Annual Report 1985

Culinar Inc.

From eggs...

...and wheat and fruit... to
to pastries, jams and delicious
snack cakes.

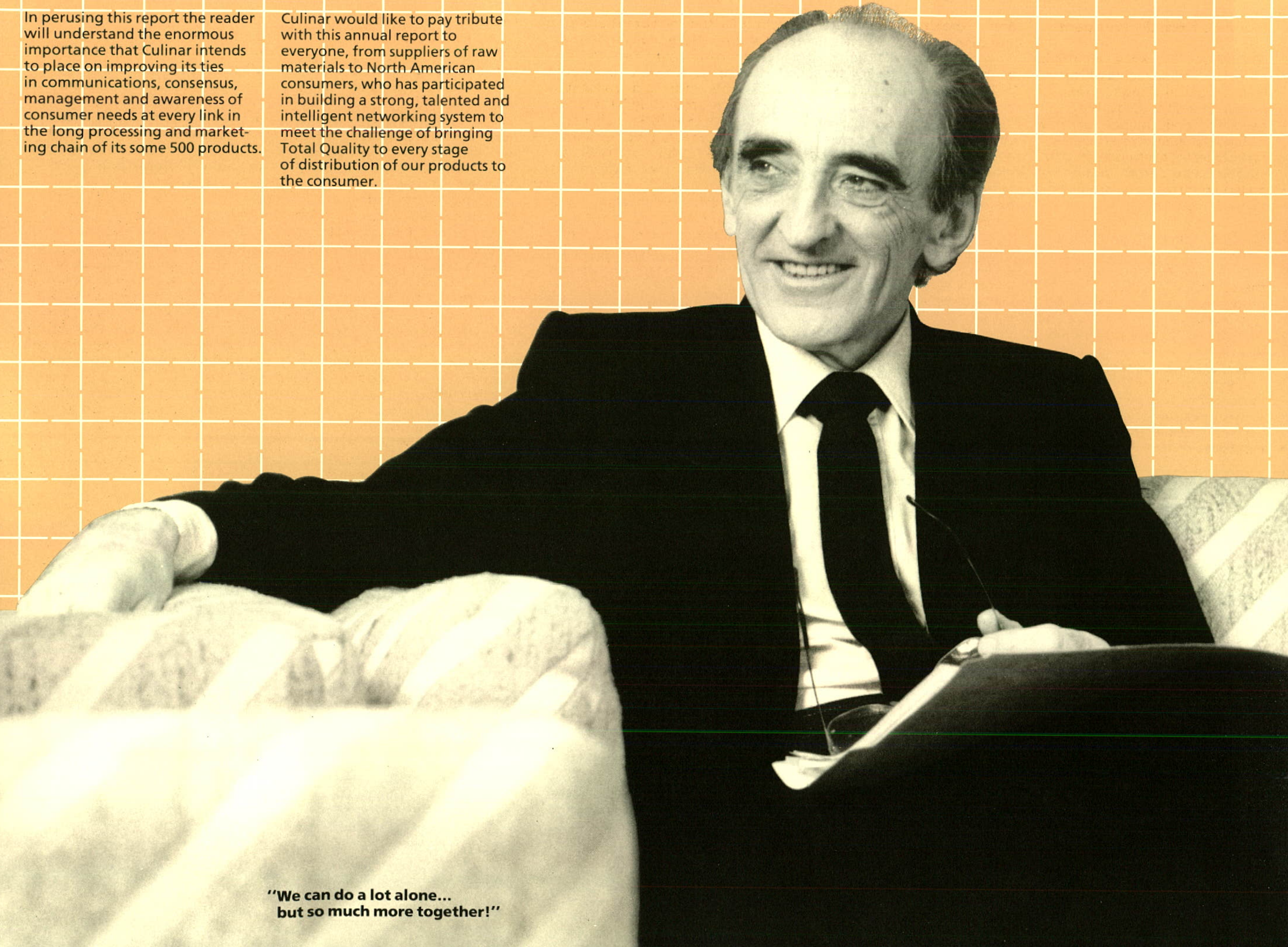
Financial Highlights

		1985	1984	1983	1982	1981	
	Sales	**402,012**	406,852	220,585	192,298	183,179	(in thousands of dollars)
	Depreciation and amortization	**8,685**	7,647	5,491	4,877	4,170	
	Earnings before extraordinary item	**14,894**	12,548	12,707	7,759	5,512	
	Net earnings	**14,752**	12,548	11,180	6,851	5,512	
	Earnings before extraordinary item	**3.70**	3.08	5.76	4.03	3.01	(in percentage of sales)
Per common share:	Earnings before extraordinary item	**2.40**	2.03	2.58	1.66	1.18	(in dollars)
	Net earnings	**2.38**	2.03	2.27	1.47	1.18	
	Dividends	**0.80**	0.75	0.47	0.43	0.34	
	Shareholders' equity	**12.54**	10.95	9.66	7.63	6.60	
	Working capital	**12,569**	13,688	14,346	9,459	9,064	(in thousands of dollars)
	Fixed assets – net	**91,979**	87,699	82,849	37,270	36,047	
	Long-term debt	**33,813**	42,770	48,688	9,288	14,571	
	Shareholders' equity	**77,799**	67,549	59,629	35,645	30,802	
	Number of shares issued and fully paid	**6,203,869**	6,170,636	6,170,636	4,670,636	4,670,636	

Bankers: National Bank of Canada
Trustees: Fiducie du Québec
Auditors: Maheu Noiseux

In perusing this report the reader will understand the enormous importance that Culinar intends to place on improving its ties in communications, consensus, management and awareness of consumer needs at every link in the long processing and marketing chain of its some 500 products.

Culinar would like to pay tribute with this annual report to everyone, from suppliers of raw materials to North American consumers, who has participated in building a strong, talented and intelligent networking system to meet the challenge of bringing Total Quality to every stage of distribution of our products to the consumer.



"We can do a lot alone...
but so much more together!"

Message from the President

For Culinar, 1985 was a year rich in events and adjustments which will have a short and long term impact on our general strategy. We believe that our company will now be better prepared to attain our first objective, continued growth in profitability and our second but no less important one, growth in human resources.

Most of the first half of 1985 proved to be slack for all Groups in terms of sales. Management, therefore, reorganized Group programs in order to deal with this new situation; despite an unfavourable forecast, profitability was maintained. In the second half, due to healthier markets and the implementation of corrective measures, overall sales for the Groups improved. In sum, Culinar's total profitability for 1985 was excellent.

Culinar's sales reached a level of $402 million in 1985, slightly less than in 1984. Net earnings for 1985 amounted to $14.75 million. Net earnings per share were $2.38, an increase of $0.35 over 1984 or 17.2%. The net sales-earnings ratio, at 3.7 percent, was higher than in 1984 and above the average registered by other Canadian food processing industries. The average return on shareholders' equity was 20.3 percent, considerably higher than 1984.

Most of the Group units were operating in a fairly stable market or even slightly on the downswing, except for the Restaurant Group. Consequently, unit sales for the Groups were stable or slightly lower; our companies' wholesale prices increased at a rate that was inferior to consumer prices. On the whole, Culinar units experienced a slight increase in the gross margin, this being due to a general cut-back in operating costs and a moderate decrease in the cost of raw materials; the few price ajustments in products generally had a secondary effect on the improvement in the gross margin.

Culinar's overall capital expenditures rose to $13.7 million in 1985. Most of these expenditures were directed to the improvement of production equipment and to the replacement of vehicles in our distribution fleet.

The Bakery and Confectionery Group, consisting of Vachon, Vachon Foods and Stuart, had to contend with a slow market, particularly at the beginning of 1985. Radical action in marketing and sales strategies ensured recovery in sales as of the second half of the year. Immediate action ensured a reduction of related expenses, such that the results for this Group in 1985 were excellent and its profitability showed an increase of 12 percent over 1984.

In 1985, the Restaurant Group confirmed its growth strategies and took further moves to develop its two major restaurant concepts, Pacini and Croissant + Plus. The acquisition by association of the Pastificio chain of restaurants enabled the Restaurant Group to establish its presence en masse in Montréal in the area of medium priced Italian restaurants. On the other hand, selling the Coq Rôti restaurants confirmed the Group's intention to pursue development by concentrating its efforts on Pacini and Croissant + Plus.

The Dry Products Group, consisting of Grissol, Viau, Lido and Unico, experienced a good year in 1985 and posted an upswing in earnings and an increase in its volume of unit sales in the area of cookies and dried-bread products. Unico purchased the Safflo brand of sunflowerseed oil which has a well established reputation and distribution in Western Canada and strong growth potential in the East. Nevertheless, Unico experienced difficulties due to problems in securing the supply of certain products and due to an erratic market throughout the year in vegetable oils.

The Dry Products Group was able to complete its indepth and extensive organizational restructuring without major problems, as was indicated by its increased level of profitability.

Finally, the Refrigerated Products Group continued to operate in a difficult and extremely competitive market. Formed in 1984, this Group has been very involved in organizational and administrative restructuring and has succeeded in increasing its operational earnings compared with 1984. The meat products sector was most affected by this unfavourable economic climate and although efforts to reevaluate certain lines of non contributing products were implemented over the year, growth in more promising sectors was not dynamic enough to improve results. On the other hand, an appreciable improvement in the margin of productivity at Anco brought about a considerable recovery in operational earnings which suggests positive results for this unit in 1986.

Culinar's capital expenditures will likely reach $16 million in 1986; this amount will be earmarked for ongoing improvements to production and distribution equipment and to continued works in improved efficiency at the administrative level.

A stable climate in terms of raw material costs and other cost factors and an economy that appears to be on the upswing indicate a promising year for Culinar in 1986. These factors in conjunction with real achievements in profitability and an increased volume in sales at the end of 1985, enable us to look forward to good results for Culinar in 1986.

Over the year, Culinar has given considerable thought to the role a leading company should play in our world of accelerating changes. This is the context in which we must place our talk and actions of recent months which have centered around ideas for a "shared enterprise mission and philosophy", Total Quality and networking.

The management of Culinar would like to extend its most sincere thanks to the consumers, customers, suppliers and all other business associates who contributed once again to our positive financial record. We would also like to extend our appreciation and gratitude to all the company's personnel who made it possible for us, during a difficult period, to reaffirm Culinar's leadership among the large food processing companies of North America.

Roger Néron

Roger Néron
President and Chief Executive Officer

March 5, 1986

Financial Review

Even though sales for the 1985 fiscal year were down 1.20%, declining from the $406.9 million recorded in the preceding year to $402.0 million, net earnings for 1985 totalled $14.75 million, an increase of $2.2 million or 17.5% over 1984. Earnings before the extraordinary item of $142,711 amounted to $14.9 million. There were no extraordinary items recorded in fiscal 1984.

Earnings before extraordinary item indicate a return on sales of 3.7% for 1985 compared to 3.1% for the preceding year.

Net earnings per share increased by 17.2% amounting to $2.38 compared to the $2.03 recorded last year and totalled $2.40 before extraordinary item.

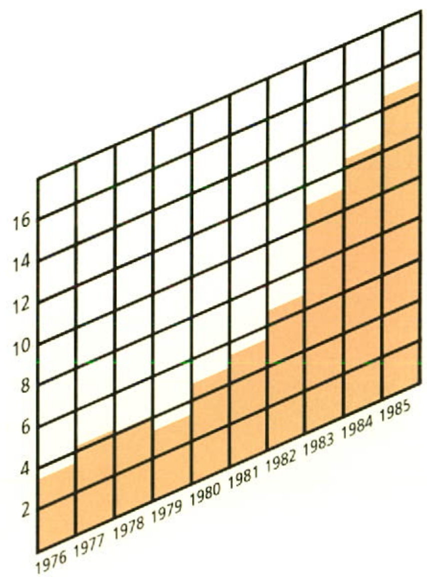
Net earnings on average equity increased to 20.3%, which compares favourably with the 19.7% achieved in 1984.

This increase in earnings realized despite a slight decline in sales is mainly due to a reduction of raw material costs and of other expenses.

During fiscal 1985, the company adopted the cost reduction method for recognition of investment tax credits. The effects of this change are described in note 7 to the Consolidated Financial Statements.

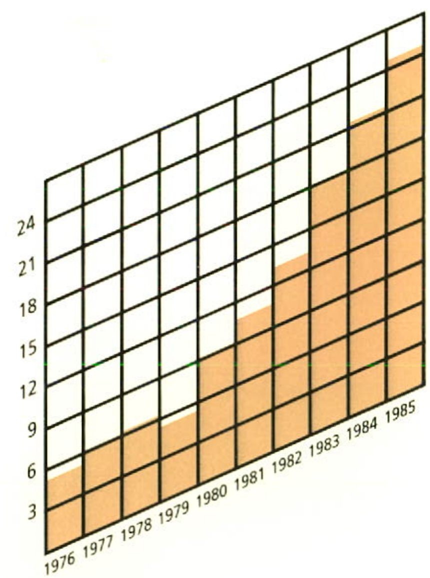
To report information in a manner that better reflects its operating, investing, and financing activities, the company adopted a new presentation for its Consolidated Changes in Financial Position using as a basis the recommendations issued by the Canadian Institute of Chartered Accountants. The new format focuses on all sources and uses of the company's cash and cash equivalents instead of defining funds in terms of working capital.

Funds from operating activities and changes in non-cash working capital totalled $29.9 million, compared to $20.4 million in 1984. Funds from operating activities increased by 15.4%, contributing $24.7 million to cash compared to $21.4 million in 1984. Non-cash working capital provided an additional amount of $5.2 million to cash resulting mainly from a decrease in accounts receivable and a reduction in inventories. This attests to the sound management of the company's short-term assets.



Net earnings

In millions



Funds from operating activities
In millions

In 1985, the additions to fixed assets totalled $13.7 million, compared to $11.4 million in 1984, and represented 55.5% of funds from operating activities in comparison with 53.3% in 1984. More than half of the fixed assets acquired in 1985 consisted of machinery and equipment to increase productivity and reduce costs. During the year, the Restaurant Group sold all of the shares held in the subsidiary company, Les Rôtisseries Le Coq Rôti inc.. In addition, the Group acquired the Pastificio restaurants, through the creation of a subsidiary company, in order to further concentrate its activities into similar concepts.

For the year ended December 31, 1985, Culinar's total assets, as shown on its balance sheet, amounted to $170.3 million, a decline of $3.5 million compared to last year. This decrease is attributable to reductions of $7.1 million in short-term assets and of $1.0 million in other assets. These reductions were partly offset by increases of $4.3 million in net book value of fixed assets and of $0.3 million in investments.

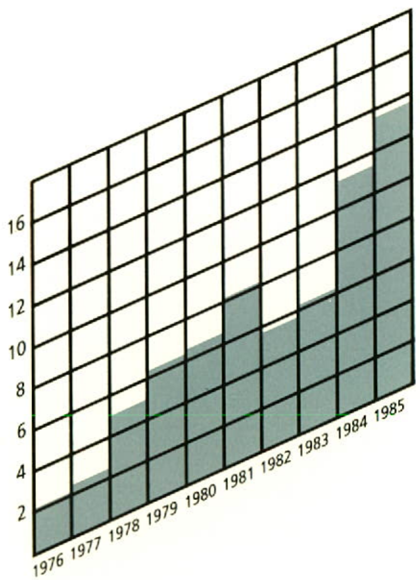
The company is in a strong financial position. Total liabilities (excluding deferred income taxes) were reduced from $96.9 million to $82.0 million, a decrease of $14.9 million, and represented only 1.05 times shareholders' equity as at December 31, 1985, compared to 1.43 times at the end of the preceding year.

Long-term debt was reduced by $9.0 million to $33.8 million as at December 31, 1985. Shareholders' equity reached $77.8 million at the end of the year, an increase of $10.2 million compared to 1984. In 1985, debt-equity ratio improved sharply, from 63.32 recorded as at December 31, 1984 to 43.44 at the end of the year. Long-term debt decreased by 21.0% and shareholders' equity increased by 15.2%, and this should prepare Culinar for a further expansion of its activities.

The four graphs below, that is Net earnings, Funds from operating activities, A cquisitions of fixed assets and Long-term debt and Shareholders' equity, clearly indicate the growth Culinar experienced over the years.

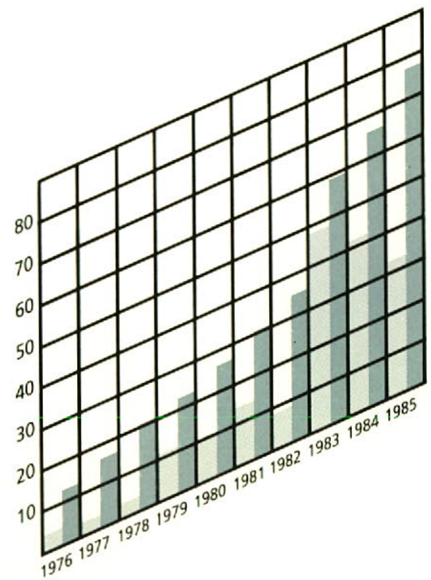
Dividends paid to Culinar's shareholders totalled $4.96 million in 1985 compared to $4.63 million in 1984, thus reflecting an increase from $0.75 to $0.80 per share in fiscal 1985. Dividends represented 33.6% of the 1985 net earnings compared to 36.9% in 1984.

The book value per share is $12.54 as at December 31, 1985, an increase of 14.5% over the $10.95 recorded at the end of the preceding year.



Acquisitions of fixed assets

In millions



Long-term debt
Shareholders' equity
In millions

Towards Mobilization

"And he who changes once is able to change every day."

Corneille

Several years ago, Culinar chose to invest in the parallel development of its company and its employees. At every stage of its growth, Culinar has reaffirmed its commitment to mobilize the intelligence and energy of all its employees in a common quest for progress. During 1985, Culinar has advanced, as never before, in the research of what may become a new "culture" for industry; a culture rich with all the promises of a "shared enterprise mission and philosophy" in which the fundamental objectives – often conflicting in our traditional companies – of individual development and economic growth unite to form a single great project that may eventually touch all of society.

Undertaking to develop a large joint project, in strict consultation with all company management, represents for Culinar the key element in responding to the contradictions confronting most of our large North American companies today: new values in their human resources and the quality of life at work, their social awareness and their economic survival, increased need for productivity and the vital need to create new jobs – contradictions that slowly but surely erode competitiveness and even threaten company survival over the long term.

Instead of adopting this "quiet" continuity that barely ensures even weak economic growth as depicted by the institutional status quo, Culinar has opted to mobilize all human resources within the company to work towards Total Quality, an essential survival strategy, and to adopt this true organizational culture embodied in the development of our "shared enterprise mission and philosophy."

This project will clarify and rule on Culinar's production, human and economic objectives. It will first be developed and constructed with the management personnel of Culinar's four main Groups, then "shared", explained and discussed with all personnel and above all enriched through their contributions. Our "shared enterprise mission and philosophy"will only exist once there is total consensus and support for its goal, our progress in common. And it will only happen once the search for Total Quality can be truly activated. Total Quality is a set of methods and principals, organized into a global strategy for the company's survival and progress. Its aim is to mobilize the entire company in order to offer customers the greatest satisfaction at the lowest possible price. It also involves applying "networking" techniques within the company, possibly establishing "piloting groups", progress groups and all the other elements of the new company culture which have been analysed, discussed and recreated for several months now by management in the context of the food processing industry.

As previously mentioned, this laborious and thorough research has born its first fruit and the "tests" have been conclusive enough to justify developing an operational plan for the Culinar "shared enterprise mission and philosophy". This plan is now being perfected and two training sessions for management and senior executives have already taken place since the beginning of 1986; one on Researching Total Quality and the other on the "shared enterprise mission and philosophy".

1986 will be the year in which the first stage of our project becomes operational at the managerial level. Management personnel will refine the basic material and turn it into "their" own project.

Culinar is a company resolutely following the way to the future, confident that its step towards mobilization and unfailing quest for quality will increase its economic and social growth considerably in the near future.

From olives, sugar cane and sea food… to quality oils, preserves, cookies and fine candies.

Going Forward

"The forward march and the enlightment of mankind are unceasing. Progress is its gigantic magnet."

Victor Hugo

The extent of Culinar's real progress in developing its "shared enterprise mission and philosophy" continues to be measured by the success of its daily efforts... This is a slow, cautious venture, enlightened by solid research that goes beyond fleeting fashions, theories and ideas. It takes only what is consistent with its own values and needs from all the new trends in industry by always listening and analysing. In 1985, Culinar was able to initiate a new direction towards fulfilling its mission. We are progressing step by step and must patiently develop ideas, support initiatives and integrate our new vision of the manager's role into new forms of management.

Developing Human Potential to its Utmost

We have become more and more aware of the tremendous, untouched wealth found at all levels in the company: a wealth of ideas, talents, initiatives, enthusiasm and willingness, a wealth of mutual pride and trust in the future. It is up to us to have all of the company making maximum use of this great untouched potential.

This is why we placed so much importance in 1985 on supporting and following thirty teams of middle management personnel, from the various Culinar Groups, who were brought together on a multidisciplinary basis to participate in developing certain strategies and establishing guidelines for activating a project that seeks maximum participation from employees.

This effort to involve management personnel in the strategic administration of the company is a first that should be underscored. It allows us to predict the advent of a new concept in management in which "piloting groups", where management personnel discuss and share the company's orientation, will be a first parameter.

As we progress, our venture may also dictate establishing employee progress activities aimed at individual and collective improvement of the employee's work, at every level in the company.

Continuous Training

Over the coming months, Culinar will concentrate on making all its managers sensitive to the values and concepts of its philosophy of management and inciting their support for the changes in attitude that this philosophy presupposes, such as listening and being receptive to others and decompartmentalizing tasks.

Culinar will work to translate these new shared values into practical, realistic and precise techniques, for instance a system for researching Total Quality, "piloting groups", quality or progress groups, the rule of 5 zeros and fighting against the phantom company within...

Real Communication

To obtain support from all members of its personnel, Culinar's first objective will be to share its new vision of the mission with them. Culinar will explain its activities and ambitions and how everyone can contribute within the context of their daily work. They will be invited to convey their needs, experiences and aspirations to Culinar's administration through formal and informal networks of communication.

This means we must adapt all the tools of our trade to these new goals and learn quickly to communicate openly, without reticence, to enrich our experience and knowledge and not hesitate to talk about the challenges we have met with success and are justifiably proud of.

This was the spirit in which Culinar welcomed the first great assembly of senior and middle management personnel in 1985. A turning point, the meeting marked an important step towards understanding the new values necessary for the mobilization of human resources.

Researching Total Quality

The quest for Total Quality and the success of Culinar's mission would be greatly facilitated if its fellow companies initiated a similar project. Culinar therefore began a series of meetings with different Presidents of Québec companies concerned about our collective future. On November 27, these meetings led to the foundation of The Leaders Networking Group of Québec. This group will develop a real system of consensus – with no financial ties – that will aim to adopt a common strategy of Total Quality to supply a better product – or service – at a lower price, with a view to winning new markets and thus ensuring continued growth among participating companies.

It goes without saying that Culinar's outside influence constitutes a decisive step towards new dialogue within the industrial forces of Québec.

Our venture is slow, but sure and proud because we know it rests on firmly shared experiences and the wealth of our human potential.

It's a wager based on our confidence in all our employees and the assertion that their self confidence will be a source of mobilization strong enough to make Culinar's objectives their objectives.

Consolidated balance sheet — December 31, 1985

Signed on behalf of the Board

Guy Bernier, Director

Roger Néron, Director

		1985 $	1984 $
Assets	**Current assets**		
	Cash and deposits	217,677	
	Accounts receivable	28,033,575	29,071,975
	Income taxes		1,103,208
	Grants receivable		460,782
	Inventories (note 2)	31,954,399	36,628,518
	Prepaid expenses	583,904	590,511
		60,789,555	67,854,994
	Investments, at cost	1,208,401	911,706
	Fixed assets (note 3)	91,978,561	87,698,610
	Other assets (note 4)	16,303,351	17,330,618
		170,279,868	173,795,928
Liabilities	**Current liabilities**		
	Bank advances		3,909,254
	Accounts payable and accrued liabilities	30,835,392	33,594,657
	Income taxes	1,225,335	
	Special bank loan	15,000,000	15,000,000
	Current portion of long-term debt	1,160,137	1,663,182
		48,220,864	54,167,093
	Long-term debt (note 5)	33,813,423	42,769,766
	Deferred income taxes	10,447,000	9,310,000
		92,481,287	106,246,859
Shareholders' equity	**Capital stock** (note 6)	16,703,575	16,242,667
	Retained earnings	61,095,006	51,306,402
		77,798,581	67,549,069
		170,279,868	173,795,928

Consolidated earnings and retained earnings

Year ended December 31, 1985

		1985 $	1984 $
Earnings	**Sales**	**402,012,168**	406,851,646
	Cost of sales and other costs before the following expenses	**339,329,301**	348,375,124
		62,682,867	58,476,522
	Administrative and general expenses	**20,383,419**	20,158,479
	Research and development costs (including amortization of $322,000 in 1985 and $296,000 in 1984)	**2,335,926**	2,311,584
	Depreciation and amortization	**8,362,875**	7,351,163
	Interest on long-term debt	**5,038,913**	5,246,886
	Other interest	**1,684,324**	1,927,150
		37,805,457	36,995,262
	Earnings before income taxes and extraordinary item	**24,877,410**	21,481,260
	Income taxes (note 8)	**9,983,000**	8,933,000
	Earnings before extraordinary item	**14,894,410**	12,548,260
	Extraordinary item (note 9)	**142,711**	
	Net earnings	**14,751,699**	12,548,260
	Earnings per share		
	Earnings before extraordinary item	**2.40**	2.03
	Net earnings	**2.38**	2.03
Retained earnings	**Balance, beginning**		
	As previously reported	**54,257,409**	46,082,068
	Prior years' adjustment (note 7)	**2,951,007**	2,695,949
	As restated	**51,306,402**	43,386,119
	Net earnings	**14,751,699**	12,548,260
		66,058,101	55,934,379
	Dividends	**4,963,095**	4,627,977
	Balance, ending	**61,095,006**	51,306,402

Consolidated changes in financial position

Year ended December 31, 1985

		1985 $	1984 $
Operating activities	Earnings before extraordinary item	**14,894,410**	12,548,260
	Items not requiring cash:		
	Depreciation of fixed assets	**7,043,939**	6,052,686
	Amortization of other assets	**1,640,936**	1,594,477
	Deferred income taxes	**1,184,000**	1,348,000
	Profit on sale of fixed and other assets	**(36,130)**	(102,141)
	Other	**(20,270)**	(2,710)
		24,706,885	21,438,572
Changes in non-cash working capital items	Accounts receivable	**1,038,400**	184,076
	Grants receivable	**460,782**	166,286
	Inventories	**4,674,119**	(1,400,671)
	Accounts payable and accrued liabilities	**(2,759,265)**	4,551,621
	Income taxes	**2,328,543**	(4,241,561)
	Other short-term items	**(496,438)**	(313,704)
		5,246,141	(1,053,953)
Dividends		**(4,963,095)**	(4,627,977)
Investing activities	Proceeds from disposal of shares in a subsidiary company (net of its working capital)	**2,055,640**	
	Acquisitions of fixed assets	**(13,667,714)**	(11,450,465)
	Proceeds from disposal of fixed and other assets	**774,224**	663,551
	Investments	**(276,425)**	(39,000)
	Purchase price adjustment of shares of a subsidiary	**(185,858)**	(140,985)
	Other long-term assets	**(1,099,226)**	(584,189)
		(12,399,359)	(11,551,088)
Financing activities	Issue of capital stock	**460,908**	
	Long-term debt	**(8,924,549)**	(5,917,865)
		(8,463,641)	(5,917,865)
	Increase (decrease) in cash and equivalents	**4,126,931**	(1,712,311)
	Cash and equivalents (deficiency), beginning	**(3,909,254)**	(2,196,943)
	Cash and equivalents (deficiency), ending	**217,677**	(3,909,254)

December 31, 1985

1. Significant accounting policies

Consolidation
The consolidated financial statements include the accounts of all subsidiaries.

Inventories
Cost is determined on the first-in, first-out or average cost basis using absorption costing.

Fixed assets
The cost of fixed assets is reduced by investment tax credits. Depreciation is recorded on the straight-line method over the useful life of the assets ranging from 20 to 40 years for buildings, 5 to 30 years for machinery and equipment and 5 to 10 years for automotive equipment. Leasehold improvements are amortized over a period which does not exceed the term of the lease plus the first renewal period.

Other assets
Amortization is calculated on the straight-line method over a period of up to a maximum of 3 years for development costs, a period ranging from 10 to 20 years for franchises and from 15 to 20 years for goodwill.

2. Inventories

	1985 $	1984 $
Finished goods	**16,498,881**	17,136,845
Raw materials and packing supplies	**13,178,658**	17,304,567
Spare parts	**2,276,860**	2,187,106
	31,954,399	36,628,518

Inventories are valued at the lower of cost and net realizable value for finished goods. Other inventories are valued at the lower of cost and replacement cost.

			1985 $	1984 $

3. Fixed assets

	Cost	Accumulated depreciation	Net	Net
Land	6,193,102		6,193,102	6,379,937
Buildings	39,182,773	8,898,326	30,284,447	30,089,963
Machinery and equipment	77,213,776	30,438,650	46,775,126	44,362,583
Automotive equipment	9,457,869	5,819,553	3,638,316	2,976,199
Leasehold improvements	6,516,664	1,429,094	5,087,570	3,889,928
	138,564,184	46,585,623	91,978,561	87,698,610

4. Other assets
at cost, less accumulated amortization

	1985 $	1984 $
Deferred development costs	458,181	483,737
Franchises	229,666	176,212
Others	450,773	442,295
Goodwill representing the excess of the purchase price of shares of subsidiaries over the fair value of net assets at dates of acquisition	15,164,731	16,228,374
	16,303,351	17,330,618

5. Long-term debt

	1985 $	1984 $
Debentures subjected to a trust deed whereby the company has given a floating charge on all its assets, series B, 8.75%, maturing from 1986 to 1988	1,170,000	1,500,000
Bank loans, at variable interest rates approximative to the Canadian chartered banks prime rate with respect to revolving credits of $87,000,000, convertible into term loans, maturing from 1988 to 1993	31,882,240	40,484,403
Mortgage loans, at rates varying between 10 to 12%, payable in monthly instalments including principal and interest and maturing at various dates	1,337,010	1,695,925
Balances of purchase price of shares of subsidiaries, bearing interest at rates not to exceed 12%, maturing at various dates	584,310	752,620
	34,973,560	44,432,948
Less current portion	1,160,137	1,663,182
	33,813,423	42,769,766

Payments required to meet the retirement provisions will amount to about $723,000 in 1987, $2,590,000 in 1988, $6,155,000 in 1989 and $6,137,000 in 1990.

		1985	1984
6. Capital stock	**Authorized**	$	$
	15,000,000 common shares without nominal value		
	Issued and fully paid		
	6,203,869 shares (1984, 6,170,636 shares)	**16,703,575**	16,242,667
	Issuance During the year, under its stock purchase plan for employees, the company issued 33,233 shares for a total cash consideration of $460,908.		

7. Change in application of accounting policies

In order to follow the new accounting standards, the company adopted during the year the cost reduction method for recognition of investment tax credits. This method was applied retroactively and figures for the preceding years have been restated. Consequently, net book value of fixed assets and retained earnings have been reduced by $2,695,949 as at December 31, 1983. In addition, for the year ended December 31, 1984, depreciation of fixed assets was reduced by $324,942 and income taxes were increased by $580,000. This change also reduced by $181,134 net earnings for the current year.

8. Income taxes

The provision for income taxes of $9,983,000 (1984, $8,933,000) includes current income taxes of $8,799,000 (1984, $7,585,000) and deferred income taxes of $1,184,000 (1984, $1,348,000). Principal timing differences giving rise to deferred income taxes relate to claiming capital cost allowances for income tax purposes in excess of depreciation provided for in the accounts.

A reconciliation of statutory income tax rates with effective tax rates is as follows:

	1985	1984
	%	%
Statutory income tax rates	**43.2**	43.5
Inventory allowance	**(1.6)**	(2.1)
Manufacturing and processing credit	**(4.1)**	(4.2)
Federal surtax	**0.8**	
Other items	**1.8**	4.4
Effective income tax rates	**40.1**	41.6

9. Extraordinary item

Loss on sale of shares in a subsidiary company, net of applicable deferred income taxes of $47,000: **$142,711**

10. Commitments

Total commitments of the company and its subsidiaries under long-term operating leases amounted to $29,773,000. The annual rentals under these leases due in the next five years are: $4,687,000 in 1986, $4,204,000 in 1987, $2,771,000 in 1988, $2,488,000 in 1989 and $2,272,000 in 1990.

11. Contingencies

A subsidiary has guaranteed the payment of commitments under long-term operating leases for franchised establishments. The total amount is $2,534,000. The annual rentals under these leases due in the next five years are: $229,000 in 1986, $256,000 in 1987, $257,000 in 1988, $268,000 in 1989 and $262,000 in 1990.

Auditors' Report

To the Shareholders of Culinar Inc.

We have examined the consolidated balance sheet of Culinar Inc. as at December 31, 1985 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. 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, according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements present fairly the financial position of the company as at December 31, 1985 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, after giving retroactive effect to the change in accounting for investment tax credit as explained in note 7.

Maheu Noiseux

Chartered Accountants

Montréal, January 29, 1986

From dairy products, pork and beef... to fine prepared meats, cheeses and good old-fashioned meat pies.

Forward with our employees

"For me, I see the change at Culinar every day... For example, we now have a weekly meeting with our Section Head where we exchange ideas on how to improve our work... perfect equipment, etc., and our Section Head tells us about the various changes and projects within management, and invites us to give our own ideas.

"We now work in a much more autonomous way than before!... because we feel responsible for our work and we care about what we do. Everyone feels involved. And it shows when we have open discussions together..."

Henri Filion
Electrician
Bakery and Confectionery Group

"I am very impressed with what I have learned so far about our company's new direction. It's very stimulating and at the same time challenging, because I think there is a lot of work to do to involve everyone so that we achieve complete mobilization... Work to be shared out and personnel to be convinced.

"We really have to come to share the same values, while respecting the progress that we all have to make at our own level and with different kinds of experience... First share the same values and then work together towards the same goals. Its a long-term plan... but its already underway!"

Denise Fortin
Coordinator
Work and Health Safety,
Dry Products Group

"Everything I know about our networking project and the philosophy behind it is not only positive, but proves to be very efficient. It is important not to separate the stages and to coordinate our actions from top to bottom so that we initiate changes together; it's the only way to make these changes work.

"We are ready to start and we have no other choice in the sense that we are the first to demand more from our work, then from our company..."

Gaétan Trudeau
Director of Research
and Development
Refrigerated Products Group

"Our plan is exciting... it goes well beyond "work for work's sake" or "work to win"... Our plan means "work to succeed! and be proud of it!"... At Resto, we want our suppliers to be proud to work with us... Proud of what we give them, but also proud of how they contribute to our success... We want them to grow and prosper with us because we respect what they do, the growing quality of their work and we know that their success ensures our success! through the quality of our dishes, the service we offer our clients, a constant "do better"... and for a better price. It's a big plan for collective success that we want to share with them."

Daniel Dion
Manager of Supply and Services
Restaurant Group

"In our North American context, I think the concept of mobilizing human resources is truly innovative. A complete mobilization requires a real level of involvement and performance that was not necessarily essential in our traditionally run industries...

"In general, these companies have all built their system of production around accepting, a priori, a fairly large level of error and waste... And for them, as long as this level of error was not actually reached, everything was fine! The TQC (Total Quality Control) means not accepting errors that we are aware of anymore and trying to reduce this famous margin of "acceptable" errors to zero.

"At the administrative level, for example, it becomes a matter of not passing the responsibility off onto your neighbour but sitting down with him – and eventually all the other employees involved – and resolving the problem... That's why, when we talk now of quality, we aren't just talking about production itself but also about administration, management and consensus."

Pierre Girard
Tax Analyst
Head Office

Guy Bernier **
Chairman of the Board
President and Chief Executive Officer
Fédération des
Caisses populaires Desjardins de
Montréal et de l'Ouest-du-Québec
Montréal

Jean Deschamps**
President
Olympic Installations Board
Montréal

Paul Gauthier**
President
and General Manager
Société d'Investissement Desjardins
Montréal

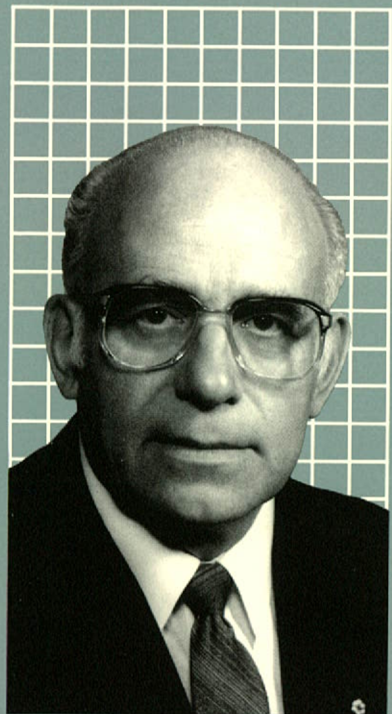
Terrence Griffin*
Vice-President and General Manager
Société québécoise d'initiatives
agro-alimentaires
(SOQUIA)
Québec

Pierre Leblanc, C.A.*
Partner
Dessureault, Leblanc, Lefebvre, C.A.
Trois-Rivières

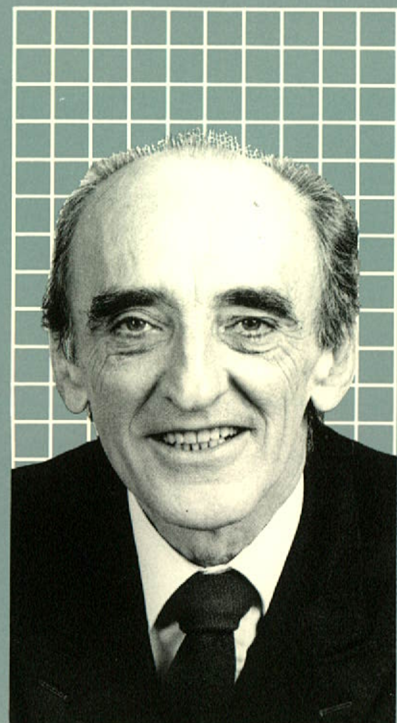
Board of Directors

André Marier
President
Société québécoise d'initiatives agro-alimentaires (SOQUIA)
Québec

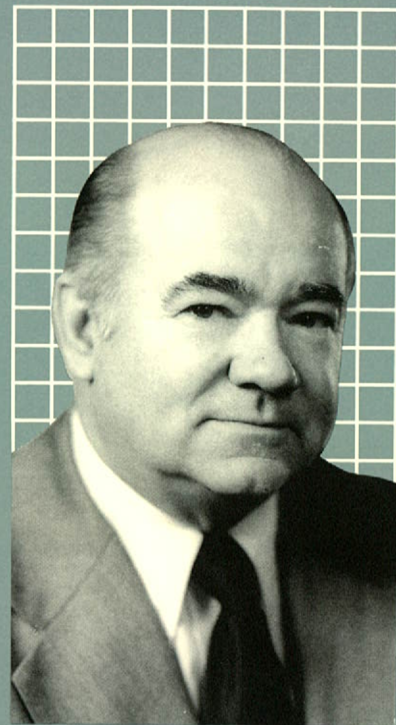
Oscar Mercure, C.A.*
President
L'Assurance-Vie Desjardins
Lévis



Roger Néron**
President and Chief Executive Officer
Culinar Inc.
Montréal



Louis-Philippe Poulin
General Manager
Coopérative Fédérée de Québec
Montréal



Jean-Noël Domey, C.A.
Vice-President,
Finance and Secretary-Treasurer
Culinar Inc.
Montréal

Member of the Audit Committee*
Member of the Executive Committee**

Activities of the Groups

The Bakery and Confectionery Group

Sales for the Bakery and Confectionery Group, consisting of Vachon, Vachon Foods and Stuart, reached $169 million in 1985, a decrease of 1 percent over 1984. The Group's profitability, on the other hand, was excellent with an increase of 12 percent compared to last year.

Despite a decrease in unit sales, which was generally considered temporary and due to fluctuations in the economy, the Group enjoyed a relative stability in the cost of commodities and raw materials for its products. Due to a considerable reduction in its fixed costs and a marked increase in productivity at its plants, the Bakery and Confectionery Group gained an exceptional profitability in 1985.

There was a particularly marked drop in volume in the confectionery sector, although the introduction of a new series of products, Double-Fruit jams, enables the Group to look forward to 1986 with a certain amount of optimism for this very competitive and rather slow market.

Capital expenditures for the Bakery and Confectionery Group were limited to $4.6 million in 1985.

The Bakery and Confectionery Group looks forward to 1986 with resolute enthusiasm. Efforts in 1985 were already beginning to produce results by the end of the year in terms of volume growth; the expected stability in input prices and excellent gains in realized productivity will inspire renewed energy in this Group which should enable it to expect an increase in both sales and profitability.

The Group intends to invest about $6.4 million in 1986. These investments will be directed towards improving production equipment and replacing the fleet.

The Restaurant Group

Sales for the Restaurant Group reached a level of $26.5 million in 1985, a very slight increase compared to 1984. This apparent stability in sales of the Restaurant Group conceals a continuing development in its two major concepts, Italian food as defined by the concept Pacini, and Croissant + Plus. The A&W unit also experienced good development in 1985. The sale of Coq Rôti in July and the transfer of 3 corporate units of Croissant + Plus to franchises, in keeping with the Restaurant Group's orientation strategy, resulted in a reduction in the consolidated volume of sales exceeding $3.0 million for 1985. The dynamism of Pacini, Croissant + Plus and A&W largely compensated for the sales deficit resulting from the sale of Coq Rôti.

At the end of 1985, the Restaurant Group acquired by association the Québec Pastificio restaurants, which have a similar concept to Pacini. This acquisition enabled the Restaurant Group to establish itself immediately en masse in the restaurant milieu of Greater Montréal. Both concepts will very likely be merged over the year to enable them to operate with the strength of a larger unit.

The Restaurant Group's level of profitability decreased in 1985 compared to 1984. However, this reflects major investments in management systems and the establishing of a more complete team. This delay in reaching the performance objectives in keeping with Culinar's expectations is seen as a temporary situation. Culinar has confidence in the considerable possibilities of the restaurant sector and intends to take a more prominent place in its development.

Persuaded by the opportunities that the restaurant business presents, Culinar will continue in 1986 to pursue its development by opening new locations in either corporate form or through franchises, particularly with its two major concepts Pacini and Croissant + Plus.

From nature's finest raw materials... to succulent dishes in our restaurants.

The Dry Products Group

Sales for the Dry Products Group reached a level of $114.0 million in 1985, an increase of 6.2 percent over 1984. The Group also experienced an excellent performance at the level of net earnings.

The Dry Products Group, consisting of Grissol, Viau, Lido and Unico completed its administrative and organizational integration in 1985. This extensive and indepth work was conducted without major difficulties as indicated by the Group's excellent results. The Grissol unit experienced the best growth in sales in 1985; it should be particularly proud and encouraged by its growth in the markets of Western Canada and Ontario. The Viau and Lido units virtually maintained their volume of unit sales in a market which was generally slack, while increasing their operating earnings. Unico's sales increased considerably compared to 1984. In 1985, Unico benefited from its purchase of Safflo brand, which it had acquired at the beginning of the year. Purchasing this brand coupled with Unico's good position on the sunflower-seed oil market in Canada has made it one of the prime distributors of edible vegetable oils on the market in Canada. Unico has not experienced the same success as the two other units in the Group in terms of profitability in 1985. The market for vegetable oils, particularly canola oil was extremely unstable and sourcing difficulties with certain major products created disruptions that worked against Unico.

Overall, however, the Dry Products Group experienced a good year, and from all indications, 1986 will bring it even higher levels of sales and earnings.

The Refrigerated Products Group

At $93.4 million, sales for the Refrigerated Products Group were inferior in 1985 compared to 1984. Weak profitability in 1984 was improved however during 1985. As we know, the Anco and Taillefer units both faced extremely competitive markets where considerable saturation existed in most of their business sectors.

The Refrigerated Products Group, therefore, put a large part of its efforts into management productivity and maximum planning for operations so as to develop the gains in efficiency necessary to attain the most competitive position possible on the markets in question. A significant effort to trim non contributive products was carried out in 1985 and will be continued in 1986. The Refrigerated Products Group will continue nevertheless to develop promising products from the perspective of reinforcing its position over the long-term. In 1985, it launched several products, such as Brie de St-Éloi and the fine prepared meat La Varenne that offered a more interesting margin and solid growth potential.

Anco was able to make considerable improvements in the range of products it offers and in efficiency in its plants, both of which increased its contribution to the Group's profitability.

Culinar is confident that these indepth efforts will bear fruit, and profitability in the Refrigerated Products Group will improve gradually over 1986 and reach a more satisfactory level in the middle-term.

Management Team

Head Office

Roger Néron
President and Chief Executive Officer

Réal Coulombe, C.A.
Executive Vice-President, Operations

Jean-Noël Domey, C.A.
Vice-President, Finance and Secretary-Treasurer

Romuald Frenette
Vice-President, Customer Relations

Jacques Nadeau, C.R.I.
Vice-President, Human Resources and Communications

Jean-Pierre Allard
Director of Planning and Research

Alain Émond, Eng. M.P.A.
Director of Human Resources Management

Nicole Gauthier
Director of Communications

Michel Pontbriand, C.A.
Director, Financial Services and Assistant Secretary-Treasurer

Jean-Claude Savard
Director of Organizational and Managerial Development

Bakery and Confectionery Group

Camillien Bolduc, Eng.
Group Vice-President

Raymond Cherrier, C.A.
Assistant Group Vice-President

Roland Bilodeau
Director of Procurement and Transportation

André Côté
Director of Marketing and Sales, Bakery

Jean Gareau
Director of Production

Gaétan Hubert
Director of Personnel

Guy Létourneau
Director of Marketing and Sales, Confectionery

Marius Paquin, Eng.
Director of Research and Development

Michel Plante, C.A.
Director of Finance

Restaurant Group

Jacques Gauthier
Group Vice-President

Paul Audet
Director of Personnel

Gilbert Boulanger
Director of Development

Denis Carter
Director of Marketing

Claude Gariépy
Director of Operations

Claude Roussin, C.A.
Director of Finance

Dry Products Group

Pierre Denault
Group Vice-President

Pierre Groulx, C.R.I.
Vice-President, Operations

Jean-François Douville
Vice-President, General Manager Unico

René Joyal, C.R.I.
Director of Human Resources

Michel Lamarre, R.I.A.
Director of Finance

Refrigerated Products Group

Jacques Larivière
Group Vice-President

Raymond Denis
Vice-President, Human Resources

Philippe Biron
Director of Marketing and Sales

Richard Gervais, C.A.
Director of Finance

Main addresses

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Sainte-Marie de Beauce, Québec
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(418) 387-5421

Vachon Confectionery Plant
883 Notre-Dame Street North
Sainte-Marie de Beauce, Québec
G6E 3B2
(418) 387-5491

Marketing and Sales Office
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Saint-Laurent, Québec
H4T 1V6
(514) 332-5010 (Marketing)
(514) 332-2951 (Sales)

Stuart Distribution Center
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Stuart Bakery Plant
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Vachon Distribution Center
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Vachon Distribution Center
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Scarborough, Ontario
M1P 2H7
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Office and Flamingo Bakery Plant
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Port Perry, Ontario
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Stuart Bakery Plant
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Restaurant Group

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Saint-Léonard, Québec
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Dry Products Group

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Montréal, Québec
H1V 1M2
(514) 255-2811

Marketing and Sales Office
Viau Plant and Distribution Center
Lido Distribution Center
2097 Viau Street
Montréal, Québec
H1V 3H3
(514) 255-2811

Grissol/Viau/Lido Distribution Center
1200 Neuviale Boulevard
Québec, Québec
G1P 3A6
(418) 527-3445

Lido Plant
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Saint-Lambert, Québec
J4P 2A2
(514) 671-6121

Grissol Plant
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Sainte-Martine, Québec
J0S 1V0
(514) 691-8410

Grissol Distribution Center
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Saint-Léonard, Québec
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Unico Plant and Distribution Center
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Concord, Ontario
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Unico Distribution Center
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Unico Distribution Center
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Lake City
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Refrigerated Products Group

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Corneville Cheese Plant
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Ingersoll Plant (Anco)
156 Victoria Street
Ingersoll, Ontario
N5C 3K1
(519) 485-1021

Anco/Taillefer Distribution Center
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Ce rapport est également publié en français