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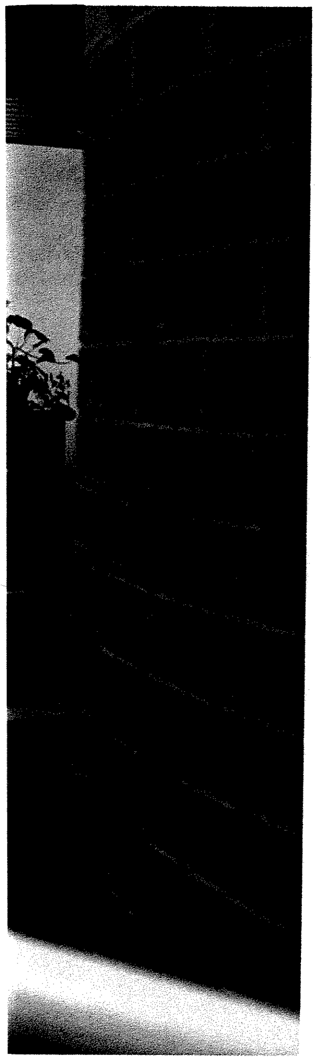

basis when their average milk production per cow is only about 70 percent of what the average West Coast milk producer receives in output per cow?

Herd size is also a factor, of course. In California, for example, 52 percent of the dairy herds have more than 100 cows. In Wisconsin, Minnesota, Iowa and Illinois, 7.5 percent of the dairy herds have more than 100 cows.

California milk production continues to increase, even though that state's milk producers receive $1.30 a hundredweight less than those in the Midwest for milk used in manufacturing cheese and butter.

Our competition is not the next cheese factory or dairy cooperative down the road. Today, we're competing with California, Washington state and New Mexico for markets based on the quality and price of finished products.

And, as this regional competition grows, the Midwest continues to see its dairy farmer numbers and milk supply shrink, forcing dairy plants to compete for milk by over-paying premiums and under-charging services.

Yet, there are also some positive signs for the Midwestern dairy industry, as the supply-demand situation continues to tighten and raise pay prices for milk. Cow numbers in Wisconsin dropped by 125,000 in calendar 1993, while U.S. dairy product consumption rose by 2.5 percent on a milk equivalent basis. Government purchases of surplus butter have been cut in half, partly due to a 52 percent drop in the price support for butter since 1987. Butter is a competitive spread again. Calendar 1993's butter consumption jumped 10.6 percent.

As an industry, we have moved into an economy that is driven more by market forces than government programs. The net cost of the price support program was $350 million in marketing year 1993, compared to $2.5 billion in 1982. Milk prices have been moving upward since late 1993. Pay prices for calendar 1994 should average higher than those of the past three years.

Yet, dairy cooperatives have not fully adjusted to the realities of government de-regulation within our industry and have not fully tapped the potential we have in product research and development as well as product marketing.

Under these circumstances, the challenge to Wisconsin Dairies in the years ahead is to assemble, manufacture and market milk, dairy products and dairy ingredients with the highest possible value at the lowest possible cost.

We have established six strategic objectives to make that vision come true:

- Strengthen relationships with member-owners and suppliers
- Improve customer satisfaction
- Be a low-cost manufacturer
- Get the highest value from a hundred pounds of milk
- Expand markets for existing products; develop new products
- Expand every employee's role in helping achieve our goals

To carry out these objectives, we need to tap the leverage of our financial strength, our close working relationships with customers, our capabilities for processing by-products and the skills of our workforce.

This "road map" is not unusual. We've been working to achieve similar objectives throughout our 31-year history.

Yet, regional competition, global marketing opportunities, a tight supply-demand situation and government de-regulation give each objective a new urgency.

That's why we have been working with dairy cooperatives which have an approach to serving member-owners that is similar to our own. Our aim is to improve the profitability of our cooperatives and our members through alliances, partnerships and mergers that make sense for the Upper Midwest.

It could be a new beginning — offering change, growth and opportunity — for the milk producers, consumers, employees and haulers who have a vital stake in the Midwest dairy industry.

Change. Grow. Take the opportunity. We have done it before; let's do it again.

Donald C. Storhoff
President

Edward Brooks
Chairman of the Board

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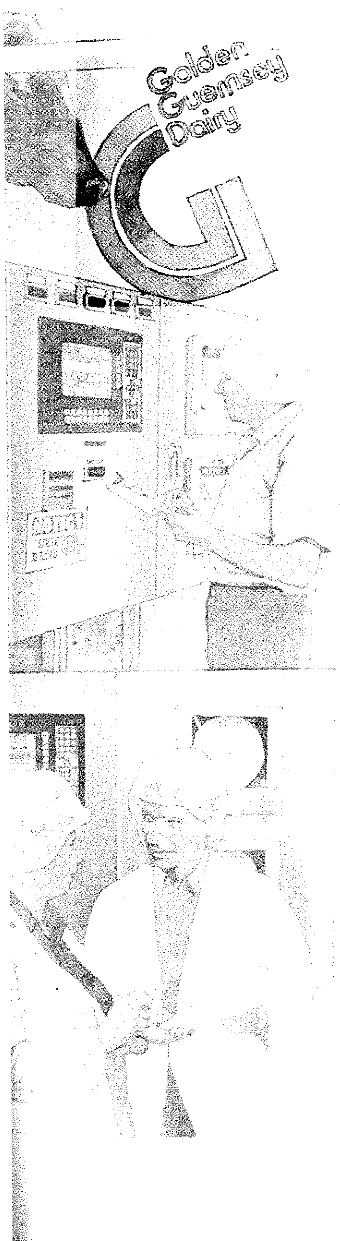


Situation:

During the next few years, dairy farmers in the Midwest will be dealing with several major changes. Milk pricing, milk hauling, government programs, cooperative relationships, production technology and communication methods are all likely to be quite different by the year 2000. How the members of Wisconsin Dairies cope with these changes will determine, to a large extent, whether they and Wisconsin Dairies will survive and thrive during the remainder of the 1990s.

Solution:

Wisconsin Dairies and other dairy cooperatives in the Midwest need to work together to serve the best interests of milk producers by helping them cope with change and grow in strength so they can take advantage of the many areas of opportunity that lie ahead.

What we have done in fiscal 1994:

- Wisconsin Dairies is one of 13 U.S. dairy cooperatives that are members of the Dairy Marketing Information Association, a two-year-old group which coordinates information sharing about whey production and sales in this country.
- We have traded a total of 170 million pounds of milk during the year with the Morning Glory Farms Region of AMPI, Golden Guernsey Dairy Cooperative, Mid-America Dairymen and Swiss Valley Farms.
- We have helped shape the component pricing proposal from Midwest dairy cooperatives.
- We have been instrumental in helping draft the National Milk Producers Federation's Self-Help proposal, which is a five-year program designed to help the dairy industry develop new markets abroad, stabilize domestic milk prices and give milk producers a direct voice in the federal government's approach to the dairy industry.
- During our discussions with other dairy cooperatives, we have come to realize that partnerships between individual dairy cooperatives, based on common philosophies and common needs, may be a workable and successful alternative to mergers or acquisitions in helping the Midwestern dairy industry compete nationally and globally.

What we need to do:

- Recruit and retain the milk producers of the future.
- Serve the long-term, best interests of Midwestern dairy farmers.
- Upgrade our information systems to better serve our producer-members.
- Explore the potential in forming partnerships with other dairy cooperatives in every aspect of our business for the mutual benefit of each other's members.

Yanke Prairie Farms, Inc. — quality milk producers at Prairie du Sac, WI.

Situation:

Major customers in the food, feed and pharmaceutical industries are relying on a few, select suppliers of ingredients and becoming partners with them under preferred vendor status and vendor certification programs based on product specifications, quality control and technical service. Those manufacturers who do not achieve partnership arrangements with key customers could eventually lose markets.

Solution:

Wisconsin Dairies will continue to actively seek and retain preferred vendor status as well as vendor certification with key customers on a product-by-product basis and evaluate each in terms of costs and benefits.

What we have done in fiscal 1994:

- Our Foremost Ingredient Group continued to receive excellent ratings under vendor certification programs at Abbott Laboratories, Ciba-Geigy Pharmaceutical Company, Marion Merrell Dow Inc., Schering-Plough Corporation and SmithKline Beecham Pharmaceuticals.
- Both Wisconsin Dairies and Foremost received high ratings for quality, service, relationship and product offering in a fall 1993 survey of customers who represent 95 percent of our total dollar sales.
- We established product quality committees at each cheese plant.
- Our technical people developed a method to successfully package mozzarella in a size and form specifically requested by a major customer.
- Training and teamwork among our employees have reduced the likelihood that calcium lactate (white crystals) will form on packaged cheese.
- We formed a partnership with a customer to switch delivery of a customized whey product from a powder to a liquid form.
- We developed a major ingredient and product formulation for a frozen yogurt mix, which is expanding from its original Canadian distribution system to the U.S. market.

What we need to do:

- Continue to build stronger relationships with more of our key customers.
- Continue to meet customer needs for expanded technical services.
- Upgrade our information systems to better serve our customers.
- Continually improve our quality on a product-by-product basis.

Mike Molitor, chemist, Clayton, WI, lab, executes audit procedures to check whey and WPC composition and quality.

Situation:

We're competing for customers in a regional, national and global market based on quality and price. The Midwest — still ahead of other regions when it comes to product quality — is not manufacturing dairy products, for a variety of reasons, at the lowest total cost.

Solution:

The Midwest needs to drive out costs from its assembly, processing and marketing activities that do not add value to the final product for customers.

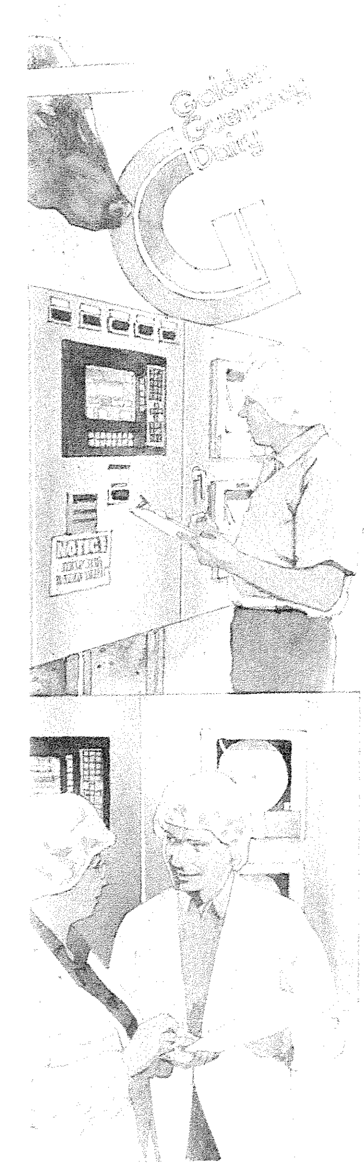
What we have done in fiscal 1994:

- Since 1988, we have purchased 50 milk routes, re-distributed the farm stops among remaining haulers and taken 50 milk trucks off the road.
- Before 1984, Foremost relied on as many as 50 trucks and drivers to obtain 100 percent of its whey supplies from outside suppliers. We have discontinued our Foremost trucking business, since our own cheese plants are now supplying our Foremost whey processing operations with a large percentage of their product needs in the form of whey, whey protein concentrate and permeate.
- We revamped our Lancaster, WI, cheese plant so it can now process the same volume of milk on a five-day work schedule as it did previously in seven days. We added a fifth enclosed vat, added a third enclosed finishing table, expanded the plant's cooler and expanded its whey processing capabilities.
- At our Wilson, WI, cheese plant, we installed a new pasteurization system and a new ventilation system to improve efficiency and quality.
- We doubled the capacity and tripled the energy efficiency of our evaporator at our Plover, WI, whey processing plant. We also reduced the plant's water needs by 35 percent, cut its chemical costs and increased the product yields from one of its dryers.
- At our Rothschild, WI, plant, five new crystallizing tanks and a new lactose centrifuge have improved our yields and, at the same time, have allowed us to continue to provide our pharmaceutical customers with consistently high quality products.

What we need to do:

- Continue our milk hauler buyout program.
- Upgrade our information systems to help us operate most efficiently and manufacture products that consistently meet our customers' expectations.
- Gain efficiencies through plant retro-fitting or plant consolidation, if needed.
- Target plant innovations based on marketing and manufacturing needs.
- Implement conservation measures for water, energy, waste.

The draining-matting conveyor at the newly streamlined Lancaster, WI, plant adds efficiency to the production of quality cheddar for aging.



Situation:

Over the last 30 years, dairy cooperatives have developed expertise in efficiently manufacturing commodity products in bulk form, largely by consolidating production facilities and installing technology for large-scale, uniform output.

Under government de-regulation and a market-driven economy, manufacturing a commodity product yields returns which are relatively low as a percentage of total revenues and vulnerable to wide swings in market prices.

Solution:

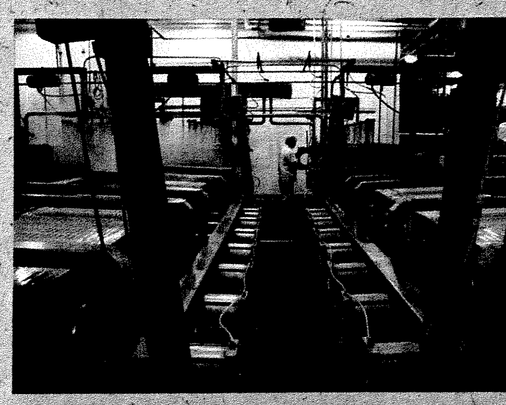
Wisconsin Dairies needs to obtain a larger portion of the food dollar consumers spend on dairy products. That means methodically moving our focus closer to the consumer, continually diversifying our product portfolio with new value-added products and consistently re-evaluating our product mix from a profit point of view.

What we have done in fiscal 1994:

- We continued our initiative of improving product accountability by installing a new truck scale at our Richland Center, WI, plant.
- Our butter production was down 40 percent in fiscal 1994 because excess cream from outside sources was not readily available. That's a reflection of what happened throughout the dairy industry. Mozzarella cheese plants used milk solids to fortify whole milk so they could use butterfat in higher-valued cheese instead of butter.
- We used skim milk solids to fortify existing milk supplies in manufacturing mozzarella cheese. While mozzarella production was up almost 29 percent for the year, fluid milk used in mozzarella production increased only 25 percent. Such fortification reduced the cost of moving surplus butterfat from our mozzarella operations to other locations. As a result, we have cut our average cost for manufacturing a pound of cheese significantly.

What we need to do:

- Continue to supplement our current member milk supply through milk trades and outside purchases.
- Measure more precisely all incoming raw materials.
- Identify product costs and profitability scenarios on a continuing basis so we can, in a more timely manner, adjust our product mix within each plant as well as throughout our manufacturing system to achieve higher returns.
- Obtain a higher price on our current products for the added value we deliver.
- Add further value to the cheese we manufacture and market.



Automated roll presses at the Decorah, IA, plant assure quality and consistency through the packaging process.

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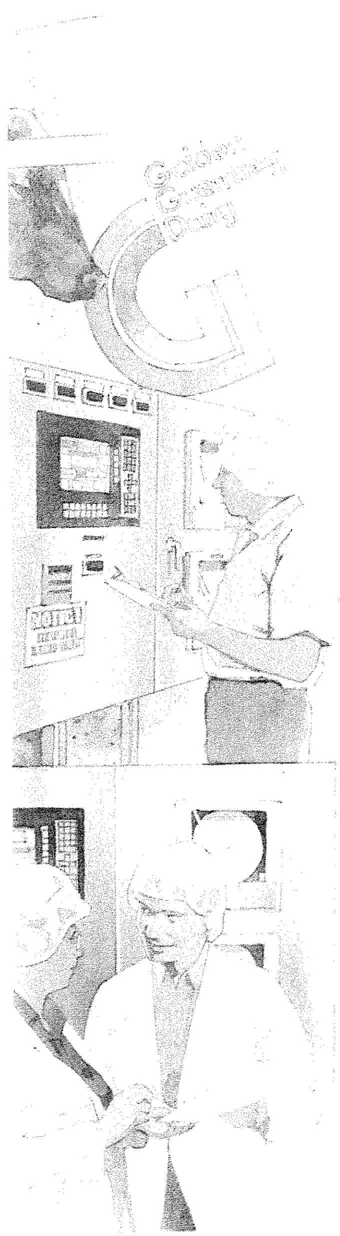


Situation:

Building a customer base for an existing product takes a commitment to production efficiency, total quality, technical support and marketing services. The cycle of developing a new product, introducing it, increasing its sales and finally realizing a return on the investment also puts a premium on harnessing the right resources and reacting quickly to marketing opportunities.

Historically, Midwestern dairy cooperatives have not been willing to commit the time, capital and talent needed to effectively market their own products.

Solution:

Wisconsin Dairies must fully use available resources to continually improve our product quality, technical services and marketing programs so we can tap potential domestic and international markets.

What we have done in fiscal 1994:

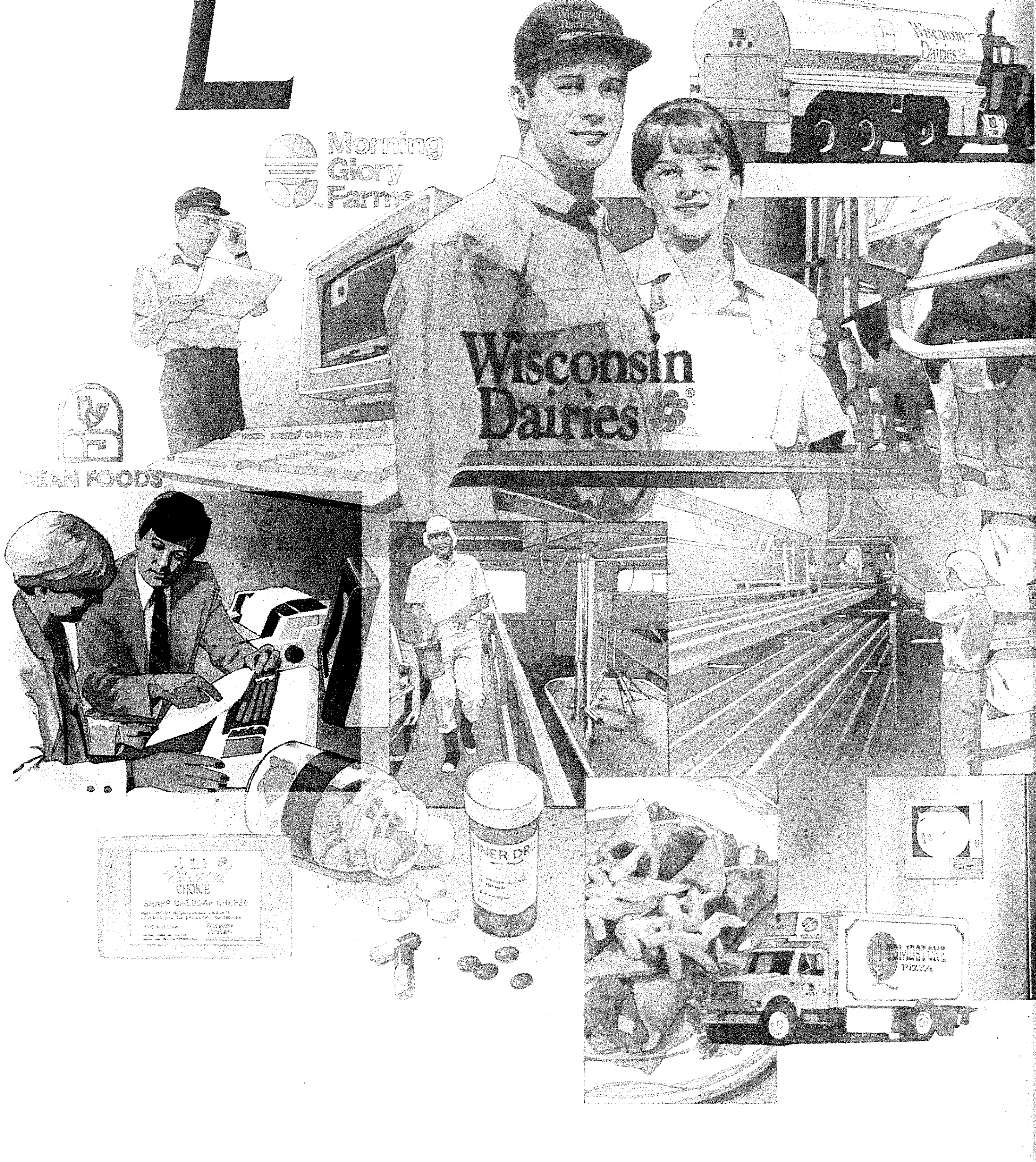
- We worked with a major food company to develop two new Mexican cheeses for a shredded-cheese blend that consumers can use to turn everyday recipes into memorable Mexican meals.
- We tapped the resources of several technical, marketing and research consultants, who provided us with valuable information about the marketing potential for various dairy products.
- We visited potential bakery, confectionery and pharmaceutical customers located within and outside the U.S.
- We sold whey products in 23 countries — from Brazil to Taiwan.

What we need to do:

- Be an early adopter of new technology.
- Use the extensive resources available at the state and national levels to strengthen our approach to product marketing, technical service and research/development programs.
- Take full advantage of our sizable volumes in cheese, pharmaceutical lactose and whey protein concentrate through aggressive marketing efforts.
- Find new uses for cheese by-products.
- Continue developing variations to non-standard/specialty cheeses.
- Tap the cheese ingredient market.
- Explore alternatives in managing risk and developing long-term relationships with customers overseas.

Rick Booth, Wilson, WI, cheesemaker, produces quality cheese so its whey can be marketed to an infant formula maker in northern Wisconsin.

Expand Every employee's role in helping achieve our goals

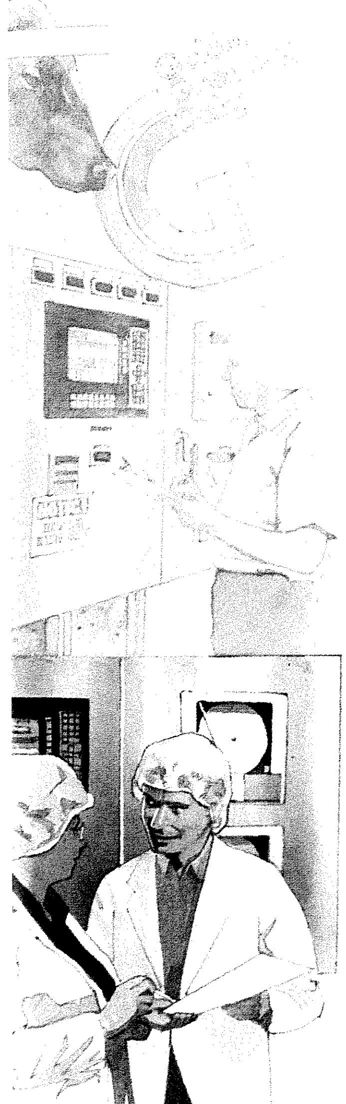


Today's technology for sharing information among employees within a business is changing organizational structures, individual responsibilities and compensation systems.

To compete in a global market of change, growth and opportunity, businesses are giving each employee the authority they need to reduce costs, fix problems, improve operations and satisfy customers on the spot without leaving the decision-making up to someone else. That saves time and money. And, it helps provide the service today's customers demand.

For years, cooperatives such as Wisconsin Dairies have been excellent examples of streamlined organizational structures geared to effectively satisfy the needs of customers as well as owners. When a cooperative's employees identify with the organization's purpose and share its vision of service to members, they find themselves doing their life's work instead of just doing time. That's one reason why cooperatives have been successful.

Wisconsin Dairies must share our vision with stakeholders within and outside our organization in a manner that helps everyone understand how they can contribute toward making our preferred future come true.



What we have done in fiscal 1994:

- We trained all of our managers and supervisors to help employees establish performance expectations for themselves and to conduct performance appraisals.
- We reviewed and updated the job description for each of our employees.
- We established a 401(k) plan for employees.
- We developed a strategic planning process that complements our management/performance appraisal system.
- We started our *Safety***Pays** incentive program to encourage all employees to get involved in reducing accidents at work.

What we need to do:

- Continue to build a work environment for employees that helps them accomplish their goals.
- Improve productivity through a comprehensive, on-going training/development program for employees.
- Involve our employees in product quality improvement.
- Continue to reduce work-related accidents.
- Refine our compensation/benefit system for employees.
- Consider employees as ambassadors of our organization.

Dr. Allan Bringe, UW dairy specialist, trains member services specialists to help farmers produce quality milk.

WISCONSIN DAIRIES' MISSION:

The mission of Wisconsin Dairies Cooperative is to provide dairy farmers with a financially sound organization that efficiently assembles, processes and markets milk and related dairy products to customers in a manner that generates fair and equitable returns for past, present and future member-owners.

KEY SUCCESS FACTORS:

The key factors in successfully achieving our mission include meeting the needs of our member-owners, customers, employees, and milk haulers while operating our multiple-plant system efficiently, marketing products effectively and maintaining our cooperative's financial integrity.

Regarding Our Member-Owners:

1. We will provide relevant, high quality services to help each member-owner achieve the maximum benefit from our member programs.
2. Our member programs will provide added payments for milk quality and composition that reflect additional processing returns.
3. We will distribute patronage dividends and retire allocated equities in an equitable manner that is consistent with maintaining sound financial strength.

Regarding Our Customers:

1. We will develop and maintain mutually beneficial alliances with our customers to help meet their current and future needs for products and services while maximizing our returns.
2. We will strive to provide products that earn premiums because they exceed our customers' specifications for quality and performance.
3. We will develop new products and new applications for our existing products that meet the needs of the marketplace.

Regarding Our Employees:

1. Every employee is an important member of our company's team and is to be treated with courtesy and respect in an environment that encourages the open exchange of ideas.
2. Through our communication and management style, we will work to have all employees identify with our company's purpose and vision.
3. We will provide the training and guidance employees require for becoming proficient at their jobs, improving the quality of their work and developing skills for future needs.
4. We will maintain an environment that encourages our employees to work effectively together, using their individual skills for the best of our cooperative.
5. We will administer employee compensation and benefit programs in a fair and equitable manner.

Regarding Our Milk Haulers:

1. We will establish and maintain effective, two-way communication with our contract milk haulers in an effort to build strong member services specialist-hauler-producer relationships.
2. We will strive to administer fair and consistent hauling policies, procedures and rates.
3. We will work with our contract haulers to gain efficiencies and share the resulting benefits as we strive to maintain a significant presence in each of our procurement areas.

Regarding Our Operations:

1. We will maintain and operate an efficient multiple-plant system that will fully utilize milk components to produce a mix of products which will result in the highest overall returns.
2. Complete utilization of milk components and purchased raw materials is a major factor in maximizing returns to our member-owners. Therefore, we will focus on product accountability throughout our multiple-plant system from assembly of raw materials through the production process and delivery of finished products.
3. We will use good manufacturing practices, defined processing procedures and quality assurance programs to manufacture safe products of the highest attainable quality.
4. We will continually adopt proven and cost-effective technology and processes that make our production facilities environmentally responsible and safe for all employees.

Regarding Our Marketing:

1. We will use our production and technical knowledge to manufacture and market products that meet the specifications required by our customers.
2. We will continue to expand our diversified base of financially secure domestic customers and actively pursue a global market for our dairy products.
3. We will actively seek to develop preferred relationships with key customers.

Executive Staff

Curtis Kurth
Vice President – Marketing

ı Behr
President –
ɔmmunication

John Murphy
Vice President –
Human Resources

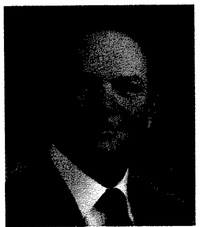
Jim Geyer
Vice President –
Technology

Don Storhoff
President

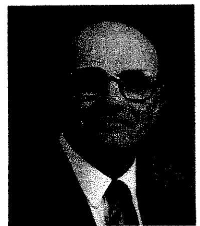
Dave Fuhrmann
Vice President –
Manufacturing

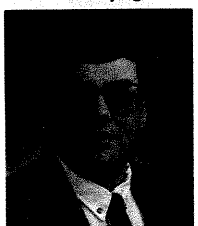
Duaine Kamenick
Vice President –
Finance

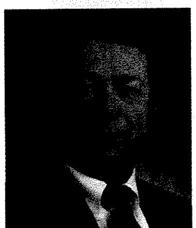
Board of Directors

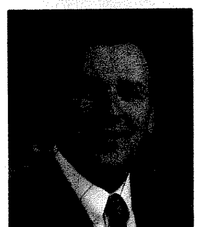

Dan Heying

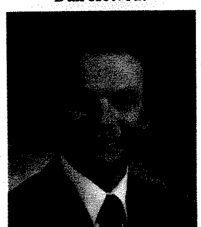

Dave Einck


Glen Klimesh


Dan Hotvedt


Delbert Mandelko


Lester Erickson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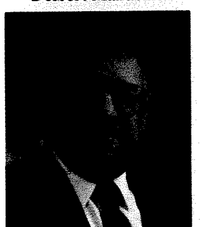
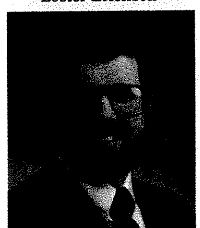
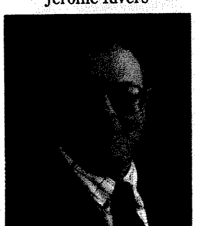
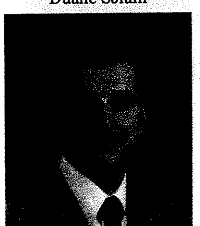
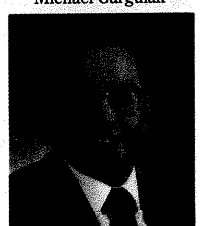
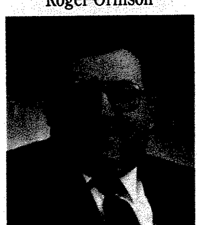

Duane Solum

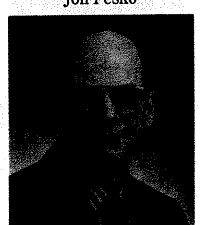

Michael Gargulak


Roger Ormson


Jon Pesko


Wayne Danielson


Lyle Weden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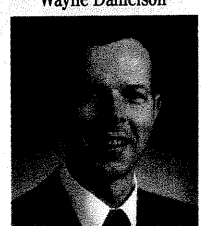
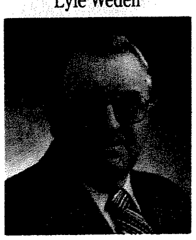
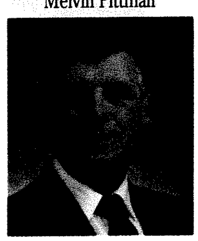

Melvin Pittman


Charles Rippley


Herman Boettcher


Richard Kees

AREA I

*Dan Heying
Alta Vista, IA
Secretary
District 1

Dave Einck
Waukon, IA
District 2

Glen Klimesh
Calmar, IA
District 3

Dan Hotvedt
Mabel, MN
District 4

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*Delbert Mandelko
Preston, MN
Second Vice Chairman
District 5

Lester Erickson
Mabel, MN
District 6

Jerome Rivers
Winona, WI
District 7

AREA III

*Duane Solum
Deer Park, WI
First Vice Chairman
District 8

Michael Gargulak
Rice Lake, WI
District 9

Roger Ormson
Barron, WI
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Phillips, WI
District 10

*Wayne Danielson
Cadott, WI
District 16

Lyle Weden
Wausau, WI
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Jim Doornink
Baldwin, WI
District 13

Melvin Pittman
Plum City, WI
District 14

*Charles Rippley
Cochrane, WI
District 18

AREA VI

*Herman Boettcher
Bloomer, WI
District 12

Richard Kees
Mondovi, WI
District 15

Junior Jacobsen
Alma Center, WI
District 19

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*Oris Hall
Tomah, WI
Treasurer and
Assistant Secretary
District 20

Keith Radke
Wilton, WI
District 22

Rodney Knuth
Elroy, WI
District 23

AREA VIII

Gary Nelson
Viroqua, WI
District 21

John Novacheck
Hillsboro, WI
District 24

*Dennis Bell
Gays Mills, WI
District 27

AREA IX

Ed Woolever
Wonewoc, WI
District 25

*Edward Brooks
Reedsburg, WI
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District 26

Rick Burkhamer
Richland Center, WI
District 28

Dave Davis
Dalton, WI
District 29

AREA X

Jim Steiger
Bagley, WI
District 30

Mike Hahn
Lancaster, WI
District 31

*Gerald Pitzen
Cuba City, WI
District 32

AREA XI

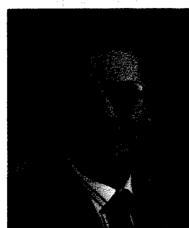
*Curtis Peterson, Jr.
Dodgeville, WI
District 33

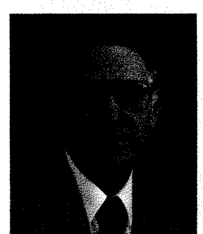
Walter Laufenberg
Waunakee, WI
District 34

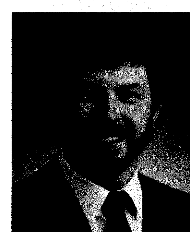
Bob Topel
Lake Mills, WI
District 35

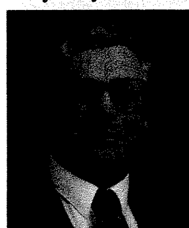
Sue Crane
Burlington, WI
District 36

*Denotes Executive Committee Member


Junior Jacobson


Oris Hall


Keith Radke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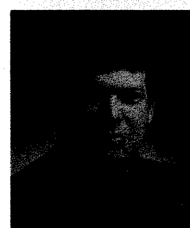
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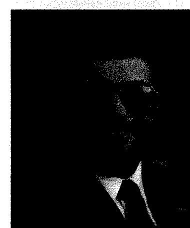
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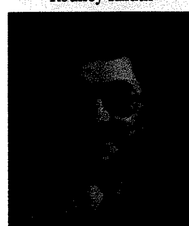
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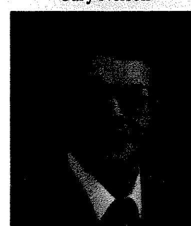
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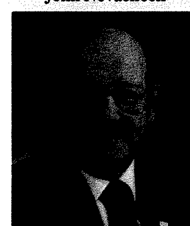
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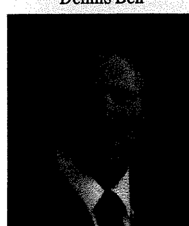
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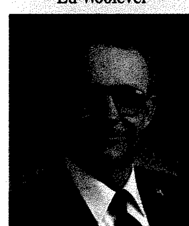
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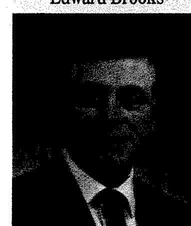
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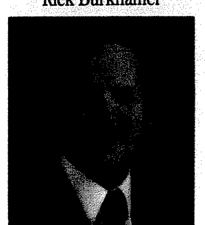
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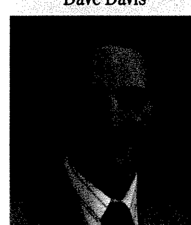
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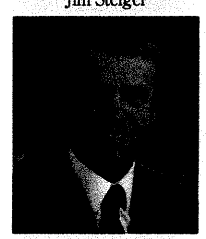
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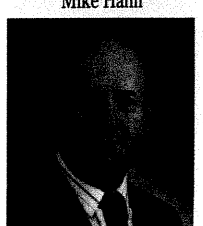
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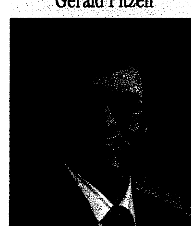
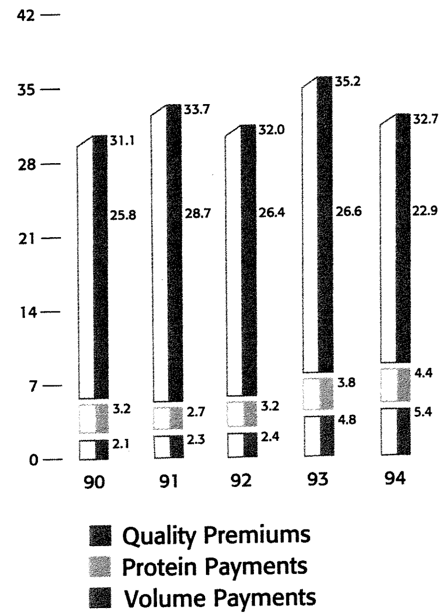

Bob Topel


Sue Crane

Operational Performance

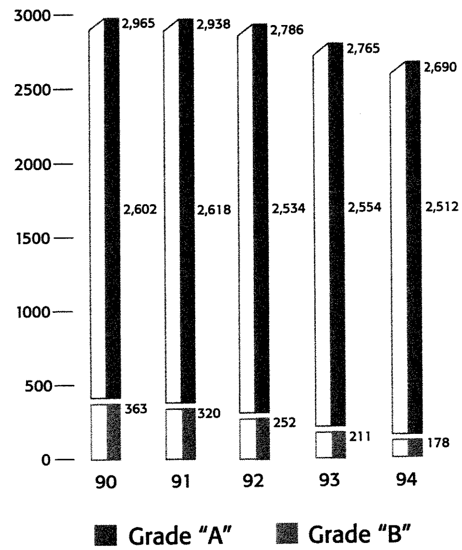
Extra Payments for Quality, Protein and Volume For the Last Five Fiscal Years

(cents/cwt)



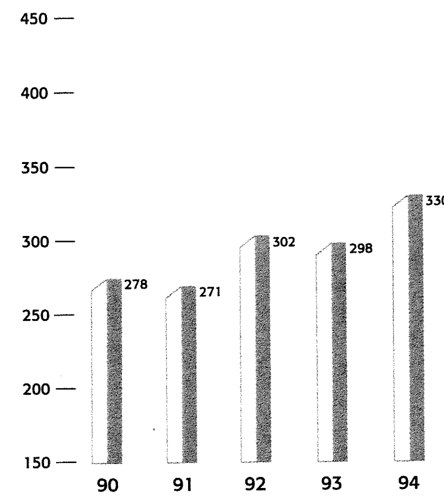
Producer Milk Volume For the Last Five Fiscal Years

(millions of pounds)



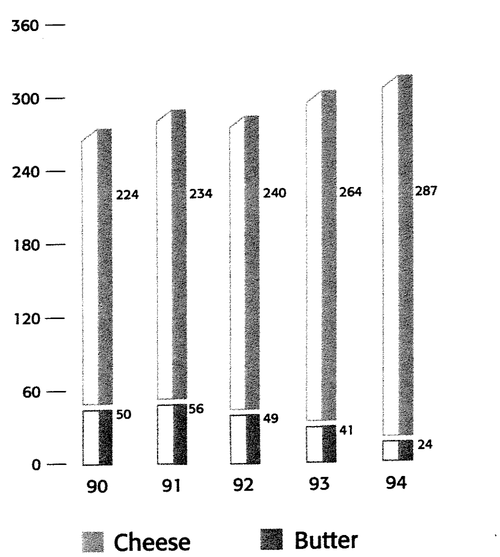
Average Annual Somatic Cell Counts On All Producer Milk For the Last Five Fiscal Years

(thousands)



Pounds of Cheese and Butter Manufactured For the Last Five Fiscal Years

(millions of pounds)



Pounds of Cheese Manufactured

	1994	1993	1992
American blocks	131,633,000	127,657,000	129,681,000
American barrels	43,066,000	45,127,000	43,498,000
Italian	104,523,000	84,534,000	60,940,000
Muenster	7,480,000	6,230,000	5,417,000
Totals	286,702,000	263,548,000	239,536,000

Pounds of Foremost and Wisconsin Dairies Whey Products Manufactured in Fiscal 1994

	1994			
	Wisconsin Dairies	Foremost	Total	%
Whey protein	36,741,000	5,358,000	42,099,000	23.9
Whey powder	24,289,000	34,918,000	59,207,000	33.6
Condensed whey solids	3,569,000	0	3,569,000	2.0
Reduced mineral/ lactose products	0	26,421,000	26,421,000	15.0
Lactose products	0	27,666,000	27,666,000	15.8
Other whey products	3,482,000	13,678,000	17,160,000	9.7
Totals	68,081,000	108,041,000	176,122,000	100.0

Price Waterhouse

100 EAST WISCONSIN AVENUE
SUITE 1500
MILWAUKEE, WI 53202

May 12, 1994

To the Board of Directors of
Wisconsin Dairies Cooperative

In our opinion, the accompanying balance sheets and the related statements of operations, of members' and patrons' equities and of cash flows present fairly, in all material respects, the financial position of Wisconsin Dairies Cooperative at March 31, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Cooperative's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

WISCONSIN DAIRIES COOPERATIVE

BALANCE SHEETS

At March 31, 1994 and 1993

	1994	1993
Assets		
Current Assets		
Cash and cash equivalents	$ 507,000	$ 4,105,000
Receivables, less allowance for doubtful accounts of $250,000	42,879,000	37,683,000
Inventories, principally dairy products	26,054,000	26,165,000
Prepaid expenses	450,000	245,000
Total Current Assets	69,890,000	68,198,000
Investments	16,581,000	16,526,000
Property, plant and equipment, net	57,522,000	56,898,000
Other Assets	2,108,000	2,067,000
Total Assets	$146,101,000	$143,689,000
Liabilities and Equities		
Current Liabilities		
Note Payable	$ 2,300,000	$ –
Current portion of long-term obligations	621,000	348,000
Accounts payable	41,937,000	39,452,000
Accrued expenses	4,704,000	5,135,000
Patronage refund payable	1,698,000	1,870,000
Total Current Liabilities	51,260,000	46,805,000
Long-Term Obligations	20,499,000	24,120,000
Members' and Patrons' Equities		
Allocated equities	57,370,000	56,425,000
Surplus	16,972,000	16,339,000
Total Members' and Patrons' Equities	74,342,000	72,764,000
Total Liabilities and Equities	$146,101,000	$143,689,000

The accompanying notes are an integral part of the financial statements.

WISCONSIN DAIRIES COOPERATIVE

STATEMENTS OF OPERATIONS

For the Years Ended March 31, 1994 and 1993

	1994	1993
Net product sales	$546,414,000	$533,104,000
Patronage refunds and other income	1,875,000	2,970,000
Total revenues	548,289,000	536,074,000
Payments to patrons and other costs of products sold	520,241,000	508,022,000
Selling, general and administrative expenses	10,340,000	10,229,000
Depreciation and amortization expense	8,042,000	7,533,000
Interest expense	1,539,000	1,594,000
	540,162,000	527,378,000
Income before income taxes	8,127,000	8,696,000
Provision for income taxes	673,000	552,000
Net Income	$ 7,454,000	$ 8,144,000

STATEMENTS OF MEMBERS' AND PATRONS' EQUITIES

	1994	1993
Allocated Equities		
Balance at beginning of year	$56,425,000	$56,003,000
Add –		
Net income allocated	6,792,000	7,480,000
Deduct –		
Retirements	(3,948,000)	(4,888,000)
Redemptions of estates	(201,000)	(300,000)
Patronage refunds payable in cash	(1,698,000)	(1,870,000)
Balance at end of year	57,370,000	56,425,000
Surplus		
Unallocated		
Balance at beginning of year	14,914,000	14,250,000
Net income allocated	662,000	664,000
Balance at end of year	15,576,000	14,914,000
Allocated		
Balance at beginning of year	1,425,000	1,452,000
Retirements	(29,000)	(27,000)
Balance at end of year	1,396,000	1,425,000
Total Surplus	16,972,000	16,339,000
Total Members' and Patrons' Equities	$74,342,000	$72,764,000

The accompanying notes are an integral part of the financial statements.

WISCONSIN DAIRIES COOPERATIVE

STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 1994 and 1993

	1994	1993
Cash Flows From Operating Activities:		
Cash received from customers	$ 541,218,000	$ 527,815,000
Other income received	426,000	162,000
Cash provided by operating activities	541,644,000	527,977,000
Cash paid to producers, suppliers and employees	(528,619,000)	(517,224,000)
Interest paid	(1,579,000)	(1,468,000)
Income taxes paid	(838,000)	(616,000)
Cash disbursed for operating activities	(531,036,000)	(519,308,000)
Net Cash Provided By Operating Activities	10,608,000	8,669,000
Cash Flows From Investing Activities:		
Purchases of property, plant and equipment	(8,613,000)	(9,123,000)
Net assets acquired through purchase of cheese manufacturing business	–	(3,633,000)
Proceeds from sales of property, plant and equipment	221,000	517,000
Patronage refunds received	607,000	980,000
Equity redemptions and other reductions in investments	675,000	1,109,000
Net Cash Used In Investing Activities	(7,110,000)	(10,150,000)
Cash Flows From Financing Activities:		
Patronage refund paid to members	(1,870,000)	(1,934,000)
Retirements of patron equities	(4,149,000)	(5,188,000)
Retirements of allocated surplus	(29,000)	(27,000)
(Decrease) Increase in long-term obligations, net	(3,348,000)	9,613,000
Increase in borrowings under line of credit agreements	2,300,000	–
Net Cash (Used In) Provided By Financing Activities	(7,096,000)	2,464,000
Net (Decrease) Increase In Cash	(3,598,000)	983,000
Cash Balance At Beginning Of Year	4,105,000	3,122,000
Cash Balance At End Of Year	$ 507,000	$ 4,105,000

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 1994 and 1993

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Investments in other cooperatives are stated at cost or the declared value at date of issue plus allocated equities less cash distributions received. The principal investments at March 31, 1994 are $9,475,000 in Land O' Lakes, Inc. and $3,924,000 in Prairie Farms Dairy, Inc.

Property, plant and equipment is stated at cost and includes expenditures for land and improvements, buildings, machinery and equipment and construction in progress. When properties are retired or otherwise disposed of in the normal course of business, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is recognized.

Generally, the Cooperative provides for depreciation using the straight-line method based on lives which approximate the useful lives of the assets. Accelerated methods are generally used for income tax depreciation purposes.

The Cooperative, under requirements of the Internal Revenue Code, provides for federal income taxes in the statements of operations based upon non-patronage income and income attributable to business with nonmembers. Effective April 1, 1993, the Cooperative adopted Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes".

For purposes of the statements of cash flows, the Cooperative considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NOTE 2 – STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 1994 and 1993

The reconciliation of net income to net cash provided by operating activities is as follows:

	1994	1993
Net income	$ 7,454,000	$ 8,144,000
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	8,042,000	7,533,000
Patronage dividend income	(1,337,000)	(2,591,000)
Gain on sales of property, plant and equipment	(112,000)	(216,000)
Change in assets and liabilities, net of effects of purchase of cheese manufacturing business:		
Increase in receivables	(5,196,000)	(5,289,000)
Decrease (Increase) in inventories	111,000	(3,839,000)
Increase in prepaid expenses	(205,000)	(104,000)
(Increase) Decrease in other assets, net	(203,000)	1,896,000
Increase in accounts payable	2,485,000	2,500,000
(Decrease) Increase in accrued expenses	(431,000)	635,000
Total adjustments	3,154,000	525,000
Net cash provided by operating activities	$10,608,000	$ 8,669,000

NOTE 3 – MAJOR CUSTOMERS

Substantially all of the Cooperative's revenues are derived from sales to food industry companies in the United States. The Cooperative had two customers which individually accounted for 10% or more of sales for the year ended March 31, 1994 and one customer for the year ended March 31, 1993. At March 31, 1994 two customers' accounts receivable balances represented 14% and 10% of total accounts receivable. At March 31, 1993, these customers' balances represented 13% and 9% of total accounts receivable, respectively.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Balances of the major classes of assets included in property, plant and equipment and accumulated depreciation are as follows:

At March 31,	1994	1993
Land and improvements	$ 3,132,000	$ 3,099,000
Buildings	38,658,000	37,467,000
Machinery and equipment	84,377,000	77,338,000
Capitalized leases (Note 6)	1,871,000	1,871,000
Construction in progress	1,269,000	1,383,000
	129,307,000	121,158,000
Less - accumulated depreciation	(71,785,000)	(64,260,000)
	$ 57,522,000	$ 56,898,000

NOTE 5 – NOTES PAYABLE AND LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

At March 31,	1994	1993
Note payable to St. Paul Bank for Cooperatives, due in monthly installments of $250,000 beginning April 30, 1995.	$19,000,000	$22,000,000
Pollution Control Revenue Bonds	1,380,000	1,515,000
Capitalized lease obligations (Note 6)	528,000	719,000
Other obligations	212,000	234,000
	21,120,000	24,468,000
Less - current portion	(621,000)	(348,000)
	$20,499,000	$24,120,000

The St. Paul Bank for Cooperatives (the "Bank") has extended the Cooperative a $45,000,000 credit agreement consisting of $19,000,000 of long-term loans and a $26,000,000 seasonal loan, which expires March 31, 1995. Interest rates on the long-term note payable are subject to periodic market adjustments and currently range from 4.76% to 9.33% with an effective rate of 6.83% at March 31, 1994. Quarterly interest payments are required. Loans under this arrangement are secured by a first mortgage on certain real property and a first security interest in machinery and equipment located on the mortgaged property. The carrying value of mortgaged and pledged assets approximates $14,979,000 at March 31, 1994.

Besides the maintenance of certain financial covenants, the agreement requires that the Cooperative invest in stock of the Bank in such amounts as may be required by the Bank. The Cooperative's investment at March 31, 1994 of $2,632,000 consists of capital stock and allocated equities.

The Pollution Control Revenue bonds were issued by the Town of Cady, Wisconsin on June 1, 1992 at a 6.20% interest rate. Various sinking fund payments are due annually commencing April 1, 1993 with interest payable to bondholders on October 1 and March 1 until maturity at April 1, 2000.

Future annual maturities of long-term obligations outstanding at March 31, 1994 are as follows:

Fiscal Year	
1995	$ 621,000
1996	3,221,000
1997	3,180,000
1998	3,201,000
1999	3,221,000
Later years	7,676,000
	$21,120,000

The Cooperative also maintains a $10 million line of credit agreement with a bank. Borrowings are due upon demand. Interest on the line of credit varies daily and was 4.5% at March 31, 1994. Borrowings outstanding at March 31, 1994 under this line of credit were $2,300,000. No amounts were outstanding at March 31, 1993.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

At March 31, 1994, the Cooperative has lease commitments for certain machinery and equipment which are based on usage. The minimum annual rental commitments for these leases are insignificant. Total rentals charged to income for all operating leases approximated $1,577,000 and $1,340,000 in 1994 and 1993, respectively.

The Cooperative leases certain property and equipment under agreements which are classified as capitalized lease obligations (Note 5). Accordingly, the related property and equipment and obligation are reflected in the accompanying balance sheet.

There are claims pending against the Cooperative arising in the normal course of business. Management believes that final disposition of these claims will not have a material adverse effect on the Cooperative's financial position or results of operations.

NOTE 7 – INCOME TAXES

The provision for income taxes consists of the following for the years ended March 31, 1994 and 1993:

	1994	1993
Current		
Federal	$ 851,000	$ 835,000
State	33,000	21,000
Deferred	(211,000)	(304,000)
	$ 673,000	$ 552,000

The provision for taxes reflects a combined federal and state tax rate. The difference between the effective tax rate for the years ended March 31, 1994 and 1993 of 8.3% and 6.3%, respectively, and the statutory federal rate of 34% and state tax rate of approximately 8% is primarily due to qualified patronage allocations which are deductible for federal tax purposes.

Deferred taxes are provided relating to methods used for financial accounting which differ from those used for tax accounting. These differences are comprised of the following primary components at March 31, 1994 and 1993:

	1994	1993
Prepaid income taxes – current		
Nondeductible reserves and accruals	$ 89,000	$ 95,000
Other	11,000	12,000
	$ 100,000	$ 107,000
Prepaid income taxes – noncurrent		
Alternative minimum tax credit	$ 852,000	$ 552,000
Accumulated depreciation	(375,000)	(382,000)
	$ 477,000	$ 170,000

As described in Note 1, the Cooperative adopted FAS 109 as of April 1, 1993. The cumulative effect of adopting FAS 109 was to record a net tax expense of $89,000. This expense is included in the fiscal 1994 deferred tax expense.

NOTE 8 – PENSION PLANS

The Cooperative has noncontributory defined benefit plans covering substantially all employees not covered under union-sponsored plans. The benefits are based on years of service and the employee's compensation level.

Net pension expense for the years ended March 31, 1994 and 1993 includes the components listed in the following table:

	1994	1993
Service cost	$ 449,000	$ 427,000
Interest cost on projected benefit obligation	883,000	826,000
Return on assets:		
actual	(858,000)	(1,824,000)
deferred (loss) gain	(176,000)	837,000
	(1,034,000)	(987,000)
Amortization of net asset existing at April 1, 1985	(178,000)	(178,000)
Amortization of prior service cost	52,000	52,000
Amortization of unrecognized net gain	(25,000)	–
Net pension expense	$ 147,000	$ 140,000

The funded status of the plans was as follows at March 31:

	1994	1993
Actuarial present value of:		
Vested benefit obligation	$ (9,372,000)	$ (8,363,000)
Accumulated benefit obligation	(10,135,000)	(8,980,000)
Projected benefit obligation	(12,346,000)	(10,821,000)
Plan assets at fair value	16,968,000	16,581,000
Excess of assets over projected benefit obligation	4,622,000	5,760,000
Unrecognized net asset existing at April 1, 1985	(1,155,000)	(1,333,000)
Unrecognized prior service cost	486,000	537,000
Unrecognized net gain	(3,921,000)	(4,786,000)
Prepaid pension cost	$ 32,000	$ 178,000

The projected benefit obligation was determined using an assumed discount rate of 8.5% in 1994 and 1993 and an assumed long-term rate of compensation increase of 5.5%. The assumed long-term rate of return on plan assets is 8.0%. Plan assets consist principally of common stocks and fixed income investments.

Funding of the plans is consistent with federal funding regulations. No contributions were made to the plans for the years ended March 31, 1994 and March 31, 1993.

The Cooperative also contributes to union-sponsored pension plans. Pension costs for these plans in 1994 and 1993 were $882,000 and $863,000, respectively.

In addition to the defined benefit plans described above, certain eligible employees are covered by defined contribution plans which were established during the year ended March 31, 1994. The cost of these plans for the year was $78,000.

NOTE 9 – ACQUISITIONS

Effective October 1, 1992, the Cooperative acquired selected assets and assumed certain liabilities of a cheese manufacturing business in exchange for a cash payment of $3,633,000 at closing. The acquisition has been accounted for as a purchase.

The effect of the acquisition on the Cooperative's balance sheet is not significant. The results of the acquired business have been included in the accompanying financial statements from the date of acquisition.

Net sales for fiscal year 1994 increased $13.3 million over 1993 to $546.4 million. The increase was due to a combination of higher prices and volume. Cheese sales jumped over $40 million primarily due to additional mozzarella and muenster, while butter and powder products both decreased. Whey product sales also increased significantly.

Net income for the year amounted to $7.5 million compared to $8.1 million the prior year. The related patronage dividend amounts to $6.8 million and will be distributed during December, 1994. Consistent with prior years, 25 percent will be paid in cash. The remainder will be allocated to member equity accounts.

During fiscal 1994, total cash returned to members (including cash allocation, estate retirements, retirement of equity earned by members 70 years old or older, and the revolvement of a portion of equity earned during 1981) amounted to $5.9 million or 79 percent of net income. Fiscal 1993 cash payments amounted to $7.1 million or 87 percent of net income.

In addition to the cash returned to members, Wisconsin Dairies invested $8.6 million to further upgrade and modernize manufacturing facilities, bringing the total amount invested during the past five years to $49.5 million.

The funds used for upgrading and expanding facilities and distributing cash payments to members came from internal sources. Operating activities generated over $10 million and the remainder came from available cash balances.

Total assets at March 31, 1994 were $146.1 million, up $2.4 million from 1993. Working capital was $18.6 million at March 31, 1994, compared to $21.4 million at March 31, 1993. The current ratios for 1994 and 1993 were $1.36 to $1.00 and $1.46 to $1.00, respectively.

Long-term obligations decreased by $3.6 million during the year to $20.5 million and amounted to approximately $.28 for each $1.00 of members' and patrons' equities. The comparable ratio at March 31, 1993 was $.33 to $1.00. The portion of assets owned and financed by members' equity is 51 percent at March 31, 1994, unchanged from the prior year.

During the past several years the dairy industry has had to contend with volatile product prices, which have contributed to unstable profit margins. To meet these challenges, Wisconsin Dairies continues to make significant investments in facilities so we can effectively produce the high quality products demanded by our customers – today and in the future.

Duaine T. Kamenick
Vice President – Finance

Cash Payments for Five Fiscal Years

Year	Allocation	Cash Payments	Net Income	Cash Payments as a % of Allocation
1990	$ 5,808,000	$ 4,776,000	$ 6,493,000	82
1991	1,994,000	4,655,000	1,468,000	233
1992	7,735,000	5,693,000	8,574,000	74
1993	7,480,000	7,085,000	8,144,000	95
1994	**6,792,000**	**5,876,000**	**7,454,000**	**87**
Total	$29,809,000	$28,085,000	$32,133,000	94
Avg.	$ 5,962,000	$ 5,617,000	$ 6,427,000	94

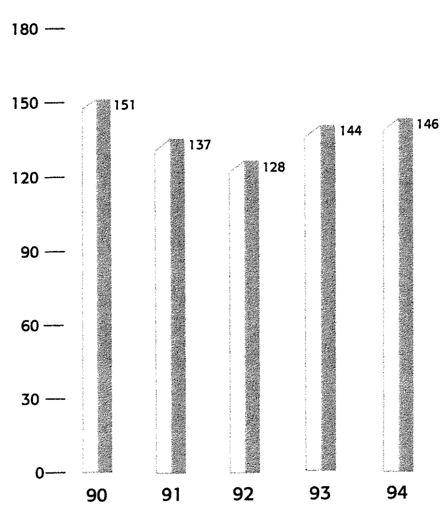
Capital Expenditures for Five Fiscal Years

1990	$14,800,000
1991	8,300,000
1992	3,800,000
1993	14,000,000
1994	**8,600,000**
Total	$49,500,000

Financial Performance

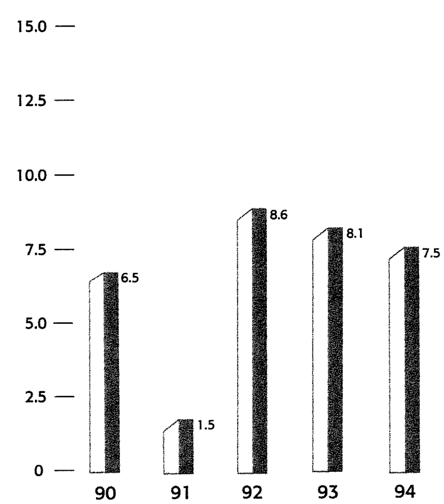
Total Assets at March 31 For the Last Five Fiscal Years

(millions of dollars)

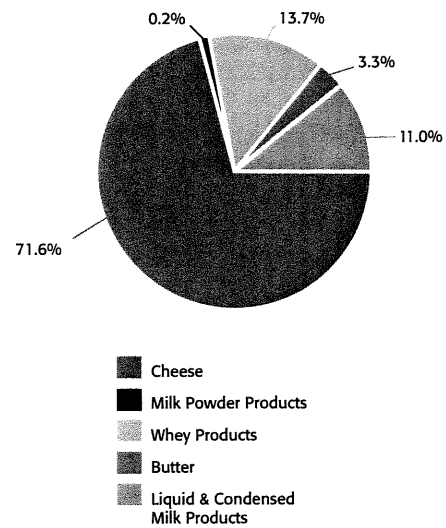


Net Income For the Last Five Fiscal Years

(millions of dollars)

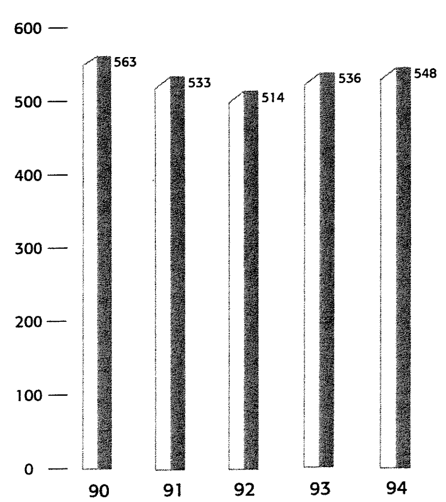


Percent of Net Sales Dollars by Product For Fiscal 1994

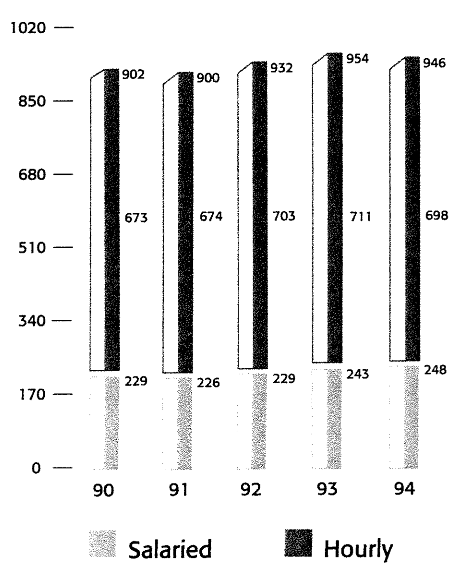


Total Revenues For the Last Five Fiscal Years

(millions of dollars)



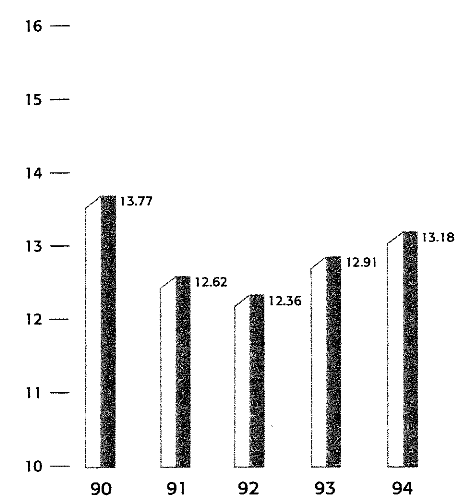
Number of Employees at March 31 For the Last Five Fiscal Years



Average Total Payments For Milk For the Last Five Fiscal Years

Includes Base Price and all Premiums and Differentials

(dollars/cwt)



Our Product Offering

LIQUID AND CONDENSED MILK PRODUCTS
Fluid milk
Cream and whey cream
Skim milk
Condensed skim
Condensed blends
Condensed buttermilk

MILK POWDER PRODUCTS
Whole milk powder
Nonfat dried milk
Buttermilk
Powder blends

BUTTER
Solid prints
Quarter-pound prints
Whipped butter in tubs
Whipped butter in cups

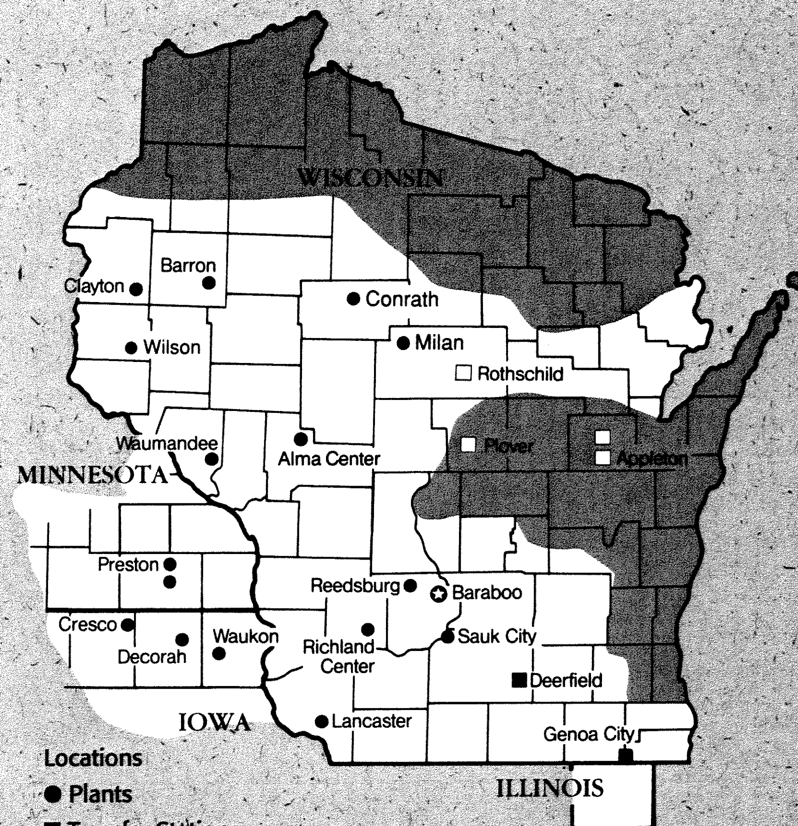
AMERICAN CHEESE
Stirred-curd cheddar (blocks)
Stirred-curd cheddar (barrels)
Milled cheddar (blocks)
Colby
Monterey Jack
Marbled

ITALIAN CHEESE
Low-moisture, part-skim mozzarella
Whole milk mozzarella
Reduced-fat mozzarella

SPECIALTY CHEESE
Hispanic style
Brick
Muenster
Farmers
Reduced-fat Colby
Reduced-fat Monterey Jack

WHEY PRODUCTS
Sweet whole whey
Condensed whey
Reduced-lactose whey
Reduced-minerals whey
Feed whey
Condensed whey protein concentrate
Whey protein concentrate
Hydrolyzed whey protein concentrate
Reduced-minerals whey protein concentrate
Modified whey solids
Edible lactose
Edible refined lactose
Pharmaceutical-grade lactose
Custom blends
Bakery blends
Dairy blends
Dairy product solids

Locations and Procurement Area



Locations
● Plants
■ Transfer Stations
✪ Central Office
☐ Foremost Whey Processing Plants

Wisconsin Dairies

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