enterprise immediately took the appropriate steps to acquaint the elected representatives of the people with the constraints farmers must face.

That is why your Board of Directors has already taken numerous initiatives to meet the new members of parliament, or ministers, in each electoral district within our milk collection territory.

The primary objective of these meetings is to sensitize the government representatives to the needs of dairy producers, give them a clear explanation of Agropur operations and an understanding of the objectives we are pursuing in our role as a Coopérative, and to convince them that Agropur is a valid and valuable interlocutor upon whom they can rely in any matters concerning the dairy industry.

The Dairy Cooperative Movement: A Very Special World

When it comes time for the government representatives to draw up new legislation on dairy quotas or production, we hope that our interventions will result in shifting government policies a bit more in our favour.

While on this subject, I would like to mention that the most important and urgent question for the dairy industry at this time is unquestionably the renewal of the Federal government's long-term dairy policy.

In 1975, the government provided a long-term guarantee to uphold the price of industrial milk, by establishing a basic price and a price adjustment formula for a five-year period. This policy has not been modified since 1980, however, and the long-term agreement has not been renewed.

We support the Canadian Dairy Producers Federation in urging the government to put a new long-term dairy policy in place.

Existence of such a programme would benefit all dairy producers, because it would allow them to plan their investments and prepare for the future in much better fashion.

The Saint-Laurent plant, one of the showpieces of the vast Agropur organization, is operated by the Fluid Milk Division. It has some of the most modern milk processing, bagging and packaging equipment to be found anywhere, all controlled by a central computer.

New Cooperatives Act

As you probably know, Quebec cooperatives are now subject to new provincial legislation.

This new legislation, called the Cooperatives Act, was sanctioned on June 23, 1982, and came into force on December 21, 1983. It is an amalgamation of the former Cooperative Associations Act and the Cooperative Agricultural Association Act.

The new legislation applies to all cooperatives, regardless of whether they are farm, fisheries, group purchasing cooperatives, or whatever. The only cooperatives excluded from this general legislation are the savings and loans groups.

This new legislation is along the lines of a proposed by-law which has been studied by your Board of Directors and which will be submitted to you today for your approval.

In our opinion, however, the new Act has some flaws, because it neglects a fundamental point: the importance of the farm cooperatives.

Cooperatives operating in the food sector are not recognized as distinct entities, even though their sales today add up to hundreds of millions of dollars annually, and, together, they make up one of the most important motors of the Quebec economy. But the Act

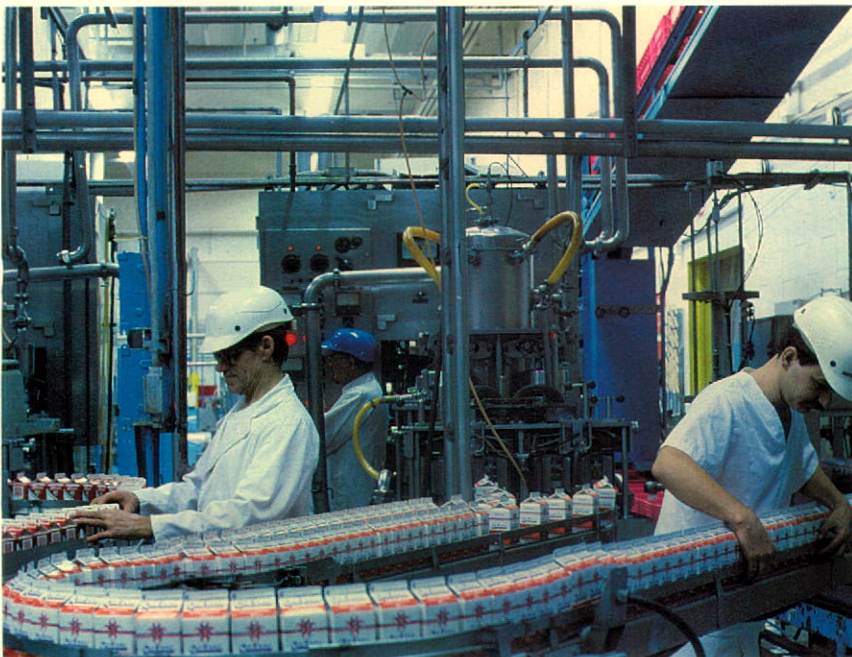
Yes, the dairy cooperative movement is a very special world...

- *thanks to the multitude of members who daily deal with, and through, their Coop rative;*
- *thanks to its structures and methods of operating, which distinguish it from private dairy enterprises;*
- *thanks to its steady growth on five continents.*

It is a very special world that asks only to be better known and better understood by its government or private partners, as well as by the numerous researchers and observers with an interest in the dairy industry.

It is also — and above all — an evolving world, in a perpetually changing commercial and economic environment.

The constant challenges force the movement to search incessantly for new formulas which will allow it to compete with industrial giants, while preserving its essential role as an association of producers.





Responding to new market needs and changing consumer tastes, Agropur each year introduces new products and presents some existing products in new packages and formats. During the past year, the Coopérative offered the public new ice cream flavours and new types of cheese. A complete packaging redesign was also done on some Crino products.

places them on the same footing as cooperatives with annual business volume of a few hundred dollars a year.

We sincerely believe that enterprises such as ours should be excluded from this far too general legislation. It would be much more logical to adopt special legislation, better adapted to the needs and particular characteristics of the farm cooperatives.

Cooperative Investment Plan

When presenting the most recent provincial budget last May, the Quebec Finance Minister announced that he intended to create a special Cooperative Investment Plan. Such a Plan would offer members investing in their Coopérative benefits similar to those provided under the Québec Stock Savings Plan to investors in non-cooperative enterprises.

Right away, I must say that we are happy the government has thought of setting up an investment plan that will benefit the cooperatives.

However, we fully support the steps taken by the Coopérative Fédérée de Québec, which represents the entire farm cooperative movement in the province, to have the proposed plan amended to adapt it more to our needs.

Among other things, it would be desirable to make investments in such a Plan eligible for a tax credit equal to 35 per cent of the amount invested, rather than as a reduction in taxable income.

In addition, the minimum time allowed in which the shares can be disposed of should be three years, instead of five years, as is now proposed.

We are extremely favourable to the idea of encouraging members to invest more in their Coopérative enterprise by means of tax incentives. What we wish to see, however, is a method that will be truly advantageous for both the members and their Coopérative.

We would have liked to see this Plan in effect during 1984, and hope that it will be introduced very shortly.

Farm Supply Division

Once again this past year, the Farm Supply Division reported negative earnings from operations. Among other things, the hog sector ended the year with a slight loss, while farm machinery sales failed to achieve the hoped-for profitability.

Last November, we reached a decision to give hog producers their own, autonomous operation, a decision which will benefit everyone.

In the first place, it will make the hog producers eligible for farm income stabilization insurance, and provide them with some compensation in case of losses.

Agropur will also benefit because the Coopérative will continue to provide feed grain to the great majority of producers who previously raised hogs under contract, at fixed prices.

No definite decision has yet been reached on what should be done about the farm machinery sector.

It is obvious that we must give long and serious thought to this matter before making any decision to withdraw from the farm machinery sector, and thus no longer serve our members' needs. The Coopérative Fédérée de Québec has set up a task force for the sole purpose of analyzing this problem of selling farm machinery in such a competitive market. We will study its findings very carefully before changing our present policy.

Sales of hardware, fertilizers and feeds all showed extremely positive increases, in terms of volume. If the figures recorded during the latter months of the year are maintained, the Farm Supply Division will most likely report positive results in the very near future.

Dairy Equipment Service

This Service also reported a deficit during the past year.

When your Board of Directors made the decision to offer members a complete range of dairy equipment and supplies, including an emergency repair service, economic considerations were hardly foremost. Above all, we wanted to offer an indispensable service because, when equipment breaks down it is always at milking time when it is needed most, as the majority of you can testify.

Now that this service is in operation, however, the economic viewpoint comes to the forefront and your Board of Directors will be devoting a great deal of thought and in-depth study to this matter in the months ahead. Our objective will be to offer producers the most efficient service possible, at the best possible price.

We are more inclined to favour formulas which would allow this service to be made profitable, rather than simply trying to cut back operating costs.

"I've been an Agropur member for 12 years now, and I'm not about to change! In the first place, I get a good price for my milk and when I compare myself with other milk producers, I see that I get patronage refunds and they don't. That's not hard to take, for a small operation like mine, and it helps things go well. Then, there are all kinds of other benefits you don't get elsewhere: advice to help me manage my farm better, training sessions for couples, farm youth programmes, insurance, cleaning products, equipment repair services, the advice in Agropur-Nouvelles, which I always greatly appreciate... If someone who is anti-Coopérative asked me to change my allegiance, I would say no right away, because I have no reason to change."



Fernand Perras
Farm Producer
Sherrington

Diversification

Now, we come to a delicate subject: diversification of production.

We are all too well aware that substitutes for dairy products are becoming increasingly popular in the trend-setting United States market.

In Canada, we support the initiative of the Canadian Milk Producers Federation, which has asked the various provincial governments to restrict the marketing of dairy substitutes.

Despite favourable reactions from government authorities, however, it is possible and even probable that existing regulations will be relaxed in future, under consumer pressure, instead of being stiffened.

If we do not provide consumers with the products they want, it is obvious that our competitors will do so in our place.

This problem is of crucial importance, because it will have profound repercussions on the future of all North American agri-food enterprises, including our own Coopérative.

Because we stress this point, it does not mean that we will encourage substitution. Far from it.

For example, we will be making substantial investments at the Brossard plant for the purpose of developing products which will be able to compete with substitutes. Very soon, in fact, we will be marketing creams with a much longer shelf life. They will have a much more agreeable taste than the powdered "coffee whiteners", as well as other advantages.

We are working on other similar products. In addition, we are constantly looking for new ways to reduce operating costs to the lowest possible level, so that our natural products will be much more attractive in price, along with their other advantages for the consumer.

You can be sure that Agropur will devote all its energies to stimulate the consumption of authentic dairy products.

Nevertheless, so that we can continue to offer our members the full benefits to which they are entitled, we must take every appropriate measure to ensure we remain at the leading edge of progress and maintain our position as the leader in Quebec's agri-food industry.

Contribution to Dairy Bureau of Canada

Our mission is primarily, and above all, to promote the use of natural dairy products. The contribution we make to the Dairy Bureau of Canada each year for this specific purpose is additional proof of that.

In 1983-84, we contributed 52 cents per hectolitre of milk to the Dairy Bureau to promote the consumption of milk and other dairy products in Canada.

That was in addition to the \$1.16 per hectolitre Agropur already sets aside annually for brand advertising in the geographic regions where we operate. Our investments in advertising and promotion totalled \$13.3 million this past fiscal year.

As in previous years, the major portion of this money was spent in the major urban areas, our Coopérative's most important target markets.

Speaking of promotion, I would not wish to close my remarks without inviting each of you to consume Agropur products and insist on them whenever you go shopping.

Each Agropur member and employee must think of himself or herself as an ambassador for the Coopérative in his or her own region. The natural thing for you to do is to buy only those products which you help to make or distribute, and encourage all around you to do the same.

Almost ten thousand buyers of Agropur products: that's already an interesting market. And if each of our members or employees persuades just one other person to do the same (and then another, and another!), that's the assurance of appreciably higher production. Finally, remember that it is you yourselves who profit from the buying support that you bring to your Coopérative.

Conclusion

Summing it all up, I think that we can be extremely proud of the results achieved by Agropur, Coopérative agro-alimentaire during this past fiscal year.

Milk collections increased, production grew remarkably, the commercial foundations of our enterprise became even more solid, and earnings from operations during the year reached an unprecedented high.

Despite some pitfalls, the cooperative movement as a whole continued to grow. It established itself even more firmly as the preferred vehicle of association for producers in many countries.

But all these successes should not lead us to forget that there are still many steps to take before we can reach all the goals we have set for ourselves. Those objectives are yours, also, and your Directors have committed themselves to carry out the task entrusted to them.

In order to continue our conquests in a world which is proving more difficult each passing day, we must be ready to battle the odds, work, innovate, be adaptable, conquer other markets and meet new challenges, more vigorously than ever before.

Finally, I wish to take this opportunity to thank my fellow Directors for their devoted efforts and constant support throughout the year. I know you will all join me in extending our warmest thanks to the Administrative Committee for the remarkable results which Mr. Giroux will be revealing in a few moments time. My thanks also go to all Agropur employees for the enthusiastic way they did their jobs and, finally, sincere thanks to all our members for the confidence they continue to show in us.

Without the help and cooperation of all these people, Agropur would not be the impressive enterprise that it has become over the years.



MICHEL LEMIRE,
President



Consolidated Balance Sheet
as at October 31, 1984

1984 1983

(in thousands of dollars)

Assets

Current

Cash and short-term investments	\$19,475	\$21,091
Accounts receivable (including members \$2,989,000; 1983 - \$2,430,000)	42,327	31,582
Income taxes recoverable	1,042	358
Inventories (Note 2)	41,561	34,961
Prepaid expenses	1,155	947

105,560 88,939

Investments and advances (Note 3)

3,390 2,780

Fixed (Note 4)

Land, buildings, machinery and equipment, at cost	151,944	124,983
Accumulated depreciation	(72,231)	(60,729)

79,713 64,254

**Goodwill and other assets less accumulated
amortization**

7,822 5,393

\$196,485 \$161,366

On behalf of the Board

Michel Lemire

, Director

Lauriat Michaud

, Director

See accompanying notes.

Consolidated Balance Sheet
as at October 31, 1984

	1984	1983
	(in thousands of dollars)	
Liabilities		
Current		
Accounts payable (including members \$24,782,000; 1983 - \$21,250,000)	\$64,394	\$52,012
Current portion of long-term debt	1,208	921
	65,602	52,933
Long-term debt (Note 5)	37,671	21,970
Deferred income taxes	3,880	2,815
	107,153	77,718
Equity		
Members' equity (Note 6)	75,474	71,105
Equity of the Coopérative		
Net earnings for the year	5,473	4,679
Reserve	8,385	7,864
	89,332	83,648
	\$196,485	\$161,366

See accompanying notes.

**Consolidated Statement of Earnings
for the year ended October 31, 1984**

	1984	1983
	(in thousands of dollars)	
Sales and other operating income	\$721,411	\$618,353
Cost of goods sold	630,127	542,666
Gross margin	91,284	75,687
Selling expense	48,389	39,531
Administrative expense	13,812	11,141
Interest on long-term debt	3,441	2,378
Interest income and other income, net (including \$347,085 of patronage refunds from Coopérative Fédérée du Québec)	(1,494)	(1,372)
	64,148	51,678
Earnings from operations	27,136	24,009
Gain on disposal of fixed assets	118	80
Amortization of goodwill	(771)	(998)
Earnings before the following items	26,483	23,091
Price complements to members	20,466	17,818
Earnings before income taxes	6,017	5,273
Income taxes of subsidiaries	544	594
Net earnings for the year	\$5,473	\$4,679

See accompanying notes.

**Consolidated Statement of Reserve
for the year ended October 31, 1984**

	1984	1983
	(in thousands of dollars)	
Net earnings for the preceding year	\$4,679	\$4,597
Patronage refunds	(3,647)	(3,003)
Net transfer to reserve	1,032	1,594
Deferred income taxes	(511)	(610)
Balance at beginning of year	7,864	6,880
Balance at end of year	\$8,385	\$7,864

See accompanying notes.

**Consolidated Statement of Changes in Financial Position
for the year ended October 31, 1984**

	1984	1983
	(in thousands of dollars)	
Source of funds		
Operations		
Net earnings	\$5,473	\$4,679
Items not involving funds		
Depreciation of fixed assets	8,271	7,159
Amortization of other assets	802	1,040
Deferred income taxes	349	451
Gain on disposal of fixed assets	(118)	(80)
	14,777	13,249
Net increase in members' equity	4,369	5,128
Long-term debt	15,337	5,384
Proceeds on disposal of fixed assets	832	471
	35,315	24,232
Application of funds		
Fixed assets	18,800	6,983
Patronage refunds	3,647	3,003
Goodwill and other assets	554	76
Investments and advances	610	63
Investments in subsidiaries (Note 7)		
Acquisition cost	\$8,379	
Working capital	(627)	755
	31,363	10,880
Working capital		
Increase during the year	3,952	13,352
Balance at beginning of year	36,006	22,654
Balance at end of year	\$39,958	\$36,006

See accompanying notes.

1. Summary of significant accounting policies

Consolidation

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

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Fixed assets

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 feed mill in Granby on which depreciation is calculated using the straight-line method.

Goodwill

Goodwill 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.

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. Income taxes are recorded net of realized investment tax credits related to fixed assets of subsidiaries.

Notes to Consolidated Financial Statements (continued)
October 31, 1984

2. Inventories

	1984	1983
	(in thousands of dollars)	
Dairy products		
Raw materials and products in process	\$ 6,198	\$ 5,582
Finished products	28,350	23,342
	34,548	28,924
Farm equipment and supplies	4,360	3,766
Maintenance supplies and other inventories	2,653	2,271
	\$41,561	\$34,961

3. Investments and advances

	1984	1983
	(in thousands of dollars)	
Coopérative Fédérée du Québec, at cost	\$2,227	\$2,292
Other	1,163	488
	\$ 3,390	\$ 2,780

Notes to Consolidated Financial Statements (continued)

October 31, 1984

4. Fixed assets

	Rate	1984		1983	
		Book value	Accumulated depreciation	Book value	Accumulated depreciation
(in thousands of dollars)					
Land	—	\$ 3,633	\$ —	\$ 4,252	\$ —
Buildings	5%	49,799	14,826	42,930	12,198
Production equipment	10% and 20%	83,339	47,481	64,796	39,788
Sales equipment	20%	604	540	598	533
Transportation equipment	30%	12,043	7,890	10,350	6,972
Office furniture and equipment	20%	2,083	1,403	1,930	1,195
Computer equipment	20%	443	91	127	43
		\$151,944	\$72,231	\$124,983	\$60,729

5. Long-term debt		
	1984	1983
	(in thousands of dollars)	
Agropur, Coopérative agro-alimentaire		
* Loans at cost of funds plus ¾%	\$16,500	\$7,000
Bank acceptances, at cost of funds plus ½%	5,000	—
Bonds, 14¼%, Series C, maturing November 15, 1987	5,000	5,000
Bonds, 12¾%, Series D, maturing June 1, 1988	2,000	2,000
Bonds, 8¼%, Series A, maturing from 1983 to 1988	1,148	1,435
Notes payable unsecured, 9,35% and 11% maturing 1986	1,327	294
Balance on purchase of shares of subsidiaries, 9½%, 12½% and prime bank rate less 2½%, repayable until 1996	2,450	1,808
Other loans, 8% to 11%, repayable until 1991	507	658
	33,932	18,195
Subsidiaries of Agropur, Coopérative agro-alimentaire		
* Bank loans, prime bank rate	4,000	4,000
Mortgage bond, Series A, 12.636% and cost of funds plus 2¼%	521	646
Other loans, 7½% to 13¾%	426	50
	38,879	22,891
Current portion	1,208	921
	\$37,671	\$21,970

* 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 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):

1985 - \$1,208; 1986 - \$19,045; 1987 - \$6,128; 1988 - \$8,071; 1989 - \$781; subsequently - \$3,646.

6. 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.

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.

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

	1984	1983
	(in thousands of dollars)	
Common shares	\$ 2,383	\$ 2,436
Preferred shares "A"	61,572	58,856
Preferred shares "B"	9,689	7,922
Preferred shares "C"	1,092	1,117
Preferred shares	738	774
	\$75,474	\$71,105

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

	1984	1983
	(in thousands of dollars)	
Balance at beginning of year	\$71,105	\$65,977
Price complements	15,348	13,367
Payments on common shares	22	36
Redemption of preferred shares "A"	(10,355)	(7,698)
Redemption of preferred shares	(646)	(577)
Balance at end of year	\$75,474	\$71,105

At October 31, 1984, common shares subscribed but not issued and fully paid amounted to \$118,375 (1983 - \$151,454).

7. Investments in subsidiaries

During the year, Agropur, Coopérative agro-alimentaire acquired all of the capital stock of the following companies:

Dalpe et Frères Compagnie Inc.
Orange Maison (1971) Inc.
Laiterie Victo Inc.
Les Produits Laitiers Mont St-Hilaire Ltée

and all of the assets and operations of Crémierie St-Gérard Inc.

These acquisitions have been accounted for by the purchase method as follows:
(in thousands of dollars)

Fixed assets, attributed value	\$5,644
Goodwill and other assets	2,677
Working capital	627
	8,948
Long-term debt	(364)
Deferred income taxes	(205)
Acquisition cost	\$8,379

The acquisition cost has been paid in cash, except for a balance of \$850,000 in the form of notes bearing interest at a rate of 12½% annually and repayable by instalments of \$170,000 annually until October 19, 1989.

8. Contractual commitments

Lease commitments aggregated approximately \$1,229,000 at October 31, 1984 (1983 - \$1,416,000). The lease expense for the year ending October 31, 1985 will be approximately \$762,000.

At October 31, 1984, Agropur, Coopérative agro-alimentaire and its subsidiaries are committed to acquire fixed assets for a total amount of \$2,931,000.

9. Potential tax benefits

The Coopérative is eligible for an investment tax credit of approximately \$2,610,000 which can be used until 1991.

Also, a wholly-owned subsidiary of the Coopérative has losses of approximately \$2,100,000 for federal tax purposes and \$1,200,000 for provincial tax purposes which can be used to reduce future taxable income. These losses expire from 1986 to 1991.

10. Allocation of net earnings for the year

On December 27, 1984, the Board of Directors accepted to recommend to the annual general meeting that patronage refunds totalling \$4,188,000 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 earnings for the year	\$5,473
Patronage refunds recommended	4,188
Balance allocated to reserve	\$1,285

The resulting income taxes will be approximately \$286,000.

11. 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 93.2% during the year.

12. Comparative figures

In accordance with the Regulation respecting the application of the Cooperatives Act, net earnings for the year are presented separately in the equity of the Coopérative and retained earnings of the subsidiaries are grouped with the reserve. The 1983 figures have been reclassified to conform to the new presentation.

Earnings by Division
October 31, 1984

	Industrial Milk Division		Fluid Milk Division	
	1984	1983	1984	1983
	(in thousands of dollars)			
Sales and other operating income	\$497,604	\$421,432	\$212,962	\$190,768
Cost of goods sold	448,042	381,213	173,850	157,422
Gross margin	49,562	40,219	39,112	33,346
Selling expense	16,741	14,337	29,189	22,761
Administrative expense	7,816	5,749	5,514	4,779
Interest on long-term debt	2,679	1,552	762	826
Inter-division interest	(2,518)	(3,358)	2,186	2,166
Interest income and other income, net	(411)	(278)	(807)	(1,008)
	24,307	18,002	36,844	29,524
Earnings (loss) from operations	25,255	22,217	2,268	3,822
Gain on disposal of fixed assets	14	16	104	64
Amortization of goodwill	(367)	(286)	(404)	(712)
Earnings (loss) before the following items	24,902	21,947	1,968	3,174
Price complements to members	20,466	17,818	—	—
Earnings (loss) before income taxes	4,436	4,129	1,968	3,174
Income taxes of subsidiaries	174	132	370	462
Net earnings (loss) for the year	\$ 4,262	\$ 3,997	\$ 1,598	\$ 2,712

Farm Supply Division		Elimination of inter-division transactions		Consolidated	
1984	1983	1984	1983	1984	1983
(in thousands of dollars)					
\$28,955	\$20,984	\$18,110	\$14,831	\$721,411	\$618,353
26,345	18,862	(18,110)	(14,831)	630,127	542,666
2,610	2,122	—	—	91,284	75,687
2,459	2,433	—	—	48,389	39,531
482	613	—	—	13,812	11,141
—	—	—	—	3,441	2,378
332	1,192	—	—	—	—
(276)	(86)	—	—	(1,494)	(1,372)
2,997	4,152	—	—	64,148	51,678
(387)	(2,030)	—	—	27,136	24,009
—	—	—	—	118	80
—	—	—	—	(771)	(998)
(387)	(2,030)	—	—	26,483	23,091
—	—	—	—	20,466	17,818
(387)	(2,030)	—	—	6,017	5,273
—	—	—	—	544	594
(\$ 387)	(\$ 2,030)	\$ —	\$ —	\$ 5,473	\$ 4,679

The Members,
Agropur,
Coopérative agro-alimentaire

We have examined the consolidated balance sheet of Agropur, Coopérative agro-alimentaire as at October 31, 1984 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, 1984 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.

*Charette, Fortier, Hawey
Touche Ross*

Chartered Accountants

Montreal, Quebec,
January 7, 1985.

Report by the General Manager



Mr. President,
Members of the Board of Directors,
Fellow Members and Associates.

The operating results of Agropur, Coopérative agro-alimentaire for the fiscal year now ended were much more satisfactory than those for the previous year.

Inclement weather, lower than normal milk collections and a disastrous economic recession combined to slow our growth drastically during the 1982-83 fiscal year.

This past year, by contrast, ideal weather conditions and an economy that was beginning to regain its equilibrium allowed Agropur to achieve the best results in its 46-year history.

During my annual message two years ago, I mentioned that the enterprises which have a solid financial base, employ competent people, use the most advanced techniques, know how to adapt to market conditions and offer quality products at competitive prices, can succeed in weathering the crises that confront them, and come out of it all stronger.

This past year's results strikingly affirm the truth of that statement.

Consolidated Results

Your Coopérative's sales took a spectacular leap during this latest 12-month fiscal period, climbing by \$103 million, or 16.6%, to reach \$721,411,000.

Several factors explain this growth which, now that it has been made public, will be the envy of many corporations, even those of international scope.

Milk collections certainly rate first mention, as they easily passed the previous record, set in the 1981-82 fiscal year. At 1,140,273,000 litres, that represents an increase of almost 86 million litres over 1982-83.

These all-time high milk collections do not explain everything, however. The milk collected must be processed efficiently and economically. Above all, it must be marketed at a profit.

In that respect, we definitely did not stand still. The year was notable for the launching of a number of new products, the penetration of new markets, sustained marketing efforts, several major advertising campaigns, participation in numerous important exhibitions, and the sponsorship of some large-scale projects.

Another factor involves the rationalization of production and reduction of operating expenses. In those areas, we maintained our position at the leading edge of progress, in keeping with the pure Agropur tradition. We made several major changes to some of our plants, in order to raise their productivity to the maximum.

For all those reasons, consolidated earnings before price complements to members eclipsed the best results achieved in all previous years. They totalled \$26,483,000, representing an increase of \$3,392,000 or 14.7% above 1982-83 earnings.

Equity increased by \$5.4 million, going up from \$83.6 million to \$89 million.

Working capital also reached a new peak of \$40 million, representing an increase of \$4 million from the 1982-83 total of \$36 million.

Now, let us take a look at the results for each Division.

Industrial Milk Division

Industrial Milk Division sales for the year just ended rose to \$498 million, for an increase of \$77 million, or 18.2% over the preceding fiscal year.

Earnings before income taxes and price complements are a very important measure of our operating profitability. They rose to \$24,902,000 in 1983-84, which was \$2,955,000 higher than in the preceding year.

The Division completed several important projects during this latest fiscal year. They included the installation of a new milk powder dryer at the Plessisville plant, representing an investment of some \$5 million, and a second yogurt packaging line in the Granby plant, at a cost of \$1.2 million.

Milk Collections

Industrial milk collections during the year rose to a total of 929,570,000 litres, or 9% more than in the previous year.

It should be pointed out here that member-producers have been keeping a watchful eye on production quotas for the past few years. As a result, there were some substantial variations in monthly milk collections during the latest fiscal year, compared with the equivalent months the year before.

For example, during the first three months of the year, milk collections dropped by about 10% in comparison with the first quarter of 1982-83. Production during the second quarter was practically identical with that in the corresponding three months of the previous year. However, commencing in May 1984, milk collections were maintained at levels about 8% to 10% higher than those at the same time in 1983.

This upturn in milk collections around the middle of the year had some very positive results, permitting Coopérative members as a whole to fill their production quotas. It also had some happy results at the national level, by helping Canada to fill its dairy products needs completely.

Bulk Sales

For Canada's domestic markets, the Industrial Milk Division's principal activities are still the production of cheddar cheese, specialty cheeses and butter. For export markets, however, top billing still goes to the manufacture of skim milk powder and evaporated whole milk.

Bulk sales of cheddar cheese were up by 1.2%, during the year. Bulk sales of butter and skim milk powder increased by 25% and 12%, respectively.

The Coopérative's engineering service is responsible, among other things, for designing new equipment and perfecting existing facilities. Agropur engineers worked closely with outside experts in the planning and installation of the waste water purification centre put into operation last year at the Fromagerie de Notre-Dame-du-Bon-Conseil. This treatment system is based on highly advanced technologies never before used in the dairy industry and has been hailed by the specialized press as a real "tour de force".



Sales of evaporated milk for export also rose substantially, climbing from \$49.9 million to \$61.8 million, for an increase of 23.8% over the preceding year.

Retail Sales

During the year, the Division had to cope with a price war on the retail butter market.

This price slashing, touched off by the "fire sale" authorized by the Canadian Dairy Commission, was compounded by the tactics of the major food chains, which took advantage of the situation by using butter as a loss leader to attract customers. The net result was that the butter price structure, so laboriously built up by concerted efforts over a period of years, was reduced to rubble almost overnight.

Luckily, we weathered that storm and came out with a larger market share. But unfortunately, the gains that we achieved were made at the expense of a large reduction in our profit margins.

With regard to fine cheese production, the past year was a most significant one for your Coopérative.

It all started in January 1984, when the Division acquired Dalpé et Frères, a firm with a well established reputation for manufacturing a Swiss type cheese of excellent quality.

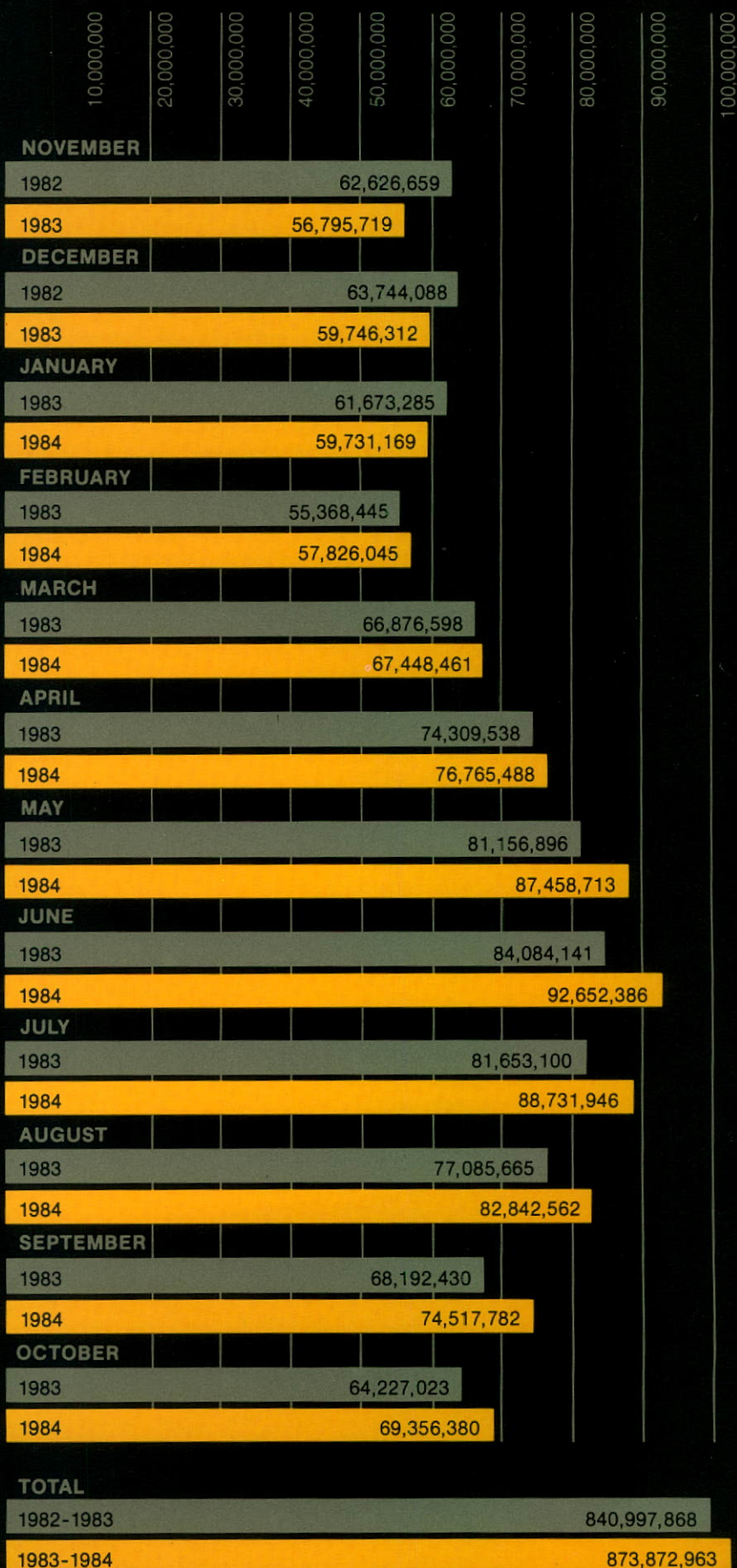
In April 1984, the Division also became the owner of Crèmerie St-Gérard, especially noted for its Saint-Paulin cheese and its famous Tomme des Laurentides cheese.

Later that same year, in September, the acquisition of Les Produits Laitiers Mont St-Hilaire, a well established cheese distributor in St-Hyacinthe, crowned the Division's expansion programme in the fine cheese field.

All these transactions are part of the plan to achieve the objectives your Coopérative set for itself in 1978, when it began to carve out an important place for itself in this very important sector of the dairy industry.

Monthly milk production by members

(in litres)





Agropur's growth in the cheese sector this year was not limited to acquisitions, however. The Division's sales team was also able to accomplish the remarkable feat of increasing its sales of fine cheeses by almost 32.8%. Even more exciting is the fact that the sales increase in the last few months of the year, compared with the corresponding period the year before, was much higher than that general average. That means we can look forward to even more interesting results in the coming year.

Here again, several factors explain these remarkable results. The first is that the line of De Beaujeu soft cheese was expanded in the spring by the addition of pepper, garlic and fine herbs cheeses. The second major growth factor was the restructuring of our specialty cheese distribution network across Canada. Finally, very promising results are shaping up from our penetration of the lucrative United States market.

Yoplait turned in another excellent year, with a sales increase of 20%. The outstanding factors in this product's 1984 success story were the launching of a new range of firm yogourts last March, the addition of two new flavours, called "sunshine flavours", at year's end, and reorganization of our marketing services in the Greater Toronto area.

These efforts have borne fruit and we are now expanding ever more vigorously in Ontario. Our hopes are bright in this important market, Canada's largest.

Our active participation in the "Relève Yoplait" programme, which involves more than 600,000 youths throughout Quebec, has certainly been an important factor in the renewed marketing success of our yogurt in this province during the past year.

Energy and the Environment

As you well know, energy costs have a direct effect on our manufacturing costs.

With the goal of reducing these costs, we signed contracts in 1983 to convert several plants from oil to natural gas. The first stage in this project got underway this past year, with changeovers made at the Fromagerie de Granby, the yogurt manufacturing plant in Granby, as well as at the Ste-Anne-de-la-Pérade and Louiseville facilities.

Agreements have also been signed for the partial supply of natural gas, by tanker-trailer, at our Plessisville and Bon-Conseil plants.

Substantial changes have also been made to the manufacturing equipment cleansing systems at our largest plants, in order to reduce maintenance costs, decrease product losses, and lower pollution levels in waste water discharges.

On the subject of environmental protection, mention must be made of the installation of a waste water treatment centre at Notre-Dame-du-Bon-Conseil.

Managing an enterprise of the scope and complexity of Agropur demands a competent and dynamic administrative team. The Coopérative's Administrative Committee meets regularly to adopt and implement, in the most efficient way possible, the policies decided upon by the Board of Directors.

The treatment centre, officially opened last October 9, was hailed by the specialized press as an outstanding feat and a world first. The revolutionary technologies used remove 97% of pollutants from the waste water, by means of a dual stage, aerobic-anaerobic process. During the first stage, two fermenters of a type never previously used in the dairy industry function in parallel to remove virtually all pollutants from the waste water. The process produces a large quantity of methane gas, which is recuperated and used as fuel to fire the steam boilers at the Fromagerie de Bon-Conseil, thus reducing operating costs substantially.

The waste water treatment system at the Fromagerie d'Oka, which uses a more traditional type of technology, was also completed and put in operation during the year just ended.

Agreements on measures designed to protect the environment were also concluded between our Lawrenceville and Weedon plants and the municipalities concerned.

Research and Development

Our research and development team devoted a great deal of time and energy this past year to perfect techniques that will make it possible to obtain better returns in all our production sectors, cheeses in particular.

Extensive studies have also been made to find ways to reduce product losses to a minimum during various processing operations. Our engineers even went to Europe to study the work done by the world's leading specialists in this field.

It goes without saying that substantial investments must be made in this work if we wish to stay in the vanguard and become even more competitive on domestic and world markets.

Gold Medals

Our research work also allowed us to improve the quality of our cheddar and fine cheeses even more during the year.

The combined efforts of our production, technical and research and development teams once again were crowned with success: winning us a Lys d'or award for our cottage cheese, and another one for Camembert de Vaudreuil.

The list of achievements keeps growing. We won 10 gold medals for the quality of our products at the famed Monde Sélection de Bruxelles international exhibition. Our Oka cheese won the highest award, a gold medal, at the Pacific National Exhibition in Vancouver.

We are understandably proud of these achievements, which place us right in the top rank among Canada's master cheesemakers for the quality of our products.

Fluid Milk Division

Fluid Milk Division net earnings, after income taxes, were down by \$1,114,000. They totalled \$1,598,000, compared with \$2,712,000 the year before.

There are numerous reasons for this decrease in net earnings. For one thing, the Agricultural Marketing Board has not authorized any equivalent price increase to offset higher operating expenses incurred since November 1981. In addition, compensation has not yet been received for the supplementary increase of two cents per litre of milk granted to producers on December 2, 1982.

Other contributing factors have been the extremely lively competition between Quebec's major dairies, a decrease in our ice cream sales, and higher storage costs for our frozen specialties. The combination of all these factors reduced profit margins considerably for the Fluid Milk Division during the past year.

Sales and Marketing

The news about this Division is not all gloomy, far from it. Sales climbed to \$212,962,000, compared with \$190,768,000 the previous year, for an increase of more than \$22 million, or 11.6%.

Expressed in volume terms, sales of fluid milk and by-products increased by 6%, to 231,400,000 litres. Ice cream sales were down slightly, by 5%, at 26,160,000 litres.

During the year, the Division's Marketing Service launched a new high quality ice cream, under the Savourin brand name. It is sold in one-litre cartons, and comes in six flavours.

Following this success, the Marketing Service also offered the public a number of new products: a mint flavoured frozen specialty and a peanut butter fondant; a product called "Fudge Monster"; a chocolate covered pistachio fritter: as well as three new ice cream flavours, sold in two-gallon and one-half gallon containers.

"I have worked here since 1976 and I find that Agropur is a good Coopérative and a good employer. We are well paid, well treated, and the fringe benefits are excellent. But, above all, it is an enterprise which is making tremendous progress. The products are improving constantly, and new products are always coming out. It's much better than working for a company where nothing much is happening. On top of that, there is good quality control: that's what it takes to get ahead in today's market. Agropur is not an organization on the way down, it is definitely on the way up. That's a good thing for the farmers, and a good thing for us as well, because that's what creates jobs."



Antoine Langlois
Quality Control Room Operator
Saint-Laurent Plant



Acquisitions

During the past year, the Division acquired Orange Maison (1971) inc., a large producer of orange juice and grape juice, as well as Laiterie Victo inc., which serves a large part of the Bois-Francs region.

Advertising and Promotion

The Division also ran three major advertising campaigns during the year.

The first involved the Savourin ice cream launch, and the second was a combined advertising and promotion campaign to push the Québon name. The third was a special "get acquainted" campaign to encourage consumers to visit the "Maître Glacier" milk bars. This is the first advertising campaign we have run for our milk bars, which we feel have a bright future.

Distribution

At the beginning of the year, we also began distributing our products in the Lac Mégantic and Thetford Mines region, from our Sherbrooke plant. Finally, Laiterie Léveillé inc., one of our subsidiaries, is now offering our products to the residents of St-Gérard-de-Magella and the surrounding area.

Production

Efforts to rationalize production at our Ville Saint-Laurent plant continued to pay off. Unit costs of raw materials, containers and ingredients increased by less than 4% during the year, while wages and other manufacturing costs were kept at 1982-83 levels.

At the Montréal-Nord plant, however, unit costs increased by 11.8% compared with the previous fiscal year. A plan for reducing operating costs is now being studied.

Production of ice cream and frozen specialties at this plant totalled 26,606,000 litres, compared with 28,123,000 litres in 1982-83, representing a 5.4% decrease.

Capital Investments

Several major capital investments were made during the year, either in whole or in part.

Among the principal projects involved are: the addition of two bulk storage silos with a total capacity of 284,000 litres of milk at the Ville Saint-Laurent plant; expansion of the Laiterie Léveillé refrigerated storage room to 9,500 square feet, with \$6 million to be spent at the Brossard plant to change its role. When this work is completed early in 1985, the plant will produce ultra-pasteurized 35%, 15% and 10% butterfat creams and coffee creams with a longer shelf life, as well as juices in Tetrapak packages.

Marketing is one of the Coopérative's most important activities. During meetings involving the marketing teams of the Industrial Milk Division and the Fluid Milk Division, strategies are developed to penetrate new markets and ensure that Agropur continues to maintain its dominant position in the agri-food industry.

Work began in October to modernize the Kik Cola plant, where equipment is being added to produce a new type of soft drink with a whey base.

Farm Supply Division

Restructuring of the Farm Supply Division management team, stimulated by the economic upturn, has had remarkable results.

This Division's sales increased by almost \$8 million, reaching \$28,955,000 at fiscal year-end. This represents a substantial 38% increase over the 1982-83 figure.

Although the Division's earnings from operations are still in the negative category, the sales figure for this past year indicates a significant improvement is underway. If this growth continues, we can anticipate a probable return to profitability before too long.

Also, the number of customer-users has doubled in the last 18 months. This is further proof that members are satisfied with the products and service, and have confidence in their Coopérative. That is a truly heartening development for your Directors and Management, who have devoted enormous amounts of energy and effort towards getting this Division back on the right track.

We also wish to call attention to the team spirit motivating the entire staff of the Division. Their conscientious and devoted work, together with the increased patronage by members, allow us to look ahead to a much brighter future for the Farm Supply Division.

Feed and Fertilizer Service

Feed deliveries increased substantially, attaining the levels reached in the Coopérative's best-ever years. Deliveries climbed by 31% during the year, to a total of 61,473 metric tons, compared with 46,835 metric tons in 1983.

Sales of fertilizers, totalling 11,943 metric tons, were up by a remarkable 49% compared with 1983. This represents a new sales volume peak for the Coopérative in its fertilizer marketing operations.

Seed grain and farm chemicals sales volume was up by 20%.

Farm Machinery Service

Despite an in-depth restructuring of this Service with the goal of improving profitability, it ended the year with a deficit of about \$150,000. Although sales increased by 11%, reaching \$3,700,000, profit margins remained extremely low, and secondhand machinery sales are proving so difficult that it is practically impossible even to meet operating expenses.

We are hopeful that the new programme now being given the finishing touches by the Coopérative Fédérée de Québec will help the Farm Machinery Service find a rapid solution to its profitability problems.

Livestock Service

This Service marketed a total of 44,240 hogs during the year, a 56% increase over 1983. It ended the year with a slight deficit of about \$24,000, which represents a considerable improvement over its 1983 performance.

It was also an excellent year for veterinary drugs, with an 11% sales increase. The services provided by this sector of the Farm Supply Division are becoming more and more appreciated by members, and we are extremely satisfied with its performance.

Farm Accessories Service

There was a slight increase of about 5% in Farm Accessories Service sales during the past year. Profitability was also better than in the preceding fiscal year.

Human Resources Service

During the year, the Human Resources Service team took part in a number of administrative restructuring measures, conducted in cooperation with the various Services of the three Divisions.

During the year, this Service took part in a special productivity improvement programme involving active participation by Fluid Milk Division managerial staff. The main goal was to encourage communications between the various staff levels, and make employees more aware of their responsibilities. As a result of this programme, which was even more successful than expected, the Division was better able to achieve its overall and sectorial objectives.

The Farm Supply Division offers members such essential farm inputs as feeds and fertilizers, seed grains, farm machinery and veterinary products. The progress reported during the past year promises a bright future for this Division.



Recognizing the extreme importance of the Coopérative's human resources, the Service also created a section devoted solely to development of organizational structures. The main objective of this team of experts is to set up various staff training programmes so as to better satisfy the Coopérative's specific needs.

Labour Relations

We feel that this past year was an excellent one on the labour relations level, despite the extremely difficult economic context. Five collective agreements involving 450 employees were renewed. Only one of the negotiations was marred by a work stoppage.

The acquisition of five new enterprises during the year brought the Coopérative 170 additional employees, who are now participating actively in the group effort.

The Prevention, Health and Hygiene Service revised your Coopérative's prevention policy during the year, to adapt it to new needs. The emphasis has been placed on the prevention of accidents in the workplace, and activities aimed at making this programme even stronger are being actively encouraged.

These efforts have already begun to show positive results. The number of days lost due to work-related accidents has decreased appreciably in comparison with the previous year.

Financing

On the subject of financing, there was an important development during the year:

Dominion Bond Rating Services, which rules on the credit worthiness of Canadian enterprises, raised the Agropur credit rating from "BBB" to "A Low", which is a substantial improvement over 1983. The new rating will allow your Coopérative to borrow at much more favourable terms from now on.

Finally, in order to conform with the new Cooperatives Act, the Agropur financial statements are presented in a new form this year.

Conclusion

Before I close, I would like to remind you that the principal mission of Agropur, Coopérative agro-alimentaire is based on solid human dimensions, above all else.

Founded by producers to satisfy their needs, the Coopérative is concerned at all times with the wellbeing of its members. It seeks to assure them of decent income levels by offering appropriate technical assistance and providing them with a host of aid programmes designed to help them manage their farms or agriculture-related operations better, more efficiently.

In order to achieve those objectives, it is obvious that we must have a sound enterprise, with a superior degree of profitability, a stable financial base, and an extremely well structured administration.

Once again this past year, despite the increasingly fierce competition from other dairy producers and the traps some of our social partners tried to lay for us, Agropur kept moving steadily ahead. More and more, our Coopérative is being acclaimed as a spectacular success, not only as a cooperative, but also on the economic, social and human levels.

But, to continue our progress, it is obvious that we must remain vigilant at all times. It should never be forgotten that we live in a hyper-competitive world and that any wrong decision or negligence on our part can have disastrous results. It can wipe out years and years of effort, in a flash.

Thanks to the enlightened decisions taken by your Directors, the solidarity and "esprit de corps" that the members constantly prove they possess, and the enthusiasm that our employees bring to their work, I firmly believe that an even more promising future lies ahead for each of you.

In closing, I want to express my gratitude to your President and every member of your Board of Directors for their exemplary devotion to the interests of every member of the Coopérative.

I also wish to thank all my loyal collaborators on our management team, and all our executives and employees for the dynamism, competence and motivation which they have displayed, and continue to display, in their daily jobs.

May 1985 be an even better and more prosperous year for you all than the one now ended.

RAYNALD GIROUX, Agronomist
General Manager

Some of the dedicated, hard-working office employees of Agropur busy at their varied tasks...



The Social Role of Agropur



Agropur, Coopérative agro-alimentaire is an association of agricultural producers, voluntarily pooling their resources and working together to satisfy their mutual production and marketing needs in a collectively built, democratically run and truly modern enterprise.

Founded in 1938 by 88 Granby area farmers, who started out with only \$4,000 in subscribed capital and \$1,000 in cash, Agropur today has become a powerful "farming family" with almost 7,000 members in 15 administrative regions covering 36 counties.

With annual sales of more than \$700 million, Agropur today ranks among the leaders in Quebec's agri-food industry. It is Canada's biggest dairy cooperative and the largest organization affiliated with the Coopérative Fédérée de Québec.

Thanks to its undisputed economic and financial success and strength, the Coopérative is able to offer its members a range of social and human resources benefits that no other enterprise of a non-cooperative nature can ever provide.

Among the many advantages are the following:

Milk Collection Service

This essential Service is one of the cornerstones of the entire Coopérative operation. It relieves producers of the burden of transporting a highly perishable commodity to the dairies or processing plants, in good weather or bad.

Agropur makes every effort to ensure that its members have the most economical, regular and efficient service possible.

The Milk Collection Service continued to rationalize its operations during the past year, to meet the specific needs of industrial and fluid milk producers and keep abreast of the latest developments in this field.

A total of 89 contracts were negotiated with independent truckers during the year. More than 140 tanker-trucks, with capacities ranging from 14,000 to 32,000 litres, provide members with exceptionally reliable service.

The Cooperative itself owns and operates 10 tanker-trucks in certain regions. The primary objective is to provide even better service for members by gaining a better knowledge of milk transportation conditions, greater familiarity with the problems involved, and a more thorough understanding of the actual needs of truckers and members alike.

Constant planning and adjustment of milk collection routes is obviously essential to ensure that commitments to supply the various dairies and processing plants are fully met, so that they can operate efficiently at all times. This challenge is met by working closely with the Coopérative's Production Service and the cooperative counsellors in each region.

Dairy Equipment Service

This Service was set up specifically to offer members quality dairy equipment at the best possible prices.

Decentralization means real democracy in action at Agropur. During meetings like these, members are consulted on all important matters and their recommendations help the Board of Directors make the most appropriate and enlightened decisions.

In addition to bulk storage tanks, pipelines and milk handling systems, the Service also distributes a full range of equipment indispensable for the efficient operation of a dairy farm, including: maintenance products, top-quality milking machines to ensure better health for the herd and allow the producer to earn maximum income from his operation.

But that is not the only role this Service fills. It also assumes an important social dimension by, among other things, verifying the calibration of bulk storage tanks, thereby guaranteeing that each producer receives fair compensation for his milk production.

Last but not least, the Service provides a complete repair service which is greatly appreciated by members.

It's well known that an automatic milking system is most apt to break down at a crucial moment, that is, when the producer must use it. It also seems to be a law of nature that it will stop working during weekends, at the very time when the farmer has no other help available.

To correct that situation, Agropur operates mobile units manned by salesmen technicians who make the necessary repairs on the spot, rapidly. Even though this service seems costly at first glance, it is maintained because it is truly indispensable to those who must call upon it.

During this past year, 96 new or secondhand bulk storage tanks were put in operation for members and 66 new or secondhand pipelines were installed or modified. The Service also handled 2,295 repair jobs and verified the calibrations on 866 tanks.

It should also be mentioned that the Coopérative continued to offer a special programme of reduced prices on new equipment for members who have been victims of fire. A mobile emergency service is also available to help out producers, in the event of a fire of any kind on their farms.

Cooperative Counsellors

The cooperative counsellor gives each member a privileged relationship with his Coopérative.

As the protector of the member's interests, the counsellor describes how the Coopérative functions, and what it does. He broadens the member's horizons by pointing out the social, human, economic and financial problems which must be faced. He explains the economic services that the Coopérative makes available, and urges the member to take full advantage of them. Finally, he can help the member solve such specific problems as the purchase of equipment, obtaining quotas, etc.

In addition, as the protector of the special interests of the members as a whole, the cooperative counsellor makes sure that decisions taken for the economic wellbeing of the Coopérative itself are well understood and accepted by the members.

Once again this past year, the team of cooperative counsellors was extremely active. Its members participated in all kinds of local or regional meetings, allowing them to become even more aware of the members' concerns.

The policy of distributing products as gifts continued to have a most positive impact, by associating the

Coopérative more closely with activities on the rural scene.

During the year, for example, Agropur products were handed out and tasted by audiences at nearly 300 regional agricultural events. This created a great deal of goodwill for the Coopérative and expanded its reputation even further, as its products were discovered, became better known or more appreciated by countless thousands.

As a result of all these activities, Agropur became much more closely identified with the various regions where it operates. The general public was made aware that the Coopérative is first and foremost a group of people who are extremely active in their social milieus.

The team of cooperative counsellors continues to satisfy the members' needs, facilitate their integration within the group as a whole, and ensure that their interests are well defended.

Cooperative Training

Complementing the work done by the cooperative counsellors, the Membership Relations Service is also actively involved in cooperative training activities. It offers members programmes in two major sectors: training for farm cooperative youth, and sessions for farm couples.

Farm Cooperative Youth Training

If we want good cooperative members in the future, they must be "cultivated" today.

Programmes developed for this purpose are aimed essentially at young farmers who are readying themselves to be future members of the Coopérative. The main objective is to explain the human benefits of the cooperative movement. Farm youth must be made aware of what a powerful economic entity their Coopérative is.

We must guide them in their first steps to join the group, and help bridge the generation gap by working constantly to prepare well informed new members.

Since it is of crucial importance that we have a well trained "new guard" ready to take over on our farms, the Coopérative must devote a tremendous amount of effort to this task. New and ever more innovative and efficient solutions must be sought to ensure that farm youth are well prepared for the important role that lies ahead.

Last year, the Membership Relations Service organized three separate training sessions, at St. Anicet, Cap-de-la-Madeleine and Lennoxville, where the young people lived, ate and studied together for five full days.

This year, for the benefit of young people who have less free time, we started to hold one-day training sessions. Though brief, they give aspiring young farmers at least the basics of dairy cooperative training.

Next year, we hope to add another dimension to our training programmes for English speaking farm youth.

This farm youth training, by giving future producers the possibility and desire to join a cooperative, will also make it possible for them to profit from the advantages which would otherwise be beyond their reach.

If we want good farmers in the future, they must be "cultivated" today... That's the goal of the youth training programmes set up by Agropur to explain the fundamentals of the cooperative movement to young farmers, make them aware of the economic and human benefits the Coopérative offers them, and facilitate their integration into the Agropur family.



Sessions for Couples

The Coopérative, as always, is dedicated to the defense of the farm family.

That is why the Membership Relations Service some time ago set up a training programme for the two principal participants in any family farm operation: the husband and wife team.

These sessions, lasting two full days, are designed exclusively for couples who have been members of the Coopérative for at least five years, and who are each 35 years of age or under.

Objectives of this programme are to show the participants all the possibilities of the cooperative formula, make them better acquainted with the big economic family to which they belong, and encourage them to think seriously about the future of dairy producers in the North American context of today and tomorrow.

Designed above all to permit agricultural producers to operate even more profitably, the programme also has an important second objective: to train an "elite corps" of future managers.

This entirely new programme quite obviously fills a real need, in view of the fact that these sessions for couples have already proven to be a tremendous success.

Communications

As a cooperative, Agropur must operate at three different levels: members, employees, and the general public.

Members

In order to facilitate communications between its members, Agropur has set up a team of Animators, whose principal tasks are to decentralize administrative procedures, explain the Coopérative's new orientations to members, and communicate with them on a regular basis.

In order to communicate, however, it is just as important to listen as to talk. The Animators constantly lend an ear to the desires, aspirations and wishes of the members.

This unique structure for consultation and exchanges of views allows the Board of Directors

to adopt policies which most closely reflect the innermost wishes of the members.

The Animators held 45 meetings during the past year in order to provide the Board of Directors with useful information to guide it in making its decisions. In this way, they helped maintain an effective degree of administrative decentralization, an important characteristic of the Coopérative which allows it to remain in the closest possible contact with its members.

Regular contacts are also maintained with members through the "Lettre aux Animateurs" and "Agropur Nouvelles". The Communications Service uses them as preferred vehicles to make members aware of various Coopérative projects and achievements.

Employees

The social role of Agropur also extends in a very special way to its employees and their families.

In addition to the almost \$65 million in wages, salaries and generous fringe benefits paid out last year, the Coopérative constantly seeks ways to ensure its employees' health, safety and fitness.

For example, the Coopérative provides facilities so employees can participate in sports and recreational activities at the workplace. It encourages them to improve their skills and general academic levels by paying part of their educational fees. And it encourages employees to join social clubs and benevolent organizations in their local communities.

Work Committees have also been set up in the various plants as part of this overall policy to have employees share fully in all internal activities of the Coopérative. In that way, the Committees contribute to a better quality of life in the workplace and help to improve productivity at all levels.

General Public

The Coopérative has adopted a number of measures designed to build a favourable public image for Agropur by reaching and influencing consumers in an extremely positive manner. Several

"We attended a two-day session for couples and found it extremely interesting. For example, we learned exactly what a cooperative really is. The cooperative movement was founded to fight the abuses of the marketplace. And those abuses still exist today, even if they are not so obvious. Membership in the Coopérative is the only way that producers can control their own destinies and market their products to their own benefit. If there are other courses in future, we will continue to attend them, and we urge all others who are offered this chance to take it, as we did."



Mr. and Mrs. Jean-Louis Martel
Farm Producers
Ste-Brigitte-les-Saults

Agropur executives, for example, volunteer their time and services for various social and community activities.

Among other things, Mr. Raynald Giroux, the Agropur General Manager, is Chairman of the Cerebral Palsy Association fund-raising campaign for the Eastern Townships region, and Honorary Patron of the "Le Chânon" Association to assist women in distress. He is a winner of the Henri-Louis Bérard Trophy, awarded annually to the individual making a particularly valuable contribution to the agri-food industry. Mr. Giroux is also a Director of the Biotechnology Research Institute, which is a part of the National Research Council of Canada.

Several Agropur managers and employees are school commissioners, hospital administrators, members of parent associations, or even mayors of their cities or towns.

Agropur belongs to numerous professional and social associations and contributes generously to various charitable associations, groups, institutions and individuals.

Among the numerous donations to different worthy causes made by Agropur during the past year alone were: a grant of \$1,000 to the Faculty of Agricultural Sciences at Laval University; \$3,000 to the University of Quebec at Montreal Foundation; \$3,000 to Daniel Beaucage, handicapped athlete; \$5,000 to the National Institute of Nutrition; \$1,000 to the Montreal Symphony Orchestra; \$500 to the "Défi sportif 84 des Athlètes handicapés". In addition, the Coopérative contributed more than \$150,000 to philanthropic activities.

Sponsorships

Agropur sponsored two major projects during the past year: the International Children's Festival last August, and the World Folkloric Festival in Drummondville in July.

The Coopérative also participated in several expositions, among them the "Salon de la Femme", the Agriculture and Food Fair and the International Wine and Spirits Show, all in Montreal; the Salon de la Chambre de Commerce in Trois-Rivières and the Trois-Rivières Exposition; the Sherbrooke Food

Fair; and the Hotel and Restaurant Owners Association Show in Montreal.

Those are only a few of the ways that Agropur fulfilled its important social role during the past year, while maintaining and building up its already excellent reputation among the public.

It also organized many other activities which involved its members or employees even more closely.

Internal Activities

The Summer Assembly of Animators in June, the "open door" visit to the Ville Saint-Laurent plant in September, and the official opening of the waste water treatment plant at Notre-Dame du Bon-Conseil in October provided us with other opportunities to attract media attention and present the general public with an image more truly reflecting the real importance of Agropur.

The social evening organized by the Farm Supply Division during the winter must also be added to this recital of notable events. This small reception allowed us to explain more fully the benefits that members can enjoy by buying their supplies from this Division. Considerable interest was also created in August at an exhibition of products, accompanied by a detailed explanation of the services offered by this Division. These events will be repeated in 1985, by popular request.

All the above is only a brief review of the activities undertaken by Agropur in playing its social role during the past year.

This is truly a major role for the Coopérative. Focal point for the daily concerns of nearly 10,000 members and employees, Agropur is an integral part of the Quebec community as a whole. But its presence and influence are even greater in rural areas.

Attuned to Market Needs

Agropur has not only been astonishingly successful from the financial viewpoint, but also a remarkable human success story. The Coopérative, in addition, is radically different from any private and non-cooperative organization because of its unique dual nature as an association of producers and a powerful economic enterprise.

As an association of producers, the Coopérative is constantly tuned in to its members' needs: a task for which it was created nearly five decades ago. Its major orientations have been set by producers, who have been democratically elected to sit on its Board of Directors.

As an economic enterprise, Agropur must be constantly attuned to the market. In this way, it is no different from a private, non-cooperative enterprise. The laws of the market are the same for all, whether a family firm, a cooperative, or a multinational.

In order to remain strong, vigorous and able to provide its members with the advantages that are rightfully theirs, the Coopérative must stay competitive. That means that it must try to foresee changes in consumers' tastes even before its competitors do, and adapt to them rapidly.

That ability to look ahead, and adapt, is the key to even greater success. Experience demonstrates that the enterprises which keep growing are always those which can successfully satisfy the needs of consumers in the most efficient and economical way possible.

The Coopérative, therefore, has two hurdles to clear: it must reconcile the various needs and orientations of its members, while staying constantly tuned in to market signals.

In our era of profound economic changes, that is the great challenge of the future, and the one on which we must concentrate all our efforts in the years ahead.



